

Income Statement In-Class Exercise (Key)

Use the following information to complete an income statement for Jack’s Roadside Market. Not all of the information belongs on an income statement.

Annual Business License	\$100	
Hired Labor Wages	\$12,000	
Operating Loan Principal Received	\$35,000	Does not belong on an income statement
Depreciation	\$8,000	
Office Expense	\$1,200	
Total Sales (Gross Receipts)	\$115,000	
Repairs & Maintenance	\$900	
Supplies	\$2,000	
Interest on Mortgage	\$3,500	
Interest on Other Loan	\$700	
Legal & Professional Services	\$1,500	
Car & Truck Expenses	\$2,500	
Advertising	\$800	
Utilities	\$4,000	
Loan Principal Repaid	\$6,000	Does not belong on an income statement
Insurance	\$3,000	

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

Beginning Inventory	\$30,000
Hired Labor Wages – Production	\$18,000
Purchase of Inventory	\$25,000
Materials & Supplies	\$3,000
Ending Inventory	\$35,000

Calculate the Gross Margin (Line 7) for Jack’s business.

$$\text{Gross Margin} = \$115,000 - \$41,000 = \$74,000$$

Calculate the Net Income (Line 31) for Jack’s business. What can Jack do with these profits?

$$\text{Net Income} = \$74,000 - \$40,200 = \$33,800$$

Jack can use this to pay his salary (which is not included on Schedule C), pay income taxes, repay his loans, purchase new equipment, donate some to church/charity, or build his savings (liquidity)

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

Reduce his top 5 expenses without hurting production. Increase his selling price. Sell new/different products. Stop selling unprofitable products.