Every business is created to render services and/or sell products (its primary operating activities) with the goal of increasing the wealth of the business's owners. Apple's primary operating activities are selling computers, iPods, iPhones and the goods and services that support their customers' use of these products. The primary objective of the income statement is to report how well a company has performed, in financial terms, in conducting its operating activities during a specified time period. In other words, how much has the wealth of the owners' increased (net income) or decreased (net loss) during a specific time period as a result of its operating activities? However, those interested in the performance of a company want to know more about the company's performance than one number. Using a sports analogy to illustrate this point, suppose your favorite team won a critical game that you weren't able to see or listen to, would you be satisfied with knowing the final score? Most fans would want a more detailed report (newspaper sports page or Sports Center on ESPN) of just what happened during the game to determine the outcome. The income statement is similar in that it provides a broader description of the activities that resulted in an increase or decrease the owners' wealth.

To describe the information reported by an income statement we will use the example below. Collyer Corporation is in the business of selling souvenirs to tourists.

## COLLYER CORPORATION
## INCOME STATEMENT

For the Year Ended December 31, 2007

| | | |
|---|---|---|
| Sales | | $1,200,000 |
| Less: Sales Returns | | 50,000 |
| Net Sales | | $1,150,000 |
| Cost of Goods Sold | | 400,000 |
| Gross Margin | | $750,000 |
| Operating Expenses: | | |
| Advertising Expense | $200,000 | |
| Wages Expense | 100,000 | |
| Administrative Expenses | 300,000 | |
| Total Operating Expenses | | 600,000 |
| Operating Income | | $150,000 |
| Non-operating Items | | |
| Gain on Sale of Equipment | | 20,000 |
| Income before Taxes | | 170,000 |
| Tax Expense | | 51,000 |
| Net Income | | 119,000 |

Net sales reflect the amount earned by selling the firm's products after deducting the sales that were returned. Investors want to know not only how much was sold but also how satisfied the customers are with the product (how much of the product was returned). The cost of goods sold is the cost of buying or producing the products sold by the firm. Gross margin is the difference between the cost of the product and its selling price and is the amount generated by the firm that must cover other costs in order to generate net income for the firm. The operating expenses are the cost of the activities necessary to conduct the firm's primary activities of the business. Spending money on wages and advertising are necessary to operate a souvenir business. Operating income reflects the increase in firm's wealth as a result of its central ongoing operations.

The income statement also reports items that affect the wealth of the owners that occur during a time period but are incidental to its primary operations. In this case, Collyer sold some equipment for more than its cost but Collyer is not in the business of selling equipment. By identifying these events as non-operating, the reader of the financial statement can identify both the cost of the events that support operations and those that are incidental to the operations and assess the performance of the company. In this case the sale of the equipment increased net income but the primary increase in net income is due to operating activities. When the opposite occurs, investors should be concerned about the ability of the firm to generate profit in the future.

The federal government does not make a distinction between operating and non-operating income when it taxes business entities. Taxes are a cost of doing business and reduce the income generated by the business. As stated earlier, net income represents the increase in wealth of the business's owners, and the income statement describes the financial consequences of the activities that created net income for the time period measured.

In the Appendix the Income Statement of Apple for the fiscal year ended on September 25, 2004 is illustrated. Note that the statement is titled Consolidated Statement of Operations. This reflects the idea that operations generate profits. You may also hear the Income Statement described as the P & L or profit and loss statement. Apple's net income for 2004 is $276 million (note that all the statements are presented in millions). Apple provides information for the current period (left column) as well as the previous two periods. This allows users to compare the composition of the current year's results to those of prior years. Apple increased its net sales by $2,537 million from 2002 to 2004 ($8,279 - $5,742) while its net income increased $211 million in the same time period ($276 - $65). This data is important to financial statement users who are trying to determine how Apple will perform in the future. The trend of past operating performance is important evidence for current and potential stakeholders who are trying to answer the question: "What will Apple's earnings be in the future?"