

# Good example of preparation of an income statement essay

[Business](#), [Accounting](#)



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## **Formulation of an Income Statement**

In the newly formed and adjusted Income Statement, all the adjustments have been made by adding \$42, 500 worth of units to the ending inventory and decreasing the Cost of Goods Sold by the same amount. In this regard, the latest Income Statement is as follows:

In addition to the designing of the required income statement from the given Trial Balance, the total amount of Retained Earnings (As at December 31, 2012) is found to be \$131, 850.

## **Importance of the Matching Concept**

The matching concept is one of the prime accounting practices where expenses incurred by the business are recognized in the financial statements during the same accounting period in which the related revenues are earned . In other words, the matching concept of accounting provides us with the necessary guidelines to match expenses incurred in a certain period with the revenues earned in the same period. Expenses incurred in one year should be deducted from the revenues recognized in the same accounting period for comparing the revue with related costs .

The matching concept is really very important concept in accounting and preparation of financial statements because it helps accountants avoid misstatement of earnings for a given financial accounting period. Reporting revenues during a certain accounting period without recognizing all of the operating expenses that caused the business to earn those revenues could result in overstatement or understatement of profits and may lead to a distorted view of earnings.

## **References**

Palanivelu, V. (2007). Accounting for Management. Firewall Media.

Rajasekaran, V. (2011). Financial Accounting. Pearson Education India.