

Income Statement Homework Exercise (Key)

Use the following information to complete an income statement for Ernie’s Welding & Machine Shop. Not all of the information belongs on an income statement. Please use the Schedule C tax form to build this income statement.

Total Sales (Gross Receipts)	\$550,000	
Wages - Hired Administrative Labor	\$42,000	
Car & Truck Expenses	\$5,500	
Operating Loan Principal Received	\$125,000	Not on an income statement
Depreciation	\$15,000	
Office Expense	\$2,800	
Operating Loan Principal Repaid	\$125,000	Not on an income statement
Repairs & Maintenance	\$9,000	
Other expenses	\$5,000	
Rent – machinery	\$20,000	
Supplies	\$52,000	
Income Taxes	\$28,000	Not on an income statement
Annual Business License	\$200	
Interest on Mortgage	\$12,500	
Interest on Other Loan	\$6,000	
Legal & Professional Services	\$2,500	
Advertising	\$8,000	
Utilities	\$34,000	
Mortgage Principal Repaid	\$30,000	Not on an income statement
Insurance	\$23,000	

To calculate the Cost of Goods Sold (Operating Expenses): Use Part III of Schedule C

Beginning Inventory	\$50,000
Hired Labor Wages – Production	\$88,000
Purchase of Inventory	\$125,000
Ending Inventory	\$65,000

Calculate the Gross Income (Line 7) for Ernie’s business.

\$352,000 see Schedule C

Calculate the Net Income (Line 31) for Ernie’s business.

\$114,500 see Schedule C

What can Ernie do to try to improve the profitability (net income) of his business?

He can try to reduce his 5 largest expenses.

He can charge a higher price for his services, without scaring customers away.

**SCHEDULE C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2021

Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Name of proprietor
Ernie McSolder

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)
Welding & Machinery Repair

B Enter code from instructions

C Business name. If no separate business name, leave blank.
Ernie's Welding & Machinery Shop

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses . . . Yes No

H If you started or acquired this business during 2021, check here . . .

I Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions . . . Yes No

J If "Yes," did you or will you file required Form(s) 1099? . . . Yes No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ <input type="checkbox"/>	1	550,000
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	550,000
4 Cost of goods sold (from line 42)	4	198,000
5 Gross profit. Subtract line 4 from line 3	5	352,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6 ▶	7	352,000

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8	8,000	18 Office expense (see instructions)	18	2,800
9 Car and truck expenses (see instructions)	9	5,500	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	20,000
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	15,000	21 Repairs and maintenance	21	9,000
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	52,000
15 Insurance (other than health)	15	23,000	23 Taxes and licenses	23	200
16 Interest (see instructions):			24 Travel and meals:		
a Mortgage (paid to banks, etc.)	16a	12,500	a Travel	24a	
b Other	16b	6,000	b Deductible meals (see instructions)	24b	
17 Legal and professional services	17	2,500	25 Utilities	25	34,000
28 Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28	237,500	26 Wages (less employment credits)	26	42,000
29 Tentative profit or (loss). Subtract line 28 from line 7	29	114,500	27a Other expenses (from line 48)	27a	5,000
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		27b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31	114,500			
32 If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.			32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.		

