

5.3 Income statements

Name: _____ Class: _____ Date: _____

Total: 16 marks

Objective

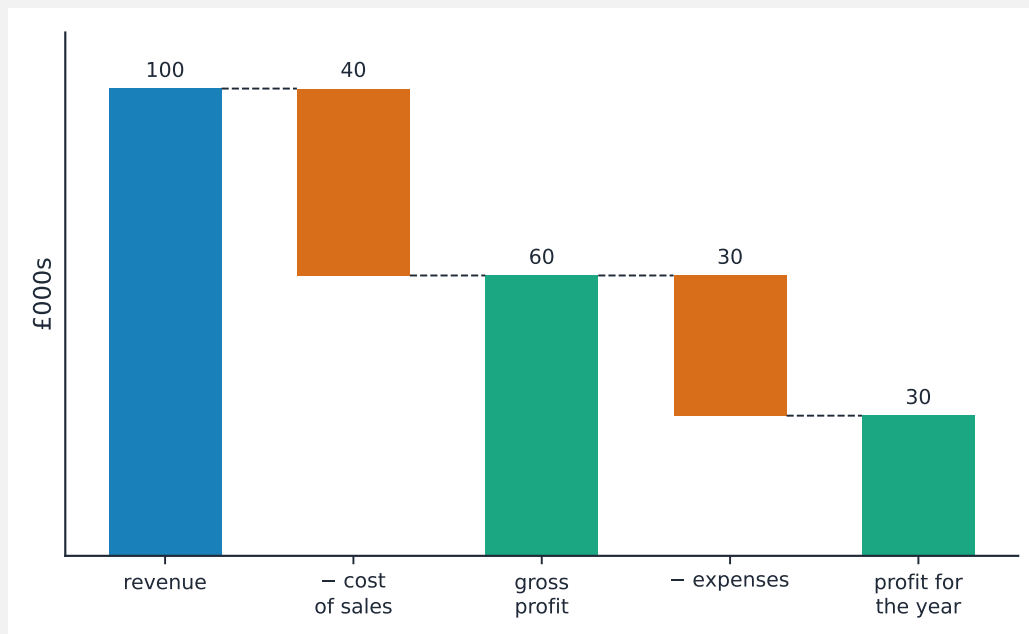
Build the skills to answer exam questions on the **income statement** 损益表—**revenue**, **cost of sales**, **gross profit**, **expenses** 收入、销售成本、毛利润、费用, and the **profit for the year** 年度利润.

You must be able to:

- explain what an income statement shows
- calculate gross profit and the profit for the year
- explain how stakeholders use the income statement

1 Worked examples

■ Reading an income statement

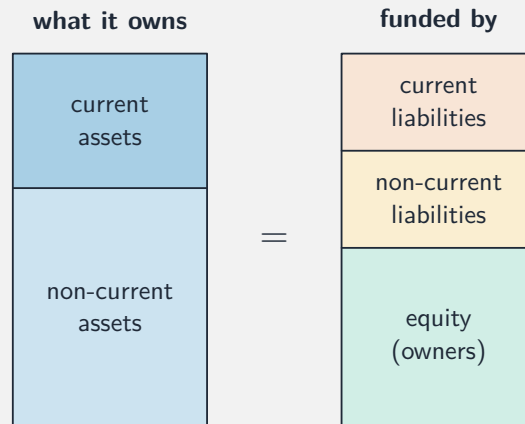


Revenue → gross profit → profit for the year

gross profit = revenue – cost of sales profit for the year = gross profit – expenses

- **Worked:** revenue \$200,000, cost of sales \$120,000 → gross profit = \$80,000; expenses \$50,000 → profit for the year = \$30,000.

- **Stakeholders use it:** owners check the profit, lenders check their loans are safe, managers spot problems.



The other main statement: the income statement shows profit over a year, the balance sheet a snapshot on one day

Answer shapes: $K + App + An + Ev$ (a justified judgement, for "do you think" questions).

2 Practice

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]

3 Exam-style questions

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]

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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **5.3 Income statements** past-paper sheet in the Library, or try these in **Practice mode**:

- 0450/13 N25 —Q1 (income statement)
- 0450/12 J25 —Q2 (profit, case study)

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 revenue minus the cost of sales (the cost of making or buying the goods sold) (2 for a clear definition; 1 for a partial idea).

2.2 $\$150,000 - \$90,000 = \$60,000$ (2; award 1 for a correct method with the wrong figure).

2.3 any one stakeholder + reason: owners —to check the profit; lenders —to check their loan is safe; managers —to spot problems (2 for stakeholder + reason; 1 for stakeholder only).

3.1 $\$60,000 - \$40,000 = \$20,000$ (2; award 1 for a correct method with the wrong figure).

3.2 [6] For **each** of two reasons: K 1 + An up to 2 —e.g. *show profit*: it tells owners how much profit was made → they judge the firm's success. *Find problems*: comparing with last year shows if costs are rising → managers can act. Maximum 3 each.

3.3 [6] Both sides + judgement. **Yes (serious)**: a high gross profit but low final profit means **expenses** (rent, wages, advertising) are very high → little is left for the owners, and the firm is vulnerable if sales fall. **Not always**: if the firm is investing in growth (e.g. marketing), high expenses now may raise future profit. **Judgement (Ev)**: it is a warning sign worth investigating, but whether it is serious depends on *why* expenses are high —wasteful spending is a real problem, planned investment may not be.