

Preparation of Multiple-Step Income Statement and Ratio Calculations (5 points)

1. Using the account information below prepare, in good form, a complete multiple step income statement for the Prepare It Right 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. The operating expenses may be listed in any order.**
2. When you have completed preparing the income statement calculate the Gross Profit Rate and the Profit Margin Percentage. Put your answers below the income statement and round to 3 significant digits.
3. This project must be typed using a computer and either word processing or spreadsheet software. Print out your answer and hand it in no later than the beginning of class on the due date shown on your homework schedule. **You may collaborate (work with) other students but each person must type their own answer!** Keep your electronic file in case the instructor asks for it at a later date.
4. **If your answer has more than one minor error you will not receive any extra credit. Therefore, pay close attention to the details of the problem and your answer! REMEMBER TO USE YOUR RESOURCES: the text book, my webpage, and other examples provided.**

Interest expense	4,000
Merchandise inventory, Jan 1, 2008	10,000
Income tax expense	7,000
Utilities expense	7,000
Prepaid insurance	9,000
Accounts payable	22,000
Accumulated depreciation	67,000
Net purchases	440,000
Common stock	60,000
Sales Revenue	600,000
Office equipment	200,000
Freight-out	10,000
Cash	30,000
Rent expense	27,000
Retained earnings	25,000
Sales discounts	2,000
Wages expense	33,000
Property taxes expense	13,000
Merchandise inventory, Dec 31, 2008	14,000
Sales returns and allowance	18,000
Accounts receivable	15,000

Prepare It Right Corporation
 Income Statement
 Year ended December 31, 2008

Sales		\$600,000
Less sales returns and allowances	\$ 18,000	
Less sales discounts	<u>2,000</u>	<u>20,000</u>
Net sales		580,000
Cost of Goods Sold:		
Beginning inventory	10,000	
Net purchases	<u>440,000</u>	
Goods available for sale	450,000	
Ending inventory	<u>14,000</u>	
Cost of Goods Sold		<u>436,000</u>
Gross Profit		144,000
Operating expenses:		
Freight-out	10,000	
Property taxes	13,000	
Rent	27,000	
Wages	33,000	
Utilities	<u>7,000</u>	
Total operating expenses		<u>90,000</u>
Income from operations		54,000
Other expense:		
Interest		<u>4,000</u>
Income before taxes		50,000
Income tax expense		<u>7,000</u>
Net income		\$ 43,000
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Gross Profit Rate (percentage): $144,000/580,000 = .2483 = .248 = 24.8\%$

Profit Margin Percentage: $43,000/580,000 = .0741 = .074 = 7.4\%$