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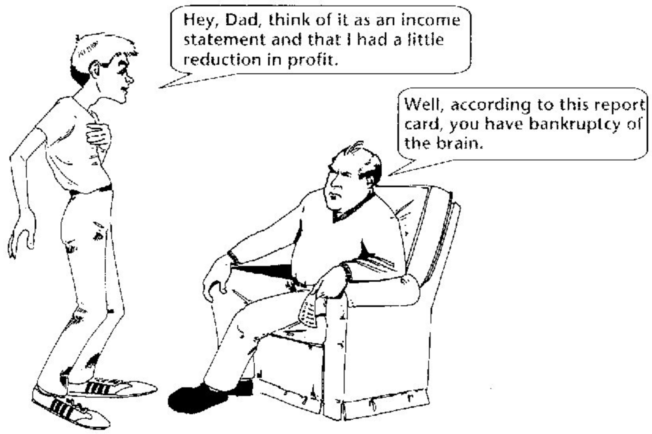
The Income Statement

Along with the balance sheet, a profit-seeking business will need to compile an **income statement** listing the income, the cost of goods sold, and the expenses of the business. The income statement is like a "report card" giving the details of the profit or loss status of the business and how effectively the finances are being managed. The basic income statement is set up in the following manner:

Sales (Income)
– Cost of goods sold

Gross profit
– Operating expenses

Net profit (or net loss)



If you owned a small hardware store, after one year your sales could have totaled $183,682; the cost of goods sold, $92,875; and your expenses, $42,588.

Here is an example of your income statement.

Example 1

The Hardware Store
Income Statement
For the Year Ended December 31, 20–

Sales	$183,682
Cost of goods sold	92,875
Gross profit	$ 90,807
Operating expenses	42,588
Net profit	$48,219

EXAMPLE 2

Michael Valdez sells lawn furniture made out of a special plastic. His sales for the quarter amounted to $386,940, but $2,289 worth of merchandise was returned. Cost of goods sold was $118,750. His business expenses included $29,800 for salaries and wages; $7,636 for rent; $4,210 for utilities; $1,283 for local taxes and licenses; $5,846 for advertising; and $5,325 for other expenses. Did Mr. Valdez operate at a profit or at a loss for the quarter?

Valdez Lawn Furniture
Income Statement
For the Quarter Ended March 31, 20–

Income from sales:		
Sales	$386,940	
Less sales returns and allowances	2,289	
Net sales		$384,651
Cost of goods sold		118,750
Gross profit		$265,901
Operating expenses:		
Salaries and wages	$29,800	
Rent	7,636	
Utilities	4,210	
Local taxes and licenses	1,283	
Advertising	5,846	
Other expenses	5,325	
Total operating expenses		$ 54,100
Net profit		$211,801

When setting up an income statement, write the name of your business, the title of the form, and the length of time that it covers at the top center. An income statement can be compiled monthly, quarterly, semi-annually, or annually.

The dollar amounts for net sales, cost of goods sold, gross profit, total operating expenses, and net profit (or net loss) are written in the *second amount column*. If there is an itemized listing of financial transactions within any one category, make sure that you indent each item and list each dollar amount in the *first amount column*. Find the total amount of the items and record it in the *second amount column*. There can be three or more amount columns depending on how detailed your income statement is. The plus and minus signs are understood.

Service industries, such as car mechanics, doctors, housecleaning services, gardeners, and airlines do not usually have a cost of goods sold category; but retail, wholesale, and manufacturing businesses usually do.

Homework

Supply the missing amounts in the following income statements.

1.

Reitz Piping
Income Statement
For the Month Ended April 30, 20–

Income from sales	$35,500.29
Cost of goods sold	18,782.30
Gross profit	
Operating expenses	9,693.44
Net profit	

2.

Haul-It-Away Garbage Collectors
Income Statement
For the Year Ended December 31, 20–

Income from sales:		
Sales	$744,000	
Less refunds and allowances	540	
Gross profit		
Operating expenses:		
Salary and wages	$240,000	
Repairs and maintenance	86,480	
Depreciation	92,870	
Fuel expense	28,616	
Advertising	11,894	
Total operating expenses		
Net profit		

3.

Babyland Furniture
Income Statement
For the Quarter Ended March 31, 20–

Income from sales:		
Sales	$182,711	
Less refunds and allowances	3,845	
Net sales		
Cost of goods sold:		
Beginning inventory, January 1, 20–	$153,788	
Plus merchandise purchases	64,195	
Total cost of goods available for sale		
Less ending inventory, March 31, 20–	89,744	
Cost of goods sold		
Gross profit		
Operating expenses:		
Bad debts	$ 5,619	
F.I.C.A.	1,764	
Insurance	2,520	
Rent	18,000	
Salaries	23,520	
Telephone	393	
Miscellaneous expense	2,117	
Office supplies	156	
Total operating expenses		
Net loss		

Prepare an income statement for each business.

4. *The Orchard Cannery*

For the Month Ended August 31, 20–
Sales: $93,865
Cost of goods sold: $57,359
Gross profit: ?
Operating expenses: $31,280
Net profit or loss: ?

