

CHAPTER 20 Accounting and Financial Reporting

SOFTWARE ACTIVITY

Spreadsheet Application

OBJECTIVE: Prepare a profit and loss statement.

A profit and loss statement compares revenues and expenses over a specific period of time to determine if a business has made a profit. Components on most profit and loss statements include net sales, cost of goods sold, gross margin, operating expenses, and net income before taxes. Each of these components is often shown as a percent of sales on the profit and loss statement.

The printout below shows components of a typical profit and loss statement. You have been provided with net sales, cost of goods sold, and specific expenses. To complete the profit and loss statement, you will need to calculate the gross margin, total operating expenses, and net income before taxes. Next, calculate the percent of sales that each component represents.

ACME MODEL COMPANY		
Profit and Loss Statement		
January 1–December 31		
		Percent of Sales
Net Sales	\$493,148	100%
Cost of Goods Sold	\$291,262	_____
GROSS MARGIN		_____
Operating Expenses		
Salaries	\$83,138	_____
Utilities	\$6,950	_____
Depreciation	\$10,050	_____
Rent	\$32,000	_____
Building Services	\$4,920	_____
Insurance	\$4,000	_____
Interest	\$2,646	_____
Office and Supplies	\$6,550	_____
Sales Promotion	\$11,000	_____
Taxes and Licenses	\$6,480	_____
Maintenance	\$1,610	_____
Delivery	\$5,848	_____
Miscellaneous	\$1,750	_____
TOTAL OPERATING EXPENSES		_____
NET INCOME BEFORE TAXES		_____

Spreadsheet Directions

1. Start your spreadsheet software program.
2. Recreate the table on the previous page using your spreadsheet program.
3. Enter the appropriate formulas to calculate the following:
 - gross margin
 - total operating expenses
 - net income before taxes
4. Now, enter the formula for calculating the percent of sales for each of the components listed.
5. After completing your calculations, save your work.
6. Print out a copy of your work if your teacher has instructed you to do so.
7. Answer the following questions.

Interpreting Results

1. What was the net income before taxes for Acme Model Company?

2. What percent of sales did net income before taxes represent?

Drawing Conclusions

3. What three general strategies could Acme Model Company use to increase its net income before taxes?

4. If Acme Model Company generates more sales next year, will profits increase?
