

# Income Statement

An income statement is an accounting of personal income and expenditures.

This type of item may also be called a personal cash flow statement, because cash inflows and cash outflows are both recorded.

**There are three main elements in an income statement.**

**Income** = The money you earn.

**Expenditures** = The money you spend.

**Net Income** = Income – Expenditures

You can begin to build your income statement by listing your income from all sources. Once you have listed all income, list all expenditures.

## Business vs. Personal...

Businesses typically have both an income statement and, separately, a cash flow statement, primarily because of timing differences in accrual versus cash basis accounting. Personal financial statements tend not to be quite so specific.

## Two types of expenditures...

It is often useful to break expenditures into two components: *fixed expenses* (e.g. rent, mortgage, insurance, utilities payment) and *variable expenses* (e.g. dining out, lattes, new clothes, entertainment groceries). Note that some *variable expenses* represent *discretionary spending*, or things that are nice but not necessary, while other variable expenses represent necessities.

The difference between the income and expenditures is net income and, since most taxpayers are measured on the cash basis, it also can double as an individual cash flow statement.

A balance sheet along with an income statement create the basis for a personal budget.

Here is a sample income statement for review.

|                    |  |  |          |
|--------------------|--|--|----------|
| Earned Income      |  |  | \$ 5,000 |
| Other Income       |  |  |          |
| Total Income       |  |  | \$ 5,000 |
|                    |  |  |          |
| Expenses:          |  |  |          |
| Auto lease expense |  |  | \$ 1,200 |
| Rent expense       |  |  | \$ 800   |
| Internet expense   |  |  | \$ 500   |
| Grocery expense    |  |  | \$ 200   |
| Utility expense    |  |  | \$ 300   |
| Insurance expense  |  |  | \$ 200   |
| Total expenses     |  |  | \$ 3,200 |
|                    |  |  |          |
| Net Income         |  |  | \$ 1,800 |

An Income Statement template has been provided for your use.