

## Unit 4

### The Profit Statement

#### Example 3

Owners have invested £100,000 in a business to produce computers. Equipment was bought for cash costing £50,000 and they then purchased, on credit, materials costing £30,000. Using the materials computers have been produced and sold for £40,000 on credit terms.

**INCOME – EXPENSES = PROFIT OR LOSS**

**CAPITAL + LIABILITIES = ASSETS**

#### Example 4

As above in example 3, in the next period however, of the £40,000 worth of sales, half has been received in cash. A further £20,000 worth of credit sales have been made using £15,000 worth of materials from further materials stock purchases on credit of £40,000. More equipment has been bought for £50,000 and the original materials of £30,000 have now been paid. A bank loan of £30,000 has been arranged and the cash received.

**INCOME – EXPENSES = PROFIT OR LOSS**

**CAPITAL + LIABILITIES = ASSETS**

## Unit 4 - Answers

### Example 3

Owners have invested £100,000 in a business to produce computers. Equipment was bought for cash costing £50,000 and they then purchased, on credit, materials costing £30,000. The material is still held as stock.

Profit	-	Expenses	=	Profit / Loss
£40,000		£30,000		£10,000
Credit Sales		Materials		

Capital	+	Liabilities	=	Assets
£110,000		£30,000		£140,000
Investment £100,000		Materials £30,000		Equipment £50,000
Profit £10,000				Debtors £40,000
				Cash £50,000

Cash balance:

	Capital Invested £100,000
-	Equipment £50,000
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	£50,000

## Unit 4 - Answers

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Profit £20,000	-	Expenses £15,000	=	Profit / Loss £5,000
Credit Sales		Materials		

Capital £115,000	+	Liabilities £70,000	=	Assets £185,000
Investment £100,000 Profit £10,000 Profit £5,000		Materials £40,000 Bank Loan £30,000		Equipment £100,000 Debtors £40,000 Stock £25,000 Cash £20,000

Cash balance:

	Capital Invested £100,000
-	Equipment £50,000
-	Materials £30,000
-	New Equipment £50,000
+	Bank Loan Cash £30,000
+	Cash from Sales £20,000
	£20,000