

# Income statement

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## Costs

### Introduction

An income statement, otherwise known as a profit and loss statement, is a summary of a company's profit or loss during any single given period of time – such as a month, three months, or a year. The income statement records all revenues for a business during this given period as well as the operating expenses for the business. The income statement is divided into two parts: the operating and non-operating sections.

The portion of the income statement that deals with operating items is interesting to investors and analysts alike because this section discloses information about revenues and expenses that are a direct result of regular business operations.

The non-operating items section discloses revenue and expense information about activities that are not tied directly to a company's regular operations.

Net earnings or net income is the proverbial bottom line. It measures the amount of profit a company makes after all of its income and all of its expenses.

### Costs for a real estate company

A real estate company can have the following costs in the income statement:

- Property costs
- Depreciation and reversals
- Central administration expenses
- Financial costs
- Tax

### The property costs

The income statement starts with listing rental income and property costs to get the operating surplus. The operating surplus is the section which is important for investors as it represents the profit for the period involved.

The property costs comprises maintenance, property tax and site leasehold fee and operating costs. Operating costs can include expenses for:

- Water, electrical energy, refuse collection and heating
- Property care and service
- Insurance
- Help from consultants
- Inspection of elevators and other mechanical equipment
- Negotiations
- Chimney cleaning
- Clearing snow
- Guard duty
- Television
- Telephone
- Advertising

Maintenance is a sizeable amount of property costs. Maintenance costs are usually divided up into scheduled maintenance and current maintenance.

Scheduled maintenance is measured as the maintenance scheduled for time, nature and extent. Efforts for restoring the function of a property are expected to be made after an interval of more than a year.

Current maintenance is measured as an expected range of less than a year with the aim of maintaining a property's function. At most, current maintenance contains unforeseen costs.

There are a number of factors that affect costs and how much of the costs will be charged to a property. The agreement signed between the tenant and the property owner is the most important factor. The agreement shows what is included and who will bear the cost.

In residential property, the agreement usually has the same composition and structure. Whoever has to pay the costs for heating and electricity in the home are factors that can distinguish one building from another.

In a case involving a contract for a commercial area, we can in principle agree on everything. The contracts are usually very real-estate-specific and therefore it may be difficult to compare costs with another property.

Other factors that influence cost and their extent are, for example, the property's:

- Age and condition
- Construction type
- Size
- Installations
- Geographic location

### **Depreciation and reversals**

Depreciation is an asset's/building's loss in value over time due to wear, tear and age.

Depreciation decreases the accounting value of real estate and at the same time offsets an equal amount of income from taxation, yet does not affect the market value of the property.

### **Central administration expenses**

These are expenses that go toward supporting a company's operations for the given period. For example, costs for administrative personnel, computers and other office costs.

### **Financial costs**

Financial costs include the money companies paid in interest for money they borrow and for other financial expenses.

### **Tax**

This is the amount of income taxes you owe to the federal government and, if applicable, state and local government taxes.