



**Income Statement:** A formal financial statement that indicates a firm's revenue, expenses, and profit for a given period of time.

**Income Statement Accounts:**



There are only two types of accounts that are listed on an Income Statement. They are *revenue* and *expense* accounts.

**Revenues:** A type of account that indicates the value of the assets that flowed into the business as a result of the business operations. (Over a given period of time.)

Typical revenue account titles include:



- "Sales" (for a merchandising firm)
- "Fees Earned" (for a service firm)
- "Professional Fees Earned" (for a professional practice)
- "Commissions Earned" (for a business that sells items that are legally owned by a third party)

**Expenses:** A type of account that indicates the value of the assets that flowed out of the business as a result of the business operations. (Over a given period of time.)

### GAAPs Related to the Income Statement

- **“Revenue Recognition Principle”** states that we must recognize and record revenue the moment it is earned (sale is made, services are provided) not necessarily when the cash is actually received.
- **“Expense Recognition Principle”** states that we must recognize and record an expense the moment it is incurred (bill is received) not necessarily when we pay the bill.
- **“Matching Principle”** states that we must match the revenues and expenses for a given period of time against each other in order to determine an accurate net income (loss) for that period.
- **“Period Concept”** states that we must perform our accounting procedures over a given time period that is consistent in length. For example, we can't have a one-year accounting period, followed by a one-month accounting period, followed by a three-month accounting period.





**Heading:**  
who, what, when

Inner Circle Internet Solutions Income Statement For the Month Ended Septmeber 30, 2002	
<b>Revenues</b>	
Dial Up Service Fees Earned	\$ 7,000.00
Domain Hosting Fees Earned	3,200.00
Web Design Fees Earned	1,800.00
Total Revenue	\$ 12,000.00
<b>Expenses</b>	
Insurance Expense	\$ 200.00
Office Rent	1,400.00
T1 Line Expense	2,400.00
Phone Expense	150.00
Hydro Expense	350.00
Wages Expense	2,700.00
Office Supplies	100.00
Total Expenses	7,300.00
Net Income	\$ 4,700.00

**Body**

This figure is recorded on the Balance Sheet!



**A Note on Account Order:**

Revenue and Expense accounts do not need to be listed in any particular order. Thus, accountants and/or bookkeepers can choose from a variety of options, including listing these accounts by alphabetical order, order of materiality, or order of creation.

**Alphabetical Order:** Accounts are listed in alphabetical order.

**Order of Materiality:** Accounts are listed in order of their significance. Thus, the larger the account balance, the higher up an account will be listed in order.

**Order of Creation:** Accounts are listed in the order in which they are created. The order of creation can be based on the given accounting period that is being reported, or it can be based on the accounts that have been created since the business began operation.