are like scorecards that show the financial condition of your business at the end of each month. They show the sales (income) and the costs (expenses) you recorded during the month. If your sales are greater than your costs, your income statement balance will be positive; your business earned a profit. If your sales are less than your costs, your income statement balance will be negative; your business operated at a loss during that month. The income statement is also called a **profit and loss statement.**

2. **Cash flow statement.** Despite all the guidance a monthly income statement provides, you can't guide your business's daily operation using the income statement alone. You also need to prepare a monthly cash flow statement to track the cash going in and out of the business. The cash flow statement records inflows and outflows of cash *when they occur.* If a sale is made in June, but the customer doesn't pay until August, the income statement will show the sale in June, but the cash flow statement won't show the sale until August, when the cash actually flows into the business. Even when your income statement shows a profit, you may run out of cash and have to shut down because you can't pay your phone bill.
3. **Balance sheet.** The balance sheet is typically prepared once a year. It shows the **assets, liabilities** (debts), and **net worth** of a business. The net worth, the difference between assets and liabilities, is also called the **owner's equity.** Monthly income statements track a business's performance over a year's time. The balance sheet is more like a snapshot of the business's condition at the end of the business year.

The Seven Parts of an Income Statement*

An income statement is an entrepreneur's scorecard. It answers the question: "How'm I doin'?" If your business is not making a profit, examining the income statement can tell you what may be causing the

* This statement is simplified, but is useful for a small business.