

*The first 5 numbers to look  
at in an income statement*

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Here's the scenario:  
the client has just  
given you the  
financial statements  
for the business and  
you have to say  
something quickly –  
here's what to look  
at in the income  
statement with some  
questions to ask



But before you start looking at the numbers there's one thing you must check first;

What is the time period covered by the income statement?

It's usually a 12-month period but don't just make that assumption – you could be wrong!



1<sup>st</sup> number

Net profit for  
the year

Q.

Has the number gone up from the previous year or gone down?

Q.

Was the change caused by a change in operating profit, a change in taxation or an exceptional item?

Q.

Has the margin (net profit for the year/turnover x 100) gone up from the previous year or gone down?

# 2nd number Operating profit

Q.

Has the number gone up from the previous year or gone down?

Q.

Was the change caused by a change in gross profit or a change in total operating expenses?

Q.

Has the margin (operating profit/turnover x 100) gone up from the previous year or gone down?



# 3rd number Operating expenses

Q.

Has the total number gone up from previous year or gone down?

Q.

How does the change relate to the change in turnover (revenue)?

Q.

Which individual expenses changed by 10% or more (up or down) to impact the total operating expenses number?

# 4th number Gross profit

Q.

Has the number gone up from previous year or gone down?

Q.

Was the change caused by a change in turnover or a change in the cost of goods sold number?

Q.

Has the margin (gross profit/turnover x 100) gone up from the previous year or gone down?

# 5th number Turnover (Revenue)

Q.

Has the number gone up from previous year or gone down?

Q.

Is the change caused by a change in per-unit price or by a change in the number of units sold or both?

Q.

If the number increased, how does that increase as a percentage compare to the general rate of inflation in the economy?