

Exercise walk-through

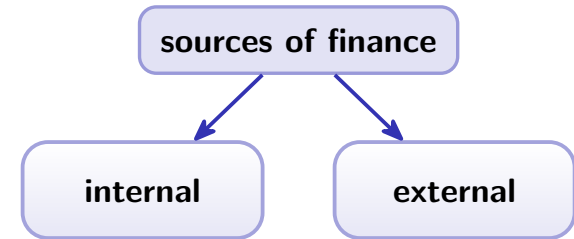
5.3

Income statements

IGCSE Business Studies

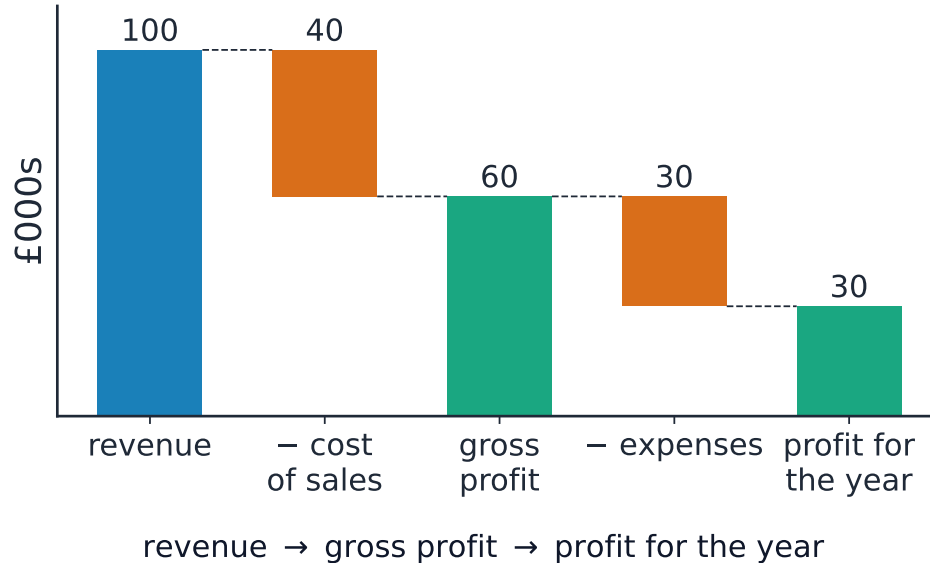
What we will cover

- 1 Why finance is needed
- 2 Sources of finance
- 3 Cash flow
- 4 The income statement
- 5 The balance sheet
- 6 Ratios



sources of finance

The income statement



An **income statement** runs from **revenue** down to profit.

- revenue – cost of sales = **gross profit**
- – expenses = **net profit**

Topic 5 – key takeaways

1

Sources

internal (retained profit) vs
external (loans)

2

Cash

cash $\neq$ profit; forecast inflows &
outflows

3

Income

revenue to gross profit to net
profit

4

Balance

assets = liabilities + equity

Exercises 2.1-2.3

2.1 Define the term *gross profit*.

[2]

2.2 A business has revenue of \$150,000 and cost of sales of \$90,000. Calculate the gross profit.

[2]

2.3 State one stakeholder who would use an income statement, and why.

[2]

Exercises 2.1-2.3

2.1 Define the term *gross profit*. [2]

2.1

- **gross profit** is **revenue minus cost of sales** (K)

2.2 A business has revenue of \$150,000 and cost of sales of \$90,000. Calculate the gross profit. [2]

2.2

$$\$150\,000 - \$90\,000 = \$60\,000$$

(K)

2.3 State one stakeholder who would use an income statement, and why. [2]

2.3

- any **one** stakeholder + reason: **owners** (check profit) / **lenders** (loan is safe) / **managers** (spot problems) (K)

Exercises 3.1-3.2

3.1 From the gross profit of \$60,000, expenses of \$40,000 are taken. Calculate the profit for the year. [2]

3.2 Explain two reasons why a business prepares an income statement. [6]

Exercises 3.1-3.2

3.1 From the gross profit of \$60,000, expenses of \$40,000 are taken. Calculate the profit for the year. [2]

3.1

$$\$60\,000 - \$40\,000 = \$\mathbf{20\,000}$$

(K)

3.2 Explain two reasons why a business prepares an income statement. [6]

3.2

- for **each** of two reasons: K + An, max 3 each
- e.g. **show profit**: owners judge the firm's success
- e.g. **find problems**: comparing with last year shows if costs are rising

Exercise 3.3

3.3 A business's gross profit is high but its profit for the year is low. Do you think this is a serious problem? Justify your answer. [6]

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3.3 A business's gross profit is high but its profit for the year is low. Do you think this is a serious problem? Justify your answer. [6]

3.3

- **serious:** high expenses leave little for owners; vulnerable if sales fall
- **not always:** investing in growth now may raise future profit
- **judgement (Ev):** a warning – wasteful spending is a real problem; planned investment may not be