M.7

Reviewing the Income Statement

An income statement (statement of profit and loss, P&L) is a summary of business income and expenses for a period of time. The standard period of time for an income statement is either one month, or the year to date through the end of the prior month. Usually business owners like to review a report that shows the prior month next to the year-to-date through the end of the prior month.

When you review your income statement you are looking for expected and unexpected items of income and expense. You are looking to see that the activity for the month reflects your understanding of what happened in the prior month, and that the total for the year-to-date reflects your understanding of all the income and expenses for the business so far this year.

If some expenses seem too high and others too low, the bookkeeper may be categorizing transactions to a different account than the one that makes sense to you for that expense. You and your bookkeeper should have a conversation to learn more from each other about how to categorize expenses so the recording will be consistent going forward.

How do I review my Income Statement?

1. Verify the report date
    a. Look at the date at the top of the report. It should be for the prior month and for the year-to-date ending on the last day of the prior month.
2. Check that the last day of the report is the same as the date on the balance sheet.
    a. Check that the last day of the month on the Income Statement is the same as the day shown on the Balance Sheet. These two reports are always supposed to go together and always supposed to show the same end date. The key difference is that the Income Statement covers a period of time leading up to the end date, while the Balance Sheet shows a snapshot for just that end date.
3. Review individual income accounts
    a. If you have multiple income accounts, look at the totals shown for each.
    b. Reflect: Do they match your expectations, or do you think the bookkeeper might have posted one or more items to the wrong account? Make a note of

any questions you have and follow up with your bookkeeper to understand more.

4. Review total income
    a. Review the total income shown.
    b. Reflect: Is it about what you expected? If not, can you think of reasons why it is higher or lower than expected?
5. Scan expense accounts
    a. Scan your expense accounts.
    b. Reflect: Do any numbers look bigger or smaller than expected? Is it possible that the bookkeeper recorded something in a different account than the one you would have used? Make a note of any questions you have and follow up with your bookkeeper to understand more.
6. Assess overall performance
    a. Look at the report as a whole.
    b. Reflect: Do you think income and expenses are running about as expected, or are they slower or faster than expected?
    c. Consider: Is there anything you might do differently based on this information?