



Profit or Loss

Of course, your goal in business is to make a profit. Unfortunately, sometimes a business suffers a loss. In fact, many small businesses close each year because of excessive losses.

As a business owner, you must keep accurate records that let you know where your business stands. You need to know the *net sales*, *cost of goods sold*, *gross profit*, *operating expenses*, and *net profit*.

Net sales is *your income from sales less any sales returns or allowances made*.

$$\text{Net Sales} = \text{Sales} - \text{Returns and Allowances}$$

Gross profit can be found by subtracting the cost of goods sold (the cost to produce your product) from the net sales.

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

EXAMPLE 1

Lyn Balias owns a clothing boutique. If her total sales for the month were \$17,685 but \$1,193 worth of merchandise was returned, what were her net sales?

Subtract returns and allowances from sales to get net sales.	\$17,685	Sales
	<u>- 1,193</u>	Returns and allowances
	\$16,492	Net sales

EXAMPLE 2

Miss Balias buys her clothing from a well-known wholesale clothing factory. If the cost of goods sold (Miss Balias's cost) was \$10,625 for last month, what was her gross profit for the month?

Subtract the cost of goods sold from net sales to find gross profit.	\$16,492	Net sales
	<u>- 10,625</u>	Cost of goods sold profit.
	\$5,867	Gross profit

Homework

Find net sales.

1. The sales returns and allowances for Grover's Hardware totaled \$12.63 yesterday. If his total sales were \$2,582.19, what were his net sales?
2. Franklin's Fine Furniture sold \$56,892 in furniture last week. Sales returns and allowances for the week were \$4,999. What were the net sales for Franklin's Fine Furniture?

3. The Hunter's Haven Knife Shop sold \$76.38 in jack-knives, \$245.15 in hunting knives, and \$144.57 in steak knife sets. If there were no returns, what were the net sales?
4. Stan's Fans had a fan sale. Stan sold 14 fans for \$64 each, 21 fans for \$89 each, 11 fans for \$128 each, and 6 fans for \$154 each. If only three people returned their fans for a total of \$307 in returns and allowances, what were his net sales?

Find the gross profit.

5. Card Occasions sold \$316.89 in cards in one evening with no returns. If the total cost of goods sold was \$148.28, what was the gross profit for Card Occasions?
6. Reuben and Teresa have a lemonade stand in their front yard. Their total sales for the day were \$6.75. Of the 45 people that bought lemonade only a few did not like the taste, so Reuben refunded their money for a total of \$.90. The cost of goods sold for a name brand lemonade mix with artificial sweetener was \$3.52. What was Reuben and Teresa's gross profit?
7. Country Kate's Cloth Store sold \$13,890 in cloth, \$499 in sewing machines, and \$1,050 in patterns last week. One customer returned her sewing machine for \$249 and another customer returned her defective pattern for \$7. If the cost of goods sold was \$6,945 for the cloth, \$399 for the sewing machines, and \$525 for the patterns, what was Country Kate's gross profit?
8. Stephano Vorticelli owns a deli shop. One customer bought \$4.89 worth of ring bologna, \$3.69 worth of hot Italian sausage, \$2.43 worth of pepperoni, and \$1.89 worth of salami. Later that day the customer returned the ring bologna because it had spoiled. Stephano originally paid \$7.89 for all of the meat. What was his gross profit?

Complete the chart.

	Sales	Returns	Net Sales	Cost of Goods Sold	Gross Profit
9.	\$22,680	\$1,429		\$6,980	
10.	\$188,200	\$19,775			\$100,000
11.	\$29,650	\$999		\$20,885	
12.	\$4,820.50	\$14.80		\$1,975.95	
13.	\$31,600	\$499			\$16,280
14.	\$15,000		\$14,870		\$7,100



Once you have figured your gross profit, do not forget to subtract your operating expenses. If your expenses are less than the gross profit, you are operating at a **net profit**; but if your expenses are more than your gross profit, you are operating at a **net loss**. You cannot operate at a loss for very long.

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

$$\text{Net Loss} = \text{Expenses} - \text{Gross Profit}$$

EXAMPLE 3

When the bills came due for Miss Balius's clothing boutique, she paid \$1,200 for rent, \$2,880 for employee wages, \$320 for employee health insurance, and \$869 on other various expenses. If her gross profit was \$5,867 for the month, what was her net profit?

- | | | |
|--|---|--|
| a. Add all of the expenses together. | \$1,200
2,880
320
+ 869
\$5,269 | Total expenses |
| b. Subtract the expenses from the gross profit to find net profit. | \$5,867
- 5,269
\$598 | Gross profit
Expenses
Net profit |

EXAMPLE 4

The next month, Lyn Balias needed unexpected repair work done to her building due to a bad storm. Her total expenses for the month were \$7,683. Her gross profit was \$6,691. Was she operating at a net profit or at a net loss? What was her net profit or net loss?

Since expenses were greater than gross profit, subtract gross profit from expenses. The difference is a net loss.

\$7,683	Expenses
<u>- 6,691</u>	Gross Profit
\$992	Net loss

Determine if the business is operating at a net profit or at a net loss, then find the amount of net profit or net loss.

15. Gross profit: \$8,126
Expenses: \$6,978
Net profit or loss: ?

16. Gross profit: \$543
Expenses: \$598
Net profit or loss: ?

17. Gross profit: \$84,930
Expenses: \$121,855
Net profit or loss: ?

18. Gross profit: \$2,249
Expenses: \$2,030
Net profit or loss: ?

19. Gross profit: \$1,000,890
Expenses: \$634,723
Net profit or loss: ?

20. Gross profit: \$10,912
Expenses: \$11,050
Net profit or loss: ?

Complete the chart.

	Sales	Returns and Allowances	Net Sales	Cost of Goods Sold	Gross Profit	Expenses	Net Profit or Loss	Label as Profit or Loss
21.	\$75,254	\$5,806		\$41,730		\$28,452		
22.	\$14,800	\$483		\$7,320		\$1,067		
23.	\$648,467	\$33,219		\$409,392		\$193,813		
24.	\$1,514	\$16		\$903		\$627		
25.	\$1,482,600	\$23,710		\$483,295		\$683,950		
26.	\$18,900	\$480		\$13,932		\$5,729		
27.	\$75,000	\$5,410		\$38,250		\$28,900		

Solve the word problems.

28. Penguin's Tuxedos had 274 tuxedo rental reservations last month at \$75 per tuxedo. Only two tuxedo rentals were canceled. Since Mr. Penguin has been in the tuxedo rental business for several years, his initial investment has already been paid; therefore, there was not any cost of goods sold. His last month's operating expenses were \$2,000 for rent; \$225 for tuxedo replacements; \$1,215 for advertising; \$1,120 for utilities; and \$7,680 for employee wages. What were his net sales, gross profit, and net profit or loss?
29. If Reuben and Teresa sold a total of 240 glasses of lemonade last week and made a net profit of \$12.43, what was the net profit per glass of lemonade?
30. Oscar Corbin runs a garbage collecting service. His gross profit for the month was \$110,500. He paid the following expenses on each of his 28 trucks: gas, \$249; liability insurance, \$1,260; and depreciation, \$2,731. He also paid \$2,240 in health insurance for his employees; \$1,208 in educational expenses; and \$33,600 in employee wages. (A) What was Oscar Corbin's net profit or net loss? (B) If Oscar Corbin services 8,500 houses, what is his operating expense per house?