# Espresso Income Statement Solution

Attached are Espresso’s 2018 financial statements, including the 2018 comparative income statement. Using the information found on the income statement and accompanying notes, answer the following questions.

1. What was Espresso’s net income for 2018?

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| *p.1 - $18,760,000,000* |

2. How is revenue recognized?

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| *p.5 – Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable.* |

3. What items make up research and development?

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| *p.6 – Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other headcount-related expenses associated with product development. Also includes third-party development and programming costs, translation costs, and amortization of purchased software code and services content.* |

4. What was the advertising cost paid in fiscal year 2017?

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| *p.6 - $1.4 billion.* |

5. What items are included in cost of revenue and how much did Espresso spend in 2018?

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| *p.1 – Cost of revenue =$12,395,000,000.*  *p.6 – cost of revenue includes; manufacturing and distribution costs; operating costs; costs include to include software on PC’s sold by OEMs (original equipment manufacturers), to drive traffic to websites and to acquire online advertising space; costs incurred to support and maintain internet-based products and services; warranty costs; inventory valuation advustments; costs associated with consulting services; and the amortization of capitalized research and development costs.* |

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