5.3 Income statements

Name: ____________ Class: ________ Date: __________ **Total: 20 marks**

KEY WORDS gross profit 毛利润 • expenses 费用 • income statement 损益表 • cost of sales 销售成本 • profit for the year 年度利润

Objective

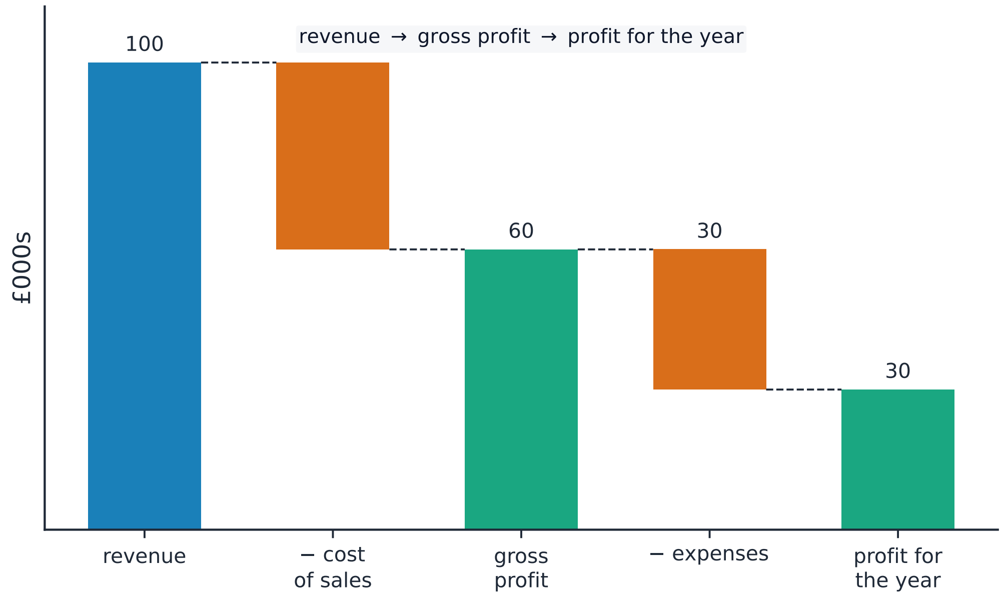
Build the skills to answer exam questions on the **income statement** 损益表 — **revenue, cost of sales, gross profit, expenses** 收入、销售成本、毛利润、费用, and the **profit for the year** 年度利润.

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

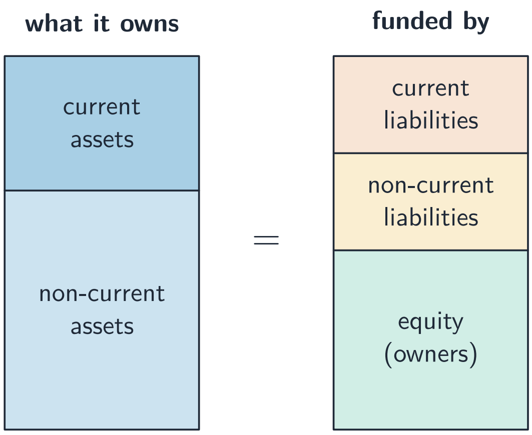
Reading an income statement



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]

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.