Financial Accounting 101

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Right-Brained Economics

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Exercises

Lesson 2: The Income Statement (“P&L”)

1. How would you define revenue?
2. What’s another word for revenue?
3. How would you define an expense?
4. How would you define net income?
5. What, above all, is the income statement’s purpose? (“To show the company’s net income” is generally not a sufficient answer. What is someone who picks up the income statement trying to understand about the company?)
6. Why would a potential investor want to see the income statement?
7. Why would a potential creditor (e.g., a bank whom the company has asked for a loan) want to see the income statement?
8. What is the cost of goods sold expense?
9. What is the selling, general, and administrative expense?
10. What is the research and development expense?
11. What is the interest expense?
12. Below is information given on Queen Industries, for the year ending 2017 (dollar amounts in thousands):

**Selling, general and administrative expenses 13,000**

**Research and development expense 7,500**

**Sales revenue 80,000**

**Total expenses [Missing]**

**Cost of goods sold expense 42,000**

**Pretax income [Missing]**

**Net income [Missing]**

**Interest expense 400**

**Tax expense 6,000**

* 1. First, reorder the items so they appear as they come in an income statement, and in proper formatting.
  2. Second, solve for the missing values.