



Student Lesson 2 – *Completing the Income Statement*

Instructions: Place the following amounts in the correct category in the income statement on the following page. You will need to calculate gross margin, operating income, income taxes and net income to determine whether or not Pastrami's earned a profit.

1. Pastrami's sells items like pizza, calzones, pasta and submarines. Pastrami's had a great month in July, with sales totaling \$50,000.
2. Tony decided that advertising the business would help Pastrami's make more money. Tony bought a television ad on cable TV for \$2,500, a radio ad on a popular station for \$1,000 and paid the local newspaper \$500 to include Pastrami's coupons in its Sunday paper. Altogether, Tony spends \$4,000 on advertising.
3. With all of the food that Pastrami's sells, Tony needs lots of ingredients on hand. Each week, Tony purchases dough, cheese, sauce, meat, vegetables and other items from a local supplier. For the month of July, Pastrami's grocery bill costs \$10,000.
4. Pastrami's cooks begged Tony for some new supplies to help them prepare the food faster. Tony agreed, and purchased four new rolling pins, five long-handled pizza sheets, a new set of kitchen knives and some pots and pans for making spaghetti, meatballs and such. Pastrami's new supplies cost \$200.
5. Pastrami's has two gourmet pizza cooks, Heather and Aurmaudra. Each cook earns \$10/hr. and works 40 hrs/wk. Together, Heather and Aurmaudra earned \$3,200 in July.
6. Pastrami's also employs four food deliverers. Each works 20 hours a week and is paid \$6.25 an hour. In July, these four employees earned \$2,000.
7. As Pastrami's accountant, your monthly salary is \$2,100.
8. Tony earns \$3,000 per month for his own salary.
9. Pastrami's monthly payment to the bank for its building (a.k.a. *mortgage*) is \$1,500.
10. Tony pays utilities each month, which include his electric, gas and water bills. For July, utility expenses totaled \$500.
11. Pastrami's delivery service is a big part of its business. Tony refueled his two delivery trucks three times a week and each truck's tank cost \$20 to fill. Altogether, Tony spent \$480 a month on gas.
12. Good food must have good packaging. Tony can purchase boxes specially made at a nearby print shop. If Tony orders at least 1,000 containers a month in each size, he can lock in a discounted price of \$50 per thousand boxes. He ordered a total of 5,000 containers in a variety of sizes and paid \$250.

**Pastrami's Pizza Joint
Income Statement
For the Month Ended July 31, 2003**

Revenues

Cost of Goods Sold (COGS)

Item

_____ \$ _____

_____ _____

_____ _____

Total COGS

Gross Margin

Selling, General & Administrative

Item

_____ \$ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

_____ _____

Total SG&A

Operating Income

Income Taxes (30%)

Net Income

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