**Long-term Items & Building Income Statement**

**What Are Long-Term Assets?**

A long-term asset is an [asset](https://www.accountingcoach.com/blog/what-are-assets) that is not expected to be converted to cash or be consumed within one year of the date shown in the heading of the balance sheet. Long-term [assets](https://www.investopedia.com/terms/a/asset.asp) are investments in a company that will benefit the company for many years. Long-term assets can include [fixed assets](https://www.investopedia.com/terms/h/hard_asset.asp) such as a company's property, plant, and equipment but can also include [other assets such as long-term investments or patents](https://www.investopedia.com/terms/a/assetclasses.asp).

Long-term [assets](https://www.investopedia.com/ask/answers/12/what-is-an-asset.asp) are reported on the [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp) and are usually recorded at the price at which they were purchased and do not always reflect the current value of the asset.

Long-term assets are investments in a company that will benefit the company for many years. Long-term assets can include tangible assets, which can be touched, or intangible assets which can't be touched such as a company's trademark.

Examples of long-term assets include:

* [Property, plant, and equipment](https://www.investopedia.com/terms/p/ppe.asp), which can include land, machinery, buildings, fixtures, and vehicles
* Long-term investments such as stocks and bonds or real estate
* Trademarks, client lists, patents
* The [goodwill](https://www.investopedia.com/terms/g/goodwill.asp) acquired in a merger or acquisition is also considered an intangible long-term asset

Determining Long-Term Assets

1. There is no accounting formula that identifies an asset as being a long-term asset. Long-term assets are listed on the balance sheet.
2. A long-term asset must have a useful life of more than one year.
3. A long-term asset is an asset that doesn't meet the definition of being a current asset. A current asset is an asset that can be easily converted to cash within one year.

**Definition of Long-term Liability**

Long-term liabilities (also called non-current liabilities) are financial obligations of a company that are due after a year or more. Long-term liabilities are presented on a balance sheet of a company together with current liabilities which represent payments due within one year.

A long-term liability is an obligation resulting from a previous event that is *not*due within one year of the date of the [balance sheet](https://www.accountingcoach.com/blog/balance-sheet) (or not due within the company's [operating cycle](https://www.accountingcoach.com/terms/O/operating-cycle) if it is longer than one year). Long-term liabilities are also known as *noncurrent liabilities*.

IAS 1 Presentation of Financial Statements provides a more technical definition of long-term liabilities. It defines non-current liabilities as liabilities other than current liabilities. Current liabilities are defined as liabilities that are expected to be settled within normal operating cycle, held for the purpose of trading, expected to be settled within 12 months OR for which the company does not have any unconditional right to defer payment.

**Long-term liabilities = liabilities - current liabilities**

Following is a list of some typical long-term liabilities:

1. Bonds payable
2. Loans payable
3. Deferred tax liability
4. Pensions payable
5. Post-retirement healthcare obligation
6. Finance lease payable

Not all bonds payable or bank loans payable are long-term in nature. Bond and loan repayments that are due within a year are classified as current liabilities and the rest are reported as long-term.

**Bonds payable**

Companies raise money either (a) through issue of shares, which represent ownership stake in the company or (b) through issue of debt instruments, which represent a fixed amount to be repaid (together with interest) over a specified period of time in future. Bonds payable represent the later scenario i.e. financial obligations of a company which have a specified return and repayment date.

**Loans payable**

While bonds payable represent financial obligations towards general investors (both individual and institutional), loans represent amount obtained typically from a bank or another company (such as sister concern or associate). Loans carry either a fixed or variable interest rate which the borrowing company pays over the term of the loan. The principal amount of the loan is either repaid at the end of the loan term or over the term of the loan.

**Deferred tax liability**

Deferred tax liability represents income tax payment a company saved today but which it shall be required to pay in future due to difference between financial accounting recognition criteria and tax laws.

**Pension payable**

Pension payable liability arises when a company has a defined benefit plan. It is the present value of the amount the company shall pay the employees in future as compensation for their employment to date.