5. *Marine Boat Sales*

For the Quarter Ended June 30, 20–
Sales: $9,619,630
Returns and allowances: $50,663
Net sales: ?
Beginning inventory: $5,689,447
Merchandise purchases: $6,286,910
Total cost of goods available for sale: ?
Ending inventory: $2,432,510
Cost of goods sold: ?
Gross profit: ?
Operating expenses: $127,860
Net profit or loss: ?

6. *Elaine's Homestyle Catering*

For the Year Ended December 31, 20–
Cash sales: $132,682
Charge sales: $2,189
Returns and allowances: $1,926
Net Sales: ?
Cost of goods sold: $41,877
Gross profit: ?
Advertising expense: $2,380
Taxes: $7,414
Rent: $33,000
Wages and salaries: $37,440
Postage: $1,509
Replacements: $1,692
Educational expenses: $875
Other expenses: $2,339
Total operating expenses: ?
Net profit or loss: ?

7. *Skyway Airlines*

For the Month Ended September 30, 20–
Sales: $1,489,632.21
Returns and allowances: $2,890.80
Gross profit: ?
Fuel: $27,699.99
Maintenance: $35,628.44
Repairs: $265,829.63
Food for passengers: $68,619.27
Salary and wages: $253,760.19
Security expense: $61,880.78
Advertising: $33,495.55
Uniforms: $22,000.99
Other expenses: $18,624.63
Administrative expenses: $64,889.24
Total operating expenses: ?
Net profit or loss: ?

Prepare an annual income statement for a business that you may want to own someday. Estimate your income from sales, cost of goods sold, and operating expenses for the year. Then calculate your net profit or loss.

Solve the word problems.

8. The Brothers Three Oil Company dispersed $1,590,108.19 in net profits among all its stockholders. How much did each stockholder receive if there were 5,893 stockholders?

9. During the month of June, Sandy Spracklen sold 120 beach towels for $21.99 each, 283 bath towel sets for $27.49 per set, and 136 tablecloths for $16.88 each at her linen store. Her cost of goods sold was $4,896.76. Her expenses were rent—$1,850.00; utilities—$755.63; salaries—$6,096.60; and miscellaneous expenses—$2,387.22. What was her net profit or loss for the month?

10. The Greskovich family decided to start a costume rental shop. Their cost to purchase several costumes from an apparel factory was $48,325. By the end of the year they had rented out their costumes a total of 2,080 times at $75 per rental. Their operating expenses for the year were $126,398. What was their average net profit or loss per month over the last year?

11. Several people donated appliances, furniture, and clothes to the Good Samaritan Center to be sold to feed the homeless. The center received $1,619.39 in sales the first week, $1,338.21 in sales the second week, and $2,498.72 in sales the third week. Their expenses averaged $212.58 per day, and they were open six days each week. What was their total net profit or loss after three weeks?

12. J and J Menswear sold 864 suits last quarter at $329.99 per suit. The total cost of goods sold for the suits was $126,388.68 and the expenses for the quarter totaled $98,624.34. What was the net profit or loss per suit to the nearest cent?

13. Last quarter, the Golden Chain Jewelers received $99,683 in sales. One lady returned her diamond necklace for a refund of $2,899. The inventory at the beginning of the quarter totaled $410,674 and the inventory at the end of the quarter totaled $345,387 with no additional merchandise purchases during the quarter. The jewelry store's operating expenses were $11,520 in salaries; $3,679 in utilities; $746 in phone expense; $15,839 in advertising; $108 in glass and jewelry cleaners; $6,891 in various insurance policies; and $1,284 in other expenses. Prepare an income statement for Golden Chain Jewelers for the quarter ended December 31, 20--.

Prepare a balance sheet and income statement for each. Do the work on a sheet of notebook paper.

14. For the month ending June 30, 20—, Tasty Pastry had $2,575 in cash, $16,380 in inventory, $4,200 in accounts receivable, $178,200 in building and land, and $42,000 in equipment. They owed JM Mortgage $150,000, Eastern Electric $415, Warehouse Suppliers $57.75, and Tidy Girls Inc. $414. The sales for the month were $48,900. The cost of goods sold was $14,600. Tasty Pastry operating expenses were $4,795 in wages and benefits, $1,900 for mortgage payment, $890 for utilities, $1,600 for advertising, $178 for bad checks, $410 for insurance, $1,500 for taxes, and $775 in miscellaneous expenses. (Remember that the balance statement is for a specific time and the income statement is for a period of time.)

15. For the quarter ending September 30, 20—, Cindy's Crafts had $325 in cash and $3,500 in inventory. (No building or building expenses are involved since Cindy sells her homemade crafts at the local flea market.) She owes Sew and Sew $98.50, Jake's Rental $123.67, and Freddie's Flea Market $85. The sales for the quarter were $2,890. Cost of goods sold was $278. The expenses were $375.

16. For the year ending December 31, 20—, Moltrie Manufacturing had $9,500 in cash; $1,500,000 in inventory; $78,900 in accounts receivable; $1,240,000 in buildings and land; $235,000 in equipment; and $89,000 in vehicles. They owed Thomas Suppliers $29,500, State Bank $789,600 and Winston Motors $24,000. Their sales were $2,800,000. The cost of goods sold was $400,000. Expenses included $956,000 for wages and benefits, $360,000 for mortgage, $432,000 for taxes, $319,000 for insurance, and $207,000 for additional expenses.