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**Popular Income Statement Accounts**

As a first step, almost all analysts will study the balance sheet. As a second step, analysts often study income statement accounts (and amounts). They are investigating for signs that accounts and balances are sensible relative to their understanding of the business.

Several of the more popular income statement accounts include:

*Revenue or Sales Revenue:* The total amount of assets received in exchange for goods and services sold to customers during an accounting period. Accounting periods of typically quarters or years. Often the assets received are cash, or a promise to pay cash in the near future (an Accounts Receivable).

*Cost of Goods Sold:* the cost of inventory sold during an accounting period. If an entity sells services, this account will be labeled cost of services sold.

*Selling, General and Administrative Expenses (SG&A):* costs incurred (spent) to sell products and services and administrative costs.

*Research and Development Expenses (R&D):* costs incurred (spent) to research and develop new products, processes, patents, and services.

*Advertising Expense:* costs incurred (spent) to increase sales of goods or services, or advertise other aspects of an entity such as its good corporate behavior. Many entities include advertising expense as part of SG&A.

*Interest Expense:* costs incurred from borrowing funds.

*Interest Income:* income from debt investments. Some entities may relabel this account Investment Income or Interest and Dividend Income and included dividends earned from investments in equity securities.

*Income Tax Expense:* often termed Provision for Income Taxes, this is the cost of federal, state, local, and international taxes assessed on income.

*Special Charges:* costs for unusual, infrequent expenses or losses. For example, many entities restructure their lines of business and label these costs “special charges.”

*Gains or losses from sales of PPE:* the difference between the carrying value, or book value at which PPE is recorded in the financial statements and the price received when PPE is sold is either a gain or loss on sale of PPE. PPE is recorded in balance sheets at either original cost or original cost less accumulated depreciation. Selling price will most likely differ from the recorded balance sheet amounts, creating a gain or loss on sale.

*Discontinued Operations:* when an entity discontinues a line of business that is distinct and separate from its other business lines, it may be able to present the costs associated with discontinuance as discontinued operations. Closing only part of a line of business is not a discontinued operation.

There are many other income statement accounts. Entities will need to list income statement accounts that important for users to understand the performance of a business’s operations.

**Reporter’s Takeaway**

* Follow the lead of many security analysts by studying the various income statement revenue, gain, expense, and loss accounts.
* As you explore the various income statement accounts, ask whether they make sense given your understanding of the entity’s business operations. For example, if an entity lists a special charge from restructuring its business, this could be an important signal about future performance of the entity.
* You might also compare income statement accounts (and amounts) to prior accounting periods to see how they have changed, and note any new income statement accounts.
* Entities define their important income statement accounts in Note 1 to their financial statements. Otherwise an internet search can help you define them.