WHAT ARE THE COMPONENTS OF A BUSINESS PROFIT & LOSS STATEMENT?

The Profit & Loss Statement of a business, also referred to as the Operating Statement, Earnings Statement or Income Statement, shows what the day to day operations of a business look like. It summarizes the money coming in and going out of a business. The Profit & Loss Statement is issued periodically on a business giving an overview of how a business is performing for that specific period of time.

The Profit & Loss Statement shows business activity over a period of time, unlike the Balance Sheet, which is a snap shot of the business on a specific day. The first line on a business's Profit & Loss Statement is the company's revenue for the period, known as ***Gross Revenue.*** This is either the actual cash taken in during the period, ***Cash Method Statement*,*** or the gross amount of product or services sold for the period, with an ***Accrual Method Statement*.***

After the gross revenue any goods returned for credit or trade discounts are deducted from the gross revenue. (Trade Discounts are a reduction to the published price of a product, which a business may offer to other like industry businesses or maybe a high-volume wholesaler).

The next item on a business Profit & Loss Statement is the ***Cost of Goods Sold***. This is the cost to make or manufacture a product, which includes material costs and can also include labor or other related costs. This would apply to businesses that sell a product and not service oriented businesses.

The Cost of Goods Sold are deducted from the amount left after the credit and trade discounts from the Gross Revenues to give what is referred to as the business's ***Gross Profit*** for the period. This tells you what the business made on the sale of the product after deducting the cost to produce or manufacture it.

A business may have income from sources not related to the business operations, sales of goods or services. This will be listed as ***Other Income*** after the gross profit.

After other income is listed the Profit & Loss Statement will now list and deduct all ***Operating Expenses*** related to running the business for the specific period of time. This would include payroll expenses, utilities, rental expense and any other expense to operate the business. Also included are what are referred to as non-cash expenses, most notably ***depreciation and/or amortization expense*****.

Upon deducting all costs and expenses from the gross revenue we can determine the true ***Net Profit*** for the period of time.

**There are 2 methods of accounting a business can use in calculating their revenues, costs and expenses. <u>The Cash Method</u> only realizes revenue or an expense when cash actually changes hands. <u>The Accrual Method</u> realizes revenue or an expense when the product is purchased and service is sold with the amount of revenue held on the business's Balance Sheet as an Accounts Receivable until cash is received and for expenses it is held as an Accounts Payable until the business actually pays cash for the expense. The most common method used is the Accrual Method.*

****<u>Depreciation</u> is a non-cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence. Most assets lose their value over time, in other words, they depreciate. They eventually have to be replaced once the end of what is referred to as their 'useful life' is reached. There are several accounting methods used in order to write off an asset's depreciation cost over a period of its useful life. Because it is a non-cash expense, in other words, the business does not actually pay for the expense, depreciation lowers the businesses reported net profit, which assists the business to lower its tax liability. <u>Amortization</u> can mean many things, however, on a business financial statement it is an accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic* *charges to income. Most common intangible asset to be written off using amortization method is 'Goodwill'. Goodwill is the value of an on-going business being purchased that is not only selling the physical assets of the business but is also selling the business name and in many cases a book of on-going business. This is an intangible asset that is given a value to the business purchaser with the value reducing over time through the amortization process. Just as with depreciation, amortization lowers the businesses reported earnings and therefore the tax liability.*

This represents a general overview and is not considered accounting advice. Please seek direction from an accounting professional for detailed information regarding your business financials.