



## Income Statement Accounts

The Chart of Accounts is normally arranged or grouped by the Major Types of Accounts. The Balance Sheet Accounts (Assets, Liabilities, & Equity) are presented first, followed by the Income Statement Accounts (Revenues & Expenses).

Here we're going to discuss the Income Statement Portion of the Chart Of Accounts (Revenues and Expenses) and how it's organized,

The Income Statement portion of the chart of accounts normally begins by listing Revenue Accounts followed by the Expense Accounts. The revenues are grouped or classified based on whether they are related to the normal operations of the business (primary business activities) called Operating Revenue or result from incidental (secondary business activities) called Non-operating Revenue.

Likewise, the expenses are grouped or classified based on whether they are related to the normal operations of the business (primary business activities) called Cost of Goods Sold and Operating Expenses or result from incidental (secondary business activities) called Non-operating Expenses.

While most revenue and expense accounts that need to be set up are common to all businesses, some depend on the type of business. Cost Of Sales is needed for those businesses that produce and sell goods or "inventoriable" services as well as those that just buy and resell the goods.

### • Revenue

**Formal Definition:** The gross increase in owner's equity resulting from the operations and other activities of the business.

**Informal Definition:** Amounts a business earns by selling services and products and investing. Amounts billed to customers for services and/or products.

#### ○ Operating Revenue

Revenues resulting from the normal operations of a business such as the revenues resulting from the sale of products and services to your customers.

- Sales
  - Products
  - Services
- Sales Discounts (Contra-Revenue Account)
- Sales Returns and Allowances (Contra-Revenue Account)

#### ○ Non-Operating Revenue and Gains

Non-operating revenue accounts include all types of income that you receive that are not part of your main line of business. In other words, revenues or gains resulting from something other than from normal business operations.

- Interest Income
- Dividends
- Commissions
- Rental Income
- Gain On Sale Of Assets

- Gains -Other Unusual

## • Expenses

Formal Definition: Decrease in owner's equity resulting from the cost of goods, fixed assets, and services and supplies consumed in the operations of a business.

Informal Definition: The costs of doing business. The stuff we used and had to pay for or charge to run our business.

### ○ Cost of Sales or Cost of Goods Sold

Cost of Goods Sold - the cost of the products purchased or manufactured and sold by a business.

- Cost Of Goods Purchased and Sold

- Purchases

A temporary account used in the periodic inventory system to record the purchases of merchandise for resale. This account reports the gross amount of purchases of merchandise. Net purchases is the amount of purchases minus purchase returns, purchase allowances, and purchase discounts. While the Purchases Accounts are normally classified as temporary expense accounts, they are actually "hybrid" accounts. The purchase accounts are used along with freight and the beginning and ending inventory to determine the Cost Of Goods Sold.

- Purchase Discounts (Contra Account)
    - Purchase Returns and Allowances (Contra Account)
    - Freight

- Cost Of Goods Manufactured and Sold

### ○ Operating Expenses

Operating Expenses - the expenses related to normal daily operations such as wages, rent, advertising, insurance, etc. These expenses are related to the normal operations of the business (primary activities) and are incurred in order to earn normal operating revenues. In other words, amounts spent on products and services related to normal business operations.

While not absolutely necessary, the Operating Expenses are often grouped into two main functional areas of operation:

- Selling Expenses

Selling Expenses are expenses incurred and related to making sales. Examples are sales salaries & wages, fringe benefits, advertising, travel, entertainment, catalogues, rent, utilities, telephone, commissions, warehousing, shipping, depreciation, office supplies, postage, etc.

- General and Administrative Expenses (G&A)

G & A Expenses are related to the general operations or overall administration of the business. Examples are administrative salaries & wages (officers, office, accounting, management, and human resources), fringe benefits, supplies, rent, utilities, telephone, travel, entertainment, depreciation, office supplies, postage, legal & accounting fees, etc.

The following listing of types of expenses, where needed, can be used and included in both groups. There are no rigid rules as to the order that the operating expenses are listed within a category.

