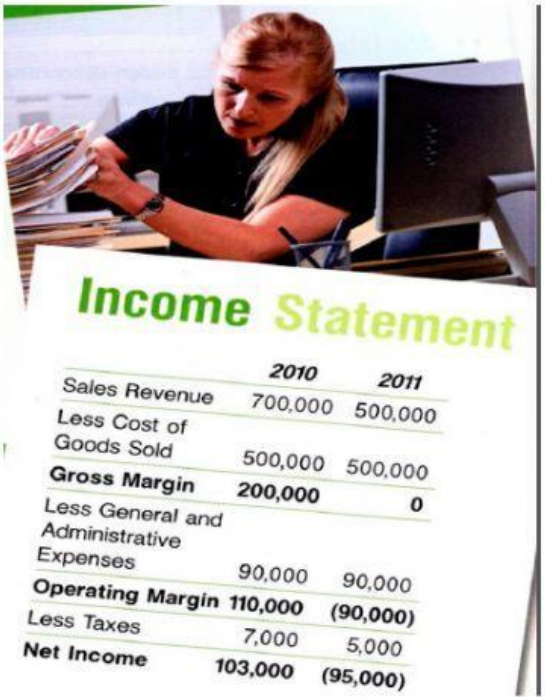
INCOME STATEMENTS

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 the administrative expenses are deducted. Finally taxes are substracted.

The number that reminds 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)**

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

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.

LIVEWORKSHEETS

LISTENING:

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

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 ...

LIVEWORKSHEETS