

Preparation of Multiple-Step Income Statement and Ratio Calculations

1. Using the account information below prepare, in good form, a complete multiple step income statement for the Acme Corporation for the year ended December 31, 2007.  
***Be sure to include a detailed cost of goods sold section in the body of the statement and a proper heading for your statement. Also, list the operating expenses in alphabetical order!***
2. When you have completed preparing the income statement calculate the Gross Profit Rate and the Profit Margin Percentage.

Use only the information needed **(there is some unneeded information.)**

**Hint: cross out unneeded information before you start the statement.**

Merchandise inventory, Jan 1, 2007	14,000
Merchandise inventory, Dec 31, 2007	12,000
Income tax expense	9,000
Sales returns and allowance	6,000
Prepaid insurance	6,000
Accounts payable	20,000
Accumulated depreciation	80,000
Net purchases	320,000
Gain on sale of land	4,000
Sales Revenue	460,000
Office equipment	100,000
Freight-out	8,000
Cash	28,000
Depreciation	10,000
Interest revenue	2,000
Rent expense	16,000
Sales discounts	4,000
Salaries expense	30,000
Advertising expense	17,000
Common stock	50,000
Interest expense	1,000
Loss on sale of equipment	3,000

Acme Corporation  
 Income Statement  
 Year ended December 31, 2007

Sales		\$460,000
Less sales returns and allowances	\$ 6,000	
Less sales discounts	<u>4,000</u>	<u>10,000</u>
Net sales		450,000
Cost of Goods Sold:		
Beginning inventory	\$ 14,000	
Net purchases	<u>320,000</u>	
Goods available for sale	334,000	
Ending inventory	<u>12,000</u>	
Cost of Goods Sold		<u>322,000</u>
Gross Profit		128,000
Operating expenses:		
Advertising	17,000	
Depreciation	10,000	
Freight-out	8,000	
Rent	16,000	
Salaries	<u>30,000</u>	
Total operating expenses		<u>81,000</u>
Income from operations		47,000
Other income:		
Gain on sale of land	4,000	
Interest revenue	<u>2,000</u>	6,000
Other expense:		
Interest expense	1,000	
Loss on sale of equipment	<u>3,000</u>	<u>( 4,000)</u>
Income before taxes		49,000
Income tax expense		<u>9,000</u>
Net income		\$ 40,000
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Gross Profit Rate (percentage):  $128,000/450,000 = .2844 = .284 = 28.4\%$

Profit Margin Percentage:  $40,000/450,000 = .0888 = .089 = 8.9\%$