Post-retirement healthcare obligation is a liability similar to pensions payable in that it represents the expense the company is expected to incur in future to provide healthcare facilities to its employees after their retirement as compensation for their employment so far.

**Leases payable**

Leases payable represent the present value of the lease payments a company shall make in future in return for use of an asset. Lease payable is recognized only where a lease is classified as finance lease.

**Building Income Statement**

To prepare an income statement generate a trial balance report, calculate your revenue, determine the cost of goods sold, calculate the gross margin, include operating expenses, calculate your income, include income taxes, calculate net income and lastly finalize your income statement with business details and the reporting period.

To prepare an income statement, small businesses need to analyze and report their revenues, expenses and the resulting profits or losses, for a specific reporting period. The income statement, also called a profit and loss statement, is one of the [major financial statements](https://www.sec.gov/reportspubs/investor-publications/investorpubsbegfinstmtguidehtm.html) issued by businesses, along with the [balance sheet](https://www.freshbooks.com/hub/pages/balance-sheet) and cash flow statement. Income statements show how much profit a business generated during a specific reporting period and the amount of expenses incurred while earning revenue.

**How to Write an Income Statement**

To write an income statement and report the profits your small business is generating, follow these accounting steps:

### 1. PICK A REPORTING PERIOD

The first step in preparing an income statement is to choose the reporting period your report will cover. Businesses typically choose to report their income statement on an annual, quarterly or monthly basis. Publicly traded companies are required to prepare financial statements on a quarterly and annual basis, but small businesses aren’t as heavily regulated in their reporting. Creating monthly income statements can help you identify trends in your profits and expenditures over time. That information can help you make business decisions to make your company more efficient and profitable.

### 2. GENERATE A TRIAL BALANCE REPORT

To create an income statement for your business, you’ll need to print out a standard trial balance report. You can easily generate the trial balance through your cloud-based accounting software. [Trial balance reports](https://www.freshbooks.com/hub/pages/trial-balance-report) are internal documents that list the end balance of each account in the general ledger for a specific reporting period. It will give you all the end balance figures you need to create an income statement.

### 3. CALCULATE YOUR REVENUE

Next, you’ll need to calculate your business’s total sales revenue for the reporting period. Your revenue includes all the money earned for your services during the reporting period, even if you haven’t yet received all the payments. Add up all the revenue line items from your trial balance report and enter the total amount in the revenue line item of your income statement.

### 4. DETERMINE COST OF GOODS SOLD

Your cost of goods sold includes the direct labor, materials and overhead expenses you’ve incurred to provide your goods or services. Add up all the cost of goods sold line items on your trial balance report and list the total cost of goods sold on the income statement, directly below the revenue line item.

### 5. CALCULATE THE GROSS MARGIN

Subtract the cost of goods sold total from the revenue total on your income statement. This calculation will give you the gross margin, or the gross amount earned from the sale of your goods and services.

### 6. INCLUDE OPERATING EXPENSES

Add up all the operating expenses listed on your trial balance report. Enter the total amount into the income statement as the selling and administrative expenses line item. It’s located directly below the gross margin line.

### 7. CALCULATE YOUR INCOME

Subtract the selling and administrative expenses total from the gross margin. This will give you the pre-tax income. Enter the amount at the bottom of the income statement.

### 8. INCLUDE INCOME TAXES

To calculate income tax, multiply your applicable state tax rate by your pre-tax income figure. Add this to the income statement, below the pre-tax income figure.

### 9. CALCULATE NET INCOME

To determine your business’s net income, subtract the income tax from the pre-tax income figure. Enter the figure into the final line item of your income statement.

### 10. FINALIZE THE INCOME STATEMENT

To finalize your income statement, add a header to the report identifying it as an income statement. Add your business details and the reporting period covered by the income statement.

## Income Statement Example

This example of an income statement created by [Finance Train](https://financetrain.com/income-statement/) can give you a better understanding of what’s reported on an income statement, the format and how the data should be laid out:

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