

Tax paid on the profits made

- Final profit
 - Profit for period: profit before tax – tax on profit (or income)
- For PLC corporation tax is charge, unincorporated income tax charged.
- Shows how much profit is attributable to shareholders.
 - Earnings per share: profit for the period / number of shares.

Reasons for the structure of the income statement

- First section allows a business to see how efficiently it is turning materials into sales revenue.
- Second section shows efficiency of a firm in terms of controlling its expenses.
- The last section gives an indication of how much the business borrows and lends money, and the efficiency with which it handles these financial operations.

What happens to the profit?

- Can go to shareholders
- Can be reinvested in the business

The layout of the income statement

- It is customary to publish the latest income statement alongside the income statement from the previous year.
- Usually published for a period of a year, but it is not unusual for firms to publish 6 months or 3 months income statements.

Useful income statement formulae

- Gross profit: revenue – cost of sales
- Operating profit: gross profit – expenses +/- exceptional items
- Where there are not exceptional items:
 - Operating profit: gross profit – expenses
- Profit before tax: operating profit + finance income – finance costs
- Profit for the year: profit before tax – taxation
- Earnings per share: profit for the year / number of share issues

Profit quality

- Although all businesses aim to make a profit, it is possible to distinguish between high-quality profit and low-quality profit.
- When analysing accounts, profit is used to assess performance, so it is vital to know if there are any unusual, exceptional or one-off circumstances that are affecting the accounts in the year being studied.

Profit utilisation

- It is common for a business to use its profit in one of two ways:

Dividends paid to shareholders

- Every 6 months, PLCs usually pay dividends to their shareholders
 - Represents the share of the profit allocated to shareholders.
- Some shareholders rely on dividend payment as a source of income.
 - These shareholders may have a greater interest in making sure a high dividend is paid.

Retained profits

- To fund expansion plans and capital investments.
 - Avoids need to pay interest on borrowed money or to sell more shares in order to finance expansion.