- Salaries and Wages

- Salaries - Other
  - Salaries - Officers
  - Wages - Regular
  - Wages - Overtime
  - Incentive Pay
  - Commissions

- Bonuses
- Severance Pay
- Required Payroll Related Expenses
  - Employer FICA
  - Employer Medicare
  - Workersâ€™ Compensation Insurance
  - Federal Unemployment
  - State Unemployment
- Fringe Benefits
  - Vacation Pay
  - Holiday Pay
  - Sick Pay
  - Other Paid Leave
  - Parking
  - Meals
  - Employer Provided Health Insurance
  - Employer Provided Life Insurance
  - Employer Provided 401 K Contributions
  - Employer Provided IRA Contributions
  - Employer Provided Pensions & Retirement
  - Other Employer Provided Benefits
- Employee Recruitment
  - Travel
  - Lodging
  - Meals
  - Other
  - Entertainment
  - Advertising
  - Employment Agency Fees
- Temporary Help
- Cash Over / Short
- Supplies Expense
  - Operating Supplies
  - Maintenance Supplies
  - Cleaning Supplies
  - Office Supplies
  - Computer Supplies
  - Other Supplies
- Rent Expense
  - Land
  - Buildings
  - Equipment
  - Vehicles
  - Other
- Leasing Expense
  - Land
  - Buildings
  - Equipment
  - Vehicles
  - Other
- Repairs & Maintenance
  - Buildings
  - Grounds
  - Equipment
    - Office
    - Store
    - Manufacturing

- Vehicles
- Other
- Vehicle Operating Expenses
- Delivery Expenses
- Insurance Expense
  - Building & Contents
  - Vehicles
  - Business Interruption
  - Casualty
  - Product Liability
  - Professional Liability
  - Other
- Fees , Licenses, and Permits
- Security
- Janitorial Services
- Uniforms
- Bank Charges and Fees
- Credit Card Fees
- Postage
- Cleaning
- Memberships
- Subscriptions
- Training and Education
  - Tuition and Fees
  - Transportation
  - Lodging
  - Meals
  - Other
- Travel
  - Travel - Overnight
    - Lodging - Overnight
    - Transportation - Overnight
    - Meals - Overnight
    - Other - Overnight
  - Travel - Local
    - Lodging - Local
    - Transportation - Local
    - Meals - Local
    - Other - Local
- Entertainment
  - Meals
  - Gifts
  - Events
  - Other
- Catalogues and Publications
- Advertising
  - TV Ads
  - Radio Ads
  - Newspaper & Magazine Ads
  - Internet Ads
  - Website
  - Promotional Events
  - Other
- Royalties
- Franchise Fees
- Professional Fees
  - Legal

- Auditing
  - Accounting
  - Tax Preparation
  - Consulting
  - Other
- Utilities
  - Electricity
  - Gas
  - Water
  - Garbage Collection
  - Other
- Telephone
- Internet Access & Services
- Credit and Collections
  - Bad Debts Expense
  - Collection Expense
  - Credit Reports & Background Checks
- Depreciation Expense
  - Depreciation - Vehicles
  - Depreciation - Buildings
  - Depreciation - Building Improvements
  - Depreciation - Machinery and Equipment
  - Depreciation - Office Equipment
  - Depreciation - Computer Equipment
  - Depreciation - Vehicles
  - Depreciation - Furniture & Fixtures
  - Depreciation - Computer Software
  - Depreciation - Other Property, Plant, or Equipment
- Amortization
  - Amortization - Leasehold Improvements
  - Amortization - Goodwill
  - Amortization - Organization Costs
  - Amortization - Other
- Property Taxes
  - Personal Property
  - Real Property
  - Other

### ○ **Non-Operating Expenses and Losses**

Amounts spent on products and services not related to normal business operations (secondary activities). In other words, expenses and losses resulting from something other than from normal business operations.

- Donations
- Penalties & Fines
- Loss On Sale Of Assets
- Losses - Other Unusual
- Interest
- Taxes
  - Franchise & Excise Taxes
  - Federal Income Taxes
  - Other Taxes