

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## What profit is and why it is important 🔍

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



# Overviews

1. How a profit is made
2. Importance of profit to private sector businesses
3. Difference between profit and cash



# 1. How a profit is made

**Profit = sales revenue - cost of making products**

## *How a profit is made ?*

- 1. Generating higher sales revenue than cost of production**
  - By advertising to increase sales and improving quality of products.
- 2. Reducing cost of production**
  - By seeking for cheaper raw material, improving productivity of labour and investing in technology.

## 2. Why is profit important ?

### *Why is profit important ?*

*1. Reward for owners or shareholders*

*2. Reward for taking risk to owners*

*3. Source of fund for reinvestment*

*4. Indicator of success*

# 3. Difference between profit and cash

**Profit  $\neq$  Cash**

- ▶ Profit = sales revenue - cost of making products
- ▶ Sales revenue includes selling on cash and credit
- ▶ Cost includes cost of production already paid by cash or bought on credit.
- ▶ Higher profits do not mean higher cash gained if the business sells on credit.

# Knockout Economics



Line :@ Knockout.Economics



FB Page : Knockout.Economics



IG : Knockout.Economics



Youtube : Knockout.Economics

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## Income statements

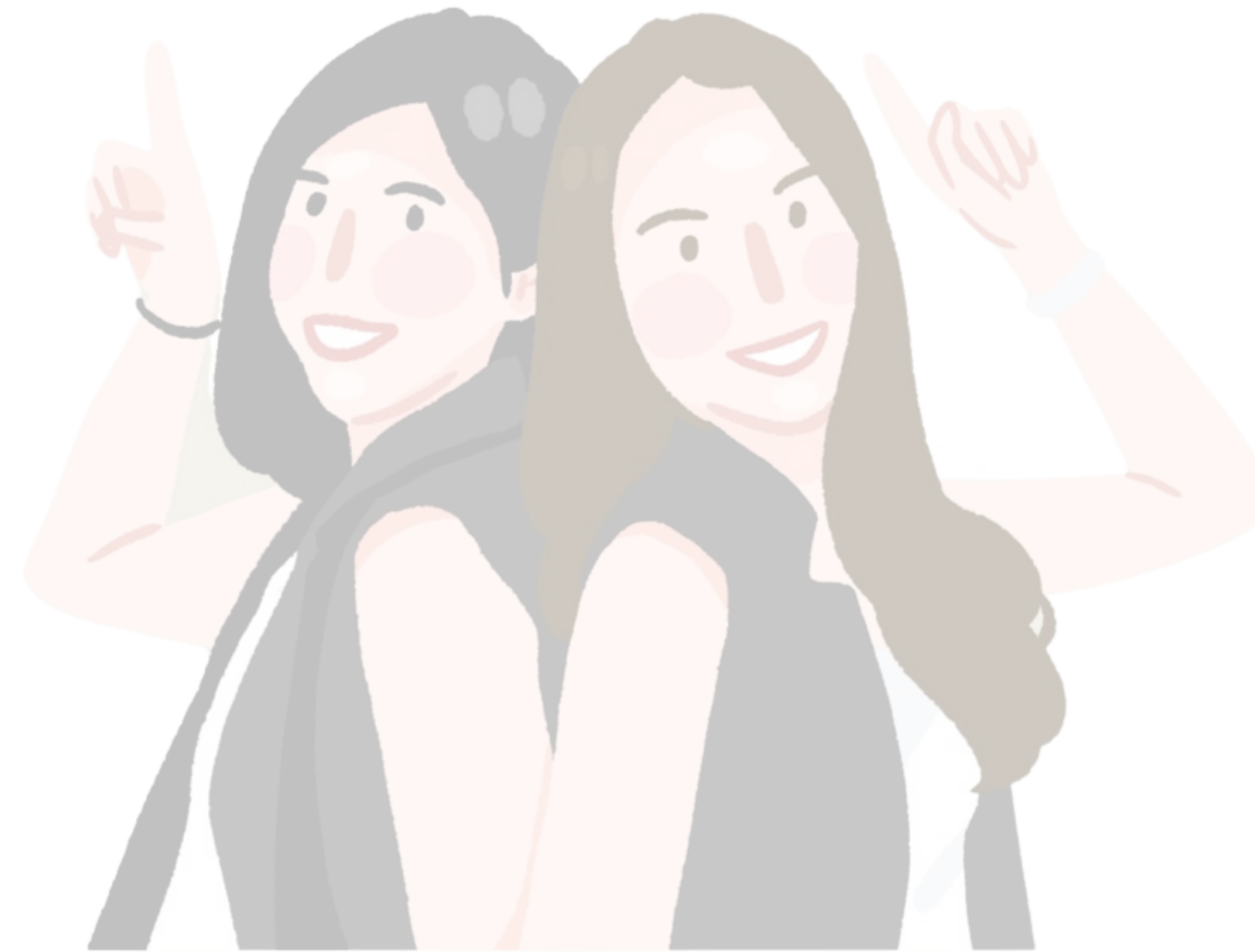


- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



# Overviews

1. Main features of an income statement
2. Using income statements in decision-making



# 1. Main features of an income statement

**Income statement:** record income and expense over the period and it shows performance of the business.

<b>Sales revenue</b>	<b>\$65,000</b>
Opening inventories	\$10,000
Purchases	\$26,000
Total inventory available (Opening inventories + Purchases)	\$36,000
Less closing inventories	\$13,000
<b>Cost of goods sold</b> (Total inventory available - Closing inventories)	<b>\$23,000</b>
