

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.

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

- 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? _____

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.

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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. $1500 \times .05 = \$75$
- D. \$275
- E. $2000 \times .05 = \$100$
- F. \$175 G. \$537.50
- I. \$395 J. \$142.50