Making a Profit

Accountants are responsible for preparing three primary types of financial statements for a business. The income statement reports the profit-making activities of the business and the bottom-line profit or loss for a specified period. The balance sheets reports the financial position of the business at a specific point in time, ofteh the last day of the period. and the statement of cash flows reports how much cash was generated from profit what the business did with this money.

Everyone knows profit is a good thing. It's what our economy is founded on. It doesn't sound like such a big deal. Make more money than you spend to sell or manufacture products. But of course nothing's ever really simple, is it? A profit report, or net income statement first identifies the business and the time period that is being summarized in the report.

You read an income statement from the top line to the bottom line. Every step of the income statement reports the deduction of an expense. The income statement also reports changes in assets and liabilities as well, so that if there's a revenue increase, it's either because there's been an increase in assets or a decrease in a company's liabilities. If there's been an increase in the expense line, it's because there's been either a decrease in assets or an increase in liabilities.

Net worth is also referred to as owners' equity in the business. They're not exactly interchangeable. Net worth expresses the total of assets less the liabilities. Owners' equity refers to who owns the assets after the liabilities are satisfied.

These shifts in assets and liabilities are important to owners and executives of a business because it's their responsibility to manage and control such changes. Making a profit in a business involves several variable, not just increasing the amount of cash that flows through a company, but management of other assets as well.