Profit & Loss

Introduction

The term profit and loss (P&L) statement refers to a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a quarter or fiscal year. These records provide information about a company's ability or inability to generate profit by increasing revenue, reducing costs, or both. These statements are often presented on a cash or accrual basis. The P&L statement is one of three financial statements every public company issues quarterly and annually, along with the balance sheet and the cash flow statement.

Definition

A profit and loss statement is a record of revenue and expenses incurred by a business in a given period of time

When to Use it

- To determine if your business earns enough money to cover its costs and expenses,
- If you can afford to pay yourself as a business owner,
- If your business model is sustainable.
- **Investors and analysts** can use this information to assess the profitability of the company, often combining this information with insights from the other two financial statements.

Details

It is often the most popular and common financial statement in a business plan as it shows how much profit or loss was generated by a business. P&L statements are also referred to as a(n):

- Statement of profit and loss
- Statement of operations
- Statement of financial results or income
- Earnings statement
- Expense statement
- Income statement

The P&L or income statement shows changes in accounts over a set period of time. This document follows a general form as seen in the example below. It begins with an entry for revenue, known as the top line, and subtracts the costs of doing business, including the cost of goods sold, operating expenses, tax expenses, and interest expenses. The difference, known as the bottom line, is net income, also referred to as profit or earnings.

It can be prepared in one of the two ways

Cash Method

The cash method, which is also called the cash accounting method, is only used when cash goes in and out of the business. This is a very simple method that only accounts for cash received or paid. A business records transactions as revenue whenever cash is received and as liabilities whenever cash is used to pay any bills or liabilities. This method is commonly used by smaller companies as well as people who want to manage their personal finances.

Accrual Method

The accrual accounting method records revenue as it is earned. This means that a company using the accrual method accounts for money that it expects to receive in the future. For instance, a company that delivers a product or service to its customer records the revenue on its P&L statement, even though it hasn't yet received payment. Similarly, liabilities are accounted for even when the company hasn't for any expenses yet

Example

This document is a property of Asaseeyat Academy (a service by Asaseeyat Consulting services) - © Copy Right Protected

BUSINESS VITAMINS

Total Revenue	$1,000,000	Total Sales done by company
Less Cost of Goods Sold	$378,700	The cost price of the goods sold which generated that revenue
Gross Profit	$621,300	
Gross Profit Margin	62.13%	Gross Profit / Total Revenue
Less Expenses		Expenses occurred in due course of business other than the cost of goods sold
Accounting/Legal Fees	$15,500	
Advertising/Marketing	$27,000	
Depreciation	$14,000	
Utility Bills	$4,200	
Insurance	$20,200	
Interest/Finance Fees	$16,800	
Rent for Offices	$78,700	
Repairs/Maintenance	$15,400	
Wages/Salaries/Benefits	$201,500	
Other Expenses	$8,200	
Total Expenses	$401,500	
Net Profit	$219,800	Profit after deducting all expenses of business
Net Profit Margin	21.98%	Net Profit / Total revenue

This document is a property of Asaseeyat Academy (a service by Asaseeyat Consulting services) - © Copy Right Protected