Monthly Fixed Costs:	$1,100
Gross Profit per Unit:	$12

The break-even point would be $1,100 ÷ ($12 – $1) = $1,100 ÷ $11 = 100 pairs of shoes. The store needs to sell 100 pairs of shoes a month (a little more than three pairs of shoes per day) to stay in business.

Including Depreciation on an Income Statement

If you buy expensive, long-lasting assets, such as a computer, you will want to include **depreciation** in your income statement. Depreciation is a certain portion of the cost of an asset that is subtracted each year until the asset's value reaches zero; it reflects the wear and tear on an asset over time.

This wear and tear reduces the value of the asset, so it's a cost of doing business. Depreciation is typically shown as an operating fixed cost on the income statement. Hector doesn't include depreciation on his income statement because his business doesn't have any assets—such as a computer, a car, or manufacturing machinery—that would have their worth reduced over time by wear and tear.

But let's say you open your own Hometown Restaurant. You buy $3,000 worth of tables and chairs. You know that those tables and chairs will have to be replaced in about five years because they will be worn out. If you subtract $600 a year from your income statement and put that money into a bank account, in five years you will have saved $3,000—enough to replace your tables and chairs. That's the point of depreciation—to help you save now so you can replace your assets as they need to be replaced. Many business owners forget that depreciation is a real yearly cost of using an asset. To forget about depreciation is to grossly overstate your profit.

Lola's Custom Draperies, Inc. is a more complex business than Hector's, but the income statement follows the same format as the income statement for Hector's business, and its goal is still the same—to show whether the business is profitable. Lola's income statement on page 126 includes depreciation.

Financial Ratio Analysis

Entrepreneurs don't just look at their income statements; they analyze them by dividing sales into each line item. Each item can then be expressed as a **percentage**, or share, of sales. Percentages express