

# How to Create an Income Statement

**Definition:** An income statement is a financial statement used to measure profitability over a specific period of time. It is sometimes called a **profit and loss statement** or **operating statement**.

Income statements can be prepared using either the **cash** or **accrual accounting** method.

The following table lists seven steps for creating an income statement.

Creating an Income Statement		
	Step	Procedure
Cash Transactions	1	List and total operating revenues (sum of revenues is called <b>Gross Operating Revenue</b> )
	2	List and total operating expenses (sum of expenses is called <b>Gross Operating Expenses</b> )
	3	Calculate <b>Net Cash Operating Income</b> by subtracting Gross Operating Expenses from Gross Operating Revenue
Non-Cash Transactions	4	Adjust for personal consumption (i.e., using a business item or consuming a farm product that could have been sold)
	5	Adjust for changes in inventories, including receivables and payables
	6	Adjust for changes in <b>capital assets</b> (i.e., items benefiting the business on an ongoing basis with useful lives greater than one year)
	7	Calculate <b>Net Farm Income</b> (i.e., revenue remaining after all expenses, including income tax, have been paid)