

PROFITS

TERMINOLOGY

- Many names
 - Profit
 - Earnings
 - Income
 - Net Income

INCOME EQUATION

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$

DEFINITIONS

- Revenue
 - The amount you make from performing your regular business activities
 - Sales
 - Revenues
- Expenses
 - What you spend (or use up) to run your business
 - Often end with the word expense
 - Wage expense, insurance expense, office supplies expense, etc.

INCOME RELATIONSHIP

Net Income = Revenues – Expenses

**Retained Earnings =
Net Income – Dividends**

TO INCREASE THE ACCOUNTS

$$\underbrace{\text{Net Income}}_{\substack{\text{Increase} \\ \text{Stockholders'} \\ \text{Equity}}} = \underbrace{\text{Revenues}}_{\substack{\text{Credit} \\ \text{Cr.}}} - \underbrace{\text{Expenses}}_{\substack{\text{Debit} \\ \text{Dr.}}}$$

JOURNAL ENTRY EXAMPLE 1

You own a plumbing business. You go on a service call and the customer pays you \$350 to fix a leak.

	Debit	Credit
Cash	350	
Revenue		350

JOURNAL ENTRY EXAMPLE 2

You own a plumbing business. You pay \$500 cash to run an ad in tomorrow's newspaper.

	Debit	Credit
Advertising expense	500	
Cash		500

Nice thing about revenues and expenses, normally only add to the accounts, so almost always credit revenues and debit expenses.

**NOW YOU GET TO
PUT IT ALL
TOGETHER!!**