<b>Gross profit</b> (Sales revenue - Cost of goods sold)	<b>\$42,000</b>

**Total inventory available** = Opening inventories + Purchases

**Cost of goods sold**  
= Total inventory available - Closing inventories

**Gross profit** = Sales revenue - Cost of goods sold

# 1. Main features of an income statement

**Income statement:** record income and expense over the period and it shows performance of the business.

<b>Gross profit</b> (Sales revenue - Cost of goods sold)	<b>\$42,000</b>
Other income	<b><u>\$5,000</u></b>
<b>Less expense:</b>	
Wages and salaries	\$14,000
Electricity	\$4,000
Rent	\$5,000
Depreciation	\$3,000
Selling and advertising expense	<u>\$5,000</u>
	<b>\$31,000</b>
<b>Net profit</b> (Gross profit + Other income - Expense/overhead)	<b>\$16,000</b>

**Gross profit = Sales revenue - Cost of goods sold**

**Net profit = Gross profit + Other income - Expense/overhead**

# 1. Main features of an income statement

**Income statement:** record income and expense over the period and it shows performance of the business.

<b>Net profit</b> (Gross profit + Other income - Expense/ overhead)	<b>\$11,000</b>	<b>Net profit = Gross profit + Other income - Expense/overhead</b>
Corporate tax	\$1000	
<b>Profit after tax</b> (Net profit - Corporate tax)	<b>\$10,000</b>	<b>Profit after tax = Net profit - Corporate tax</b>
Dividend	\$2,000	
<b>Retained profit for the year</b> (Net profit after tax - Dividend)	<b>\$8,000</b>	<b>Retained profit for the year = Net profit after tax - Dividend</b>

# 1. Main features of an income statement

## Exercise

Sales revenue	Cost of goods sold	Gross profit
\$10,000	\$3,000	
\$1,050,000	\$350,000	

Cost per unit	Opening inventories	Purchase of goods	Closing inventories	Cost of goods sold
\$2	3,000	200	300	
\$10	10,000	3,500	2,000	

# 1. Main features of an income statement

## Exercise

Gross profit = Sales revenue - Cost of goods sold

Sales revenue	Cost of goods sold	Gross profit
\$10,000	\$3,000	
\$1,050,000	\$350,000	

