

Income statement

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Incomes and capital gains

Introduction

The income statement is a report which shows the profitability during a specific period of time. The time interval can vary since it is the company who presents the income statement which determines the period of time. In the example below, figure A, Akelius presents an income statement covering nine months.

The income statement in general shows incomes, costs, capital gains and losses. The bottom line shows the profit or loss for the period.

The income statement is an important instrument as it demonstrates the profitability of a company. It is also read by investors, lenders, shareholders, competitors and many others.

The format of the income statement or the profit and loss statement will vary according to the complexity of the business activities. However, most companies will have the following income elements in their income statements:

- Income from primary activities
- Income from secondary activities, or non-operating revenues
- Capital gains
- Financial income

If the net amount of income and gains minus costs and losses is positive, the bottom line of the profit and loss statement is labelled as **net income**. If the net amount (or bottom line) is negative, there is a **net loss**.

Income from primary activities

The top of the income statement shows the income from primary activities. This is sometimes referred to as “top line”. The source where this income comes from will naturally depend on what kind of activities the company is performing.

For example: a retailer's or manufacturer's primary activities involve selling their products for generating income. For a real estate company, the primary income is rent.

It is important to know the difference between income and cash flow into the company. The income occurs when the service is performed, not when the actual money is paid.

For example: a manufacturer sells goods to a retailer on January 15th. The invoice stipulates payment within 30 days. The income appears on the 15th of January, not when the invoice is paid.

Another example: a real estate company invoices a tenant for a November rental. The invoice is to be paid on November 1st. The income occurs on the November 1st, regardless of when the tenant pays the invoice.

Another important thing is to allocate income such that the income refer to the correct period of time.

For example: a real estate company sends an invoice to a tenant regarding rent for the period from October 1st, 2008 to March 31st, 2009. The company has financial statements dating from December 31st. In this case, the company should allocate three months income over to the year 2009.

Income from secondary activities

This income is often referred to as non-operating revenues or other revenues as they are not derived from the company's main business.

For example: a company has outsourced a part of its business. The subcontractor uses the company's IT system. This enables the company to charge the subcontractor.

Capital gains

Capital gains are, as is the case with income from secondary activities, income which is not derived from the company's main business. Therefore capital gains are separated from "income from primary activities" and shown further down in the income statement.

A gain in the income statement is the result of a sale of a long-term asset. The amount of the gain is the difference between the sales figure and the company's booked value of the asset. A gain occurs when the sales figure exceeds the book value.

For example: a real estate company sells a piece of property for \$100,000. The book value for the property at the time of sale is \$60,000. The gain in this case is \$40,000.

Financial income

Financial income consists of income deriving from equities, interest and similar income received.

Income deriving from equities is income received from other corporate enterprises of which the company holds the total or part of its capital. This income corresponds to dividends and other income distributed by the corporate enterprises to the owners of their capital.

Interest and similar income received is interest related to short- or long-term bank deposits, income from loans and bonds, etc.

INCOME STATEMENTS

Group, amounts in MSEK	9 mths Jul-Mar 2007/08	9 mths Jul-Mar 2006/07
Rental income	1 692	1 551
Operating costs	-633	-584
Maintenance	-216	-213
Property tax and site leasehold fees	-46	-50
Property costs	-895	-847
Operating surplus	797	704
Depreciation and reversals	-100	-84
Gross profit	697	620
Other revenues	1	1
Central administration expenses	-12	-11
Income from sales	571	229
Operating profit/loss	1 257	839
Financial income	18	4
Financial costs	-663	-578
Earnings before tax	612	265
Tax	39	-59
Profit for the period	651	206

Picture A
Income statement Akelius