7 Income statements

Getting to the Bottom Line

Most people know that the term "bottom line" means "the most important thing." But it's also an accounting term. It refers to the bottom line of an **income statement**. An income statement is also called a **P & L**. That means "profit and loss." A P & L statement shows a summary of a company's financial transactions over a period of time.

It starts with **sales revenue**. This is the money a company gets from **selling** goods. The cost of those goods is deducted from the revenue. Next the **general and administrative expenses** are deducted. Finally, **taxes** are subtracted.

The number that remains on the bottom line is called **net income**. This amount is the company's bottom line.

Income Statement

	2010	2011
Sales Revenue	700,000	500,000
Less Cost of Goods Sold	500,000	500,000
Gross Margin	**200,000**	**0**
Less General and Administrative Expenses	90,000	90,000
Operating Margin	**110,000**	**(90,000)**
Less Taxes	7,000	5,000
Net Income	**103,000**	**(95,000)**

Get Ready!

1 Before you read the passage, talk about these questions.

1 What information goes on income statements?

2 How do companies use income statements?

Reading

2 Read the income statement and magazine article. Then, mark the following statements as true (T) or false (F).

1 __ "Bottom line" means net income.

2 __ Operating margin minus taxes is gross margin.

3 __ P & L statements show information from a period of time.

Vocabulary

3 Match the words (1-5) with the definitions (A-E).

1 __ gross margin
2 __ sales revenue
3 __ taxes
4 __ P & L
5 __ general and administrative expenses

A a statement showing financial information for a certain period
B money that is paid to a government
C the costs associated with organizing and running a business
D an amount that is calculated by subtracting cost of goods sold
E the money that is received from selling goods or services

LIVEWORKSHEETS

4 Fill in the blanks with the correct words and phrases: *operating margin, income statement, net income, selling.*

1 Subtract taxes from the _____ to find net income.

2 _____ is the act of exchanging goods for money.

3 _____ is the amount of money retained after all expenses

4 A(n) _____ is a document showing how much money was made.

5 Listen and read the income statement and article again. What is deducted from sales revenue to show the bottom line?

Listening

6 Listen to a conversation between two accountants. Choose the correct answers.

1 What is the dialogue mostly about?

A an increase in sales revenue
B a new way to report income
C a previous year's bottom line
D a disappointing P & L statement

2 The company's bottom line dropped because

A sales revenue decreased
B cost of goods sold increased
C the government raised taxes
D there was an error in the P & L

7 Listen again and complete the conversation.

A 1: Hi, Peter. Would you like some coffee?
A 2: No thanks. Let's get **1** _____ _____ to business.
A 1: OK. Have you seen the **2** _____ P & L?
A 2: No, I haven't. What's the problem?
A 1: Look at this! Our bottom line has really dropped. Just **3** _____ this to last year.
A 2: I see. Sales revenue is **4** _____ down. But cost of goods sold is the same.
A 1: So, what **5** _____ _____ do?
A 2: Well, first we need to **6** _____ our sales ...

Speaking

8 With a partner, act out the roles below based on Task 7. Then switch roles.

USE LANGUAGE SUCH AS:

Let's get right down to business.
What's the problem?
Our ... has really ...

Student A: You are an accountant. Talk to Student B about:

- a P & L statement
- low/high figures
- what to do about it

Student B: You are an accountant. Answer Student A's questions.

Writing

9 Use the conversation from Task 8 and the income statement to fill out the income statement.

INCOME STATEMENT

	2010	2011
_____ _____	800,000	600,000
Less _____ _____	500,000	500,000
Gross Margin	**300,000**	_____
Less General and Administrative Expenses	90,000	90,000
Operating Margin	_____	**10,000**
Less Taxes	10,000	7,000
_____ _____	**200,000**	_____

LIVEWORKSHEETS