

# Income statement



At the end of this lesson, all students:

- **Must understand what an income statement shows**
- **Should recall the structure of an income statement**
- **Could complete a basic income statement**

# Starter

- Income statement calculates the profit/loss made by a business in the last 12 months.
- Why might this be important?



**-Compare performance to last year or to  
compare with other businesses**

**- For investors**

**- For bank loans**

Watch the following video and make notes on how an income statement is formed

- <https://www.tutor2u.net/business/reference/introduction-to-the-income-statement>



# Activity - Pete's Pizza Parlour

Pete runs a takeaway pizza shop in Dagenham. He has been open for 12 months and is drawing up his first income statement.

Let's walk through how he will draw up his income statement



**Pete's sales/revenue are as follows;**

6,000 x pizzas at £7 each **42,000**

10,000 x chips at £1.50 each **15,000**

8,000 x garlic bread at £4 each **32,000**

He has calculated his revenue to be **£89,000**





# Pete's Pizza Parlour Income statement

Revenue £89,000

Less: Cost of sales

= Gross profit

Less: expenses

= Net profit



# Cost of sales



Next, we need to work out how much it has cost him to buy his raw materials to make these goods.

**Cost of sales = (opening stock + purchases) – closing stock**

Opening stock i.e. Stock left over from last year

Does Pete have any opening stock?





## Pete's purchased the following;

Prepared dough 2,000 packets at  
£3 each

**£6,000**

Frozen chips 280 boxes at £10  
each

**£2,800**

Toppings £1200

**£1,200**

Other £600

**£ 600**

**TOTAL = £10,600**





# Pete's Pizza Parlour Income statement

Revenue £89,000

Less: Cost of sales £10,600

= Gross profit £78,400

Less: expenses

= Net profit



# Expenses



What else will we have to take off Pete's gross profit figure?

Expenses i.e. The general costs of running the business

For example.....



## Pete's expenses are as follows;



Wages                    £10,000

Rent                      £12,000

Advertising            £ 2,500

Insurance                £ 1,000

Vehicle                  £5,000

Telephone                £ 3,000

Utilities                  £ 5,000

**£38,500**



# Pete's Pizza Parlour Income statement

Revenue £89,000

Less: Cost of sales £10,600

= Gross profit £78,400

Less: expenses £38,500

= Net profit £39,900

# Your task (20 mins)

## Complete the income statement for Beale's Plaice for the year ended 31<sup>st</sup> December 2015 – see slides 15 and 16

1. Here is a list of transactions, put these into the income statement to calculate Ian Beale's profit for the year. (Tick off as you go)

- Bought vehicle £750
- Sold 2000 small portions of fish & chips at £3 each
- Advertising £5000
- Car insurance £1500
- Rent £15000
- Purchased 750kgs of fish at £7.50 a kg
- Sold 10000 medium portions of fish & chips at £5
- Purchased 100 bottles of vinegar at £2 each
- Sold 4500 large portions of fish and chips at £6.50 each
- Purchased 2500 packs of frozen chips at £1 each
- Wages £5000
- Telephone bill £2000

Fold sheet from margin and glue in. Extension to be answered in exercise book.

*Extension 1:* From looking at the completed Income statement, would you recommend investing or buying shares in Beale's Plaice? Why or why not?

*Extension 2:* From looking at the completed income statement, how might Ian be able to increase profit? Any particular areas where he could increase or decrease spending?

	£	<i>Notes/workings</i>
<b>Revenue</b>		
<b>Total revenue =</b>		
<b>Cost of Sales</b>		
<b>Cost of sales =</b>		
<b>Gross Profit =</b>		
<b>Expenses</b>		
<b>Total expenses =</b>		
<b>Profit for the year =</b>		

1. Here is a list of transactions, put these into the income statement to calculate Ian Beale's profit for the year. (Tick off as you go)

- Sold 2000 small portions of fish & chips at £3 each
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- Wages £5000
- Telephone bill £2000

***Extension:*** From looking at the completed income statement, how might Ian be able to increase net profit? Any particular areas where he could increase or decrease spending?

	£
<b><u>Revenue</u></b>	
<b>Total revenue =</b>	
<b><u>Cost of Sales</u></b>	
<b>Cost of sales =</b>	
<b>Gross Profit =</b>	
<b><u>Expenses</u></b>	
<b>Total expenses =</b>	
<b>Profit for the year =</b>	

Notes/workings



# Can you come up with a mnemonic to remember the structure of income statement?

- **R**evenue
- **L**ess cost of sales
- **G**ross profit
- **L**ess expenses
- **N**et profit

# Written questions

Give a full written answer to the following:

1. Give two purposes of an income statement
2. Describe the structure of an income statement (describe each section)

**Challenge:** From looking at Ian Beale's income statement, would you recommend me to invest in the business? If yes, why? If not, why?