Accounting. how to prepare income statements

Business, Accounting

There are different ways in how two income statements are prepared. For example: the income statement (also known as P&L) of a merchandising company consists of Revenue, Expenses (related to the sales volume through the Cost of Goods Sold (COGS) and General & Administrative Expense (G&SA), which all result in Net Income. The income statement of a Service company consists of Service Revenue minus any Expenses related to that service, which results in Net Income. Another way to look at it is that inventory never leaves the balance sheet until it is physically sold to a customer, which transfers it to Cost of Goods Sold.

The basic differences between the financial statements of a merchandising business and a service business include reporting cost of merchandise sold on the income statement and the : A. owner's equity section of the balance sheet B. other income section of the income statement C. inclusion of merchandise inventory on the balance sheet as a current asset D. inclusion of an owner's equity statement The primary difference in handling inventory, accounts payable and accounts receivable. In a merchandising company you will probably have inventory that needs to be valued.

This can be done FIFO or LIFO (first in first out, or last in first out) basis. The asset that your inventory represents can be offset by your accounts payable if you purchased inventory on account. At the end of the year for tax purposes you have to account for the change in your inventory value. In addition in a mechanizing company you may have to handle local sales taxes and such. In a service company there is no inventory and normally no local taxes on services sold. Distinguish the activities of a service business from those of a merchandising business.

The primary differences between a service business and a merchandising business relate to revenue activities. Merchandising businesses purchase merchandise for selling to customers. On a merchandising business's income statement, revenue from selling merchandise is reported as sales. The cost of the merchandise sold is subtracted from sales to arrive at gross profit. The operating expenses are subtracted from gross profit to arrive at net income. Merchandise inventory, which is merchandise not sold, is reported as a current asset on the balance sheet.