

EXERCISE

INCOME STATEMENTS

Background

You've been assigned to work on a matter for a new client, Tempo Cycles, a manufacturer of high-performance road bikes. The partner you're working with has asked you to look at Tempo's income statement (below) so that you can become more familiar with Tempo's business.

TEMPO CYCLES, INC.
Income Statement
(in thousands)

	For the Year Ended December 31,	
	2016	2015
Net sales	\$ 515,000	\$ 199,000
Cost of sales	357,000	138,000
Gross profit	158,000	61,000
Selling, general and administrative expenses	109,000	38,000
Income from operations	49,000	23,000
Non-operating income (expenses)	(1,000)	(1,000)
Income before income taxes	48,000	22,000
Provision for income taxes	13,000	4,000
Net income	\$ 35,000	\$ 18,000

The partner has asked to meet with you in an hour to get your thoughts on the company's financial health.

Instructions

Come prepared to discuss what you can infer about Tempo from the income statement. Be ready to answer the following questions:

1. What is "net sales" and how is that different from "revenue" or just "sales"?
2. What is gross profit, and how does that compare to non-operating income and net income?
3. Selling, general and administrative expenses went up from \$38 million to \$109 million from 2015 to 2016. What does that tell us about Tempo's business?
4. What was Tempo's net profit margin for 2016 and 2015 and are these figures good or bad?