5. What Is Profit? Loss?

When you buy a pair of skates for $10 and sell them for $15, your **profit** is $5. But suppose you spend $7 on classified ads before you sell the skates? Then you have a **loss** of $2! This lesson will help you understand profit and loss when running a business.

Read the following facts and then answer the questions.

1. The skateboard that you bought for $12 was sold for $14.50. What was your gross profit? _____

2. You bought a plain T-shirt for $3.99. The iron-on letters that you put on the shirt cost you $2.50. How much should you sell the T-shirt for to earn a profit of $4?

   Cost of plain T-shirt = _____

   Additional cost of
   letters   + _____

   Cost of T-shirt   = _____

   Profit   + _____

   Selling price   = _____

> ## Quick Reference
>
> **Total sales** = the sum of the amounts you receive from customers.
>
> **Cost of goods sold** = the amount you paid for the things you sell.
>
> **Gross profit** = Total sales minus cost of goods sold.
>
> **Operating expenses** = the sum of amounts paid for doing business (rent, utilities, telephone, office supplies, salaries, advertising, and others).
>
> **Net profit** = Gross profit minus operating expenses.
>
> **Net loss** = the difference between gross profit and operating expenses, if the expense amount is greater than the profit.
>
> **Unit cost** = the amount you paid for one of the items you sell.
>
> **Inventory** = number of goods for sale x unit cost.

3. When you tried to sell the T-shirt at your selling price, nobody wanted to buy it! So you sold it for $5.
   Did you have a profit? A loss?

   Cost of T-shirt for sale _____

   Amount paid to you   _____

   Difference   _____

   Is this a profit or a loss?_____

Use what you've learned.

CANDLELIGHT SHOPPE
Profit and Loss Statement for the Month of May

TOTAL SALES		$ ....A
COSTS:		
May 1 inventory	$ ....B	
New purchases	+ C	
Total cost of candles for sale	...............D	
May 31 inventory	− ....E	
COST OF GOODS SOLD	....	$ ....F
GROSS PROFIT	....	$............G
EXPENSES		
....	$	
....	....	} H
....	....	
TOTAL OPERATING EXPENSES	....	$ I
NET PROFIT (or LOSS)	....	$ ....J

Prepare a PROFIT & LOSS STATEMENT for this business. Read the facts for each letter carefully.

A. The weekly sales in May were:

First week:	$155.50
Second week:	186.75
Third week:	195.00
Fourth week:	175.25
TOTAL SALES	

B. On May 1, there were 1,500 candles in the store and each candle cost $.05.

1500 x .05 = _____

C. The new candles bought in May cost $200.

D. Add B and C.

E. On May 31, there were 2,000 candles in the store at $.05 each.

2000 x .05 = _____

F. Subtract E from D.

G. Subtract F from A.

H. To run the store, the owner paid $200 rent, $100 for ads and $95 for supplies.

I. Add the amounts in H.

J. Subtract I from G.

Note: If expenses are greater than the gross profit, the difference is a LOSS.

On Your Own

Suppose you want to earn money by making models of spaceships, submarines, or unusual cars. Find out how much the materials will cost. Don't forget to add the cost of your labor! Figure your hourly rate and multiply it by the number of hours you might spend on a model. Your selling price should include the total cost of your materials and your labor, plus some profit.

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What Is Profit? Loss?

1. $2.50

2. Cost of plain T-shirt $3.99
   Additional cost of letters
   + $2.50

Cost of T-shirt $6.49

Profit +$4.00

Selling Price $10.49

3. Cost of T-shirt for Sale
            $6.49

Amount paid to you $5

Difference $1.49

Is this a profit or loss? Loss.

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Use what you've learned.

A. total sales $712.50

B. 1500 x .05 = $75

D. $275

E. 2000 x .05 = $100

F. $175   G. $537.50

I. $395   J. $142.50