Week 4 initial post

Submitted by

Affiliation

Date

Acct Week 4 Forum

The profit and loss account shows the nature of the items of profit or loss attributable to an enterprise or other entity during the period. The period may be a monthly accounting period, an otherwise selected period, or a period of a financial period, such as in financial statements. The income statement describes the events of the financial year from the point of view of profitability. The income statement presents the following items

1. operating revenues : In the income statement, income and expenses are shown net of VAT(Garcia, 1991). At the top of the income statement is the sales revenue of the company and other operating income, which consists of turnover. Operating profit is the balance that best describes the profitability of operations. Operating profit is obtained by deducting from the net sales operating expenses, depreciation and impairment of business assets. Profit and loss statement figures before operating profit can be presented either by expense category or by function.
2. cost of goods sold: In the income statement, the acquisition and production costs are first subtracted from the net sales, resulting in a difference called gross margin. Sales and marketing expenses, administrative expenses and other operating expenses are then deducted. This gives the difference between the operating profit in the income statement for each activity.
3. operating expenses : By type of expense, this means that expenses are grouped into purchases, i.e. purchases of materials, supplies and services, personnel expenses, devaluation, damage, and other operating expenses. (Erickson, Hanlon, & Maydew, 2004).
4. nonoperating revenues and expenses: After operating profit, financial income and expenses are presented. This will determine the profit or loss before taxes. Financial income includes interest and financial income and income from other non-current assets, such as rental income from condominiums. Financial expenses include interest costs, write-downs on non-current assets investments, write-downs on financial assets of non-current assets and other financial expenses. (Kieso, Weygandt & Kell, 1987). Non-current assets are items that are expected to generate income on a continuous basis over several financial years. Items of current assets are expected to generate returns for only one financial year.

References

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