

Accounts



Managers use them for taking decisions

Managers use them for controlling the operations of a business

Users of Accounts

Used by shareholders, creditors, government, to check on company performance

Usually computerised

Income Statement

An Income Statement can be presented in different ways, but many businesses divide it into two distinct sections:

- the **trading account**
- the **profit and loss account.**

It can be recorded by hand into an accounts ledger, or entered into a computer spreadsheet or accounts package.

	£	£		£	£
Sales revenue		140 718	Gross profit		64 515
Opening stock		54 123	Expenses		
Purchases		87 321	Rent	9 216	
Closing stock		65 241	Utilities	2 417	
Cost of sales		76 203	Salaries	50 479	
			Other	1 483	
			Total expenses		63 595
			Operating profit		920

1. The trading account

The first section of the profit and loss account is called the **trading account**.

It shows the **revenue** the business earned from sales, the cost of production and changes in stock.

The business uses this data to work out how much **gross profit** it has made.

Calculating the trading account

	£	£	
Sales revenue		67 865	
Opening stock	24 514		opening stock + purchases - closing stock = cost of sales
Purchases	47 865		
Closing stock	34 217		
Cost of sales	38 162		sales revenue - cost of sales = gross profit
Gross profit		29 703	

Calculating a profit and loss account

	£	£	Total expenses = the sum of all the expenses
Gross profit		29 703	
Expenses			Gross profit - total expenses = operating profit
Salaries/wages	8 246		
Rent	3 456		
Utilities	1 897		
Equipment	965		
Other	587		
Total expenses		15 151	Operating profit - interest on loans = net profit before tax
Operating Profit		14 552	
Interest on loans		1 216	
Net profit before tax		13 336	