

## Think Critically

1. How often should businesses prepare an income statement?
2. Why do you think that some businesses do not use a regular calendar year for their business?
3. What are main differences between income statements for merchandising businesses, manufacturing businesses, and service businesses?
4. Name the six parts of a typical income statement.
5. In May, Yoder's Bookstore had sales of \$5,000, cost of goods sold of \$3,000, operating expenses of \$800, and taxes of \$400. Calculate Yoder's gross profit and final net income or loss.

## Problem Solving

1. **SnapBack Comeback!** You have a business selling snapbacks to friends and classmates. This June you bought 20 snapbacks for \$5 each and sold them all at \$10 each. You paid \$40 in commissions to your brother to help you sell them, and you spent \$20 on posters as advertising. Your taxes are 20% of your pre-tax profit. Prepare your income statement.

**SnapBack Comeback!**  
**Income Statement**  
for Month Ended \_\_\_\_\_

### REVENUE

Net Sales

\$ \_\_\_\_\_

*Multiply the number of snapbacks sold by the price you sold them for (\$10 x 20)*

### COST OF GOODS SOLD

Cost of Goods Sold

\$ \_\_\_\_\_

*Multiply the number of snapbacks sold by the price you paid for them (\$5 x 20)*

### GROSS PROFIT

\$ \_\_\_\_\_

*Net Sales minus COGS*

### OPERATING EXPENSES

Advertising

\$ \_\_\_\_\_

Commissions

\$ \_\_\_\_\_

Total Expenses

\$ \_\_\_\_\_

### PRE-TAX PROFIT

\$ \_\_\_\_\_

*Gross Profit minus Total Expenses*

Taxes (20%)

\$ \_\_\_\_\_

*Pre-Tax Profit times 0.20*

### NET PROFIT

\$ \_\_\_\_\_

*Pre-Tax Profit minus Taxes*