

Net income essay sample

[Business](#), [Company](#)



Net Income is the very reason for the existence of companies or firms. The greatest measurement of a certain firm's net income is the profit. It is the ultimate bottom line of the firm's income statement for the consideration of good business. It is a positive return of earnings of the firm after accounting all the losses, taxes, and operational monetary usage. It also includes the context of the net increase of the firm's earnings in its operations. In order to calculate the net income of the firm, it needs to get data in the financial statements.

Ultimately, net income is the measure of the company's success through its profitability. To simplify the definition of net income, it is the:

Cash inflow – cash outflow = net income

In the cash flow of a certain firm, the cash inflow contains all sold goods and services of the firm. The prices paid by the customers or clients are documented and recorded. They are seen on the copies of receipts that the firm disposes to the clients during transactions of selling and delivery of goods or services. When the company sells their services or goods to their clients, the money they receive is collected by the accounts receivable which includes the collectable money.

Net income can also be stated simply through this equation:

Income from Operations + Non-Operations Income – Taxes = net Income

The Income from the Operations is income derived from the core business of the firm. It is a good measurement of the company's efficiency of business.

The high margin for the income from operations is a good indication of good performance of the business and it reveals that the operational cash usage is guarded by the sales garnered. Operations Income is stated in this simple

equation:

$$\text{Sales} - \text{Gross profit} - \text{Operating Expenses} = \text{operating Income}$$

Net income differs from the operating income. While the operating income covers the income due to the core of the business operations, the net income encompasses all forms of income of the firm. In the consideration of net income, the other income is included in the computation. Other income may come from market placements, non-recurring income, and gain on sale of properties.

The cash outflow includes all the necessary costs incurred by the operations of the firm. It is the money that the firm has to spend for the delivery of the goods and services to their customers. It includes the salaries of the employees, raw materials, shipping, income tax, advertising, maintenance, and depreciation of goods.

Net income is also the basis for measuring the firm's performance. It is stated in the firm's financial statement where it presents the financial health and status of the firm. It does not constitute wholly the cash on hand alone. Rather, it also includes the income derived from the accrual basis of accounting. The reporting of the financial statement must be inclusive of the non-cash assets of the company. An accurate and precise financial statement must not mask the problems of the company which may include excessive working capital, obsolete inventory, cash balances declines and others.