Cost of goods sold  
= Total inventory available - Closing inventories

Cost per unit	Opening inventories	Purchase of goods	Closing inventories	Cost of goods sold
\$2	3,000	200	300	
\$10	10,000	3,500	2,000	

# 1. Main features of an income statement

<b>Sales revenue</b>	<b>\$65,000</b>
<b>Cost of goods sold</b> (Total inventory available - Closing inventories)	<b>\$23,000</b>
<b>Gross profit</b> (Sales revenue - Cost of goods sold)	<b>\$42,000</b>
Other income	<b><u>\$5,000</u></b>
Less expense:	<b>\$31,000</b>
<b>Net profit</b> (Gross profit + Other income - Expense/overhead)	<b>\$16,000</b>
Corporate tax	\$1000
<b>Profit after tax</b> (Net profit - Corporate tax)	<b>\$10,000</b>
Dividend	\$2,000
<b>Retained profit for the year</b> (Net profit after tax - Dividend)	<b>\$8,000</b>

## 2. Using income statements in decision-making

1. **Choosing a project to invest;** predicted income statement can estimate profits a business can make.
2. **Assessing performance of a business;** by comparing its performance with last year/industry average/competitors
3. **Predicting short and long problems;** a business can improve profit by identifying problems and solving them.



# Knockout Economics



Line :@ Knockout.Economics



FB Page : Knockout.Economics



IG : Knockout.Economics



Youtube : Knockout.Economics

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## Exercise: Income Statement



- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



# Exercise

P'Eve is considering the **two** additional services for her spa which now provides massage and gym.

	Hair cuts	Yoga class
<b>Additional customers</b>	250	100
<b>Average price charged per customer</b>	\$20	\$50
<b>Cost of sales</b>	\$150	\$100
<b>Salary</b>	\$200	\$250
<b>Lease of equipment</b>	\$450	\$200

Calculate gross profit and net profit for the two services. Which additional service should P'Eve choose to offer based on the absolute terms of gross profit and net profit?

.....

.....

.....

.....

.....

.....

# Exercise

P'Eve is considering the **two** additional services for her spa which now provides massage and gym.

	Hair cuts	Yoga class
<b>Additional customers</b>	250	100
<b>Average price charged per customer</b>	\$20	\$50
<b>Cost of sales</b>	\$150	\$100
<b>Salary</b>	\$200	\$250
<b>Lease of equipment</b>	\$450	\$200

Calculate gross profit and net profit for the two services. Which additional service should P'Eve choose to offer based on the absolute terms of gross profit and net profit?

	Hair cuts	Yoga class
<b>Sales revenue</b>		
<b>Cost of goods sold</b>		
<b>Gross profit (Sales revenue - Cost of goods sold)</b>		
<b>Less salary expense</b> <b>Lease of equipment</b>		
<b>Net profit (Gross profit - Expense/overhead)</b>		

# Exercise

P'Eve is considering the **two** additional services for her spa which now provides massage and gym.

	Hair cuts	Yoga class
<b>Additional customers</b>	250	100
<b>Average price charged per customer</b>	\$20	\$50
<b>Cost of sales</b>	\$150	\$100
<b>Salary</b>	\$200	\$250
<b>Lease of equipment</b>	\$450	\$200

Calculate gross profit and net profit for the two services. Which additional service should P'Eve choose to offer based on the absolute terms of gross profit and net profit?

	Hair cuts	Yoga class
<b>Sales revenue</b>	\$5,000	\$5,500
<b>Cost of goods sold</b>	\$150	\$100
<b>Gross profit (Sales revenue - Cost of goods sold)</b>	<b>\$4,850</b>	<b>\$4,900</b>
<b>Less salary expense</b>	\$200	\$250
<b>Lease of equipment</b>	\$450	\$200
<b>Net profit (Gross profit - Expense/overhead)</b>	<b>\$4,200</b>	<b>4,450</b>

# Knockout Economics



Line :@ Knockout.Economics



FB Page : Knockout.Economics



IG : Knockout.Economics



Youtube : Knockout.Economics