

ANDERS STARTUP

STRESS-FREE FINANCIAL STATEMENT GUIDE: PROFIT & LOSS STATEMENTS

Having a good understanding of your startup or new businesses' financial statements is vital to attracting investors and keeping your business up and running. The Profit and Loss Statement (P&L Statement), also known as the Income Statement, is a fundamental accounting report that shows revenues, expenses, gains, and losses over a specific period of time such as a month, quarter, or year. The net result of all of these transactions is the company's net income or loss for the period of time.

THE PURPOSE OF THE P&L STATEMENT IS TO PROVIDE FINANCIAL PERFORMANCE OF A COMPANY OVER TIME.

LEARNING THE LINGO

Below is some basic terminology of the main parts of a P&L Statement and the common accounts listed within these sections:

REVENUE

Whether referred to as the P&L or Income Statement, the starting point for this financial report is the company's revenue. Revenue is broadly defined as the amount of money that the company receives during the period. There are two broad types of revenue that can be reported:

- **Operating Revenue** | This includes revenue earned through your normal business operations, including primary activities such as sales of your product or service. Operating revenue will not only include sales, but also discounts, credits, and refunds as well
- **Other Revenue** | To the contrary, other revenue is revenue earned that is not a result of your normal business operations. This includes secondary activities such as investment income.

COST OF GOODS SOLD (COGS)

These are the costs directly related to producing the goods or services provided by the business. Examples of these costs are manufacturing labor, inventory, and supplies.

$$\text{REVENUES} - \text{COGS} = \text{GROSS PROFIT}$$

GROSS PROFIT

Gross Profit will not include other expenses, but it will provide insight to whether you are pricing your product/service correctly or discounting too much.

TALK WITH AN ADVISOR TODAY.

Dave M. Finklang, CPA/CGMA, MBA
314-655-5566 | dfinklang@anderscpa.com

EXPENSES

Once we have captured our total revenues, we move on to expenses. There are several significant categories of expenses that we track:

- **Operating Expenses** | These are the expenses a company encounters to keep the business running such as advertising, general and administrative, utilities, salaries, rents, office expenses, research and development, depreciation and amortization.
- **Depreciation Expense** | Depreciation is the expensing of a portion of a purchase over a specified number of years. This is generally required for purchases of items that have a useful life, or benefit, to the company of over one year. For example, a computer, piece of office furniture, or piece of manufacturing equipment should provide well over a year of benefit to your company.
 - If you buy a computer that costs \$2,000, instead of deducting the entire amount in year of purchase, you can expense a portion for the next five years until fully depreciated or sold.
- **Amortization Expense** | This expense is similar to depreciation but it is the expensing of your intangible assets over a specified number of years. Intangible assets are assets such as computer software, copyrights, patents, and goodwill. Different types of assets have different depreciable lives that can range from 3 years to 39 years.

OPERATING INCOME

Next, is your Operating Income which is the Gross Profit less all Operating Expenses. If total Revenues are greater than the combined COGS and Operating Expenses, the company has an Operating Profit. On the other hand, if COGS and Operating Expenses are greater than total Revenues earned, you will have an Operating Loss.

OTHER INCOME AND EXPENSES

The next section of the P&L Statement is the Other Income and Expenses section, which includes your secondary activities such as investment income, interest expense, gains and losses, taxes, and other non-recurring events. Not all companies' P&L will include this section.

NET INCOME OR LOSS

The final section of the P&L is often referred to as the “bottom line.” This is the grand total of all of the company’s revenue and other income less all of the company’s expenses (COGS, operating expenses, depreciation, amortization, and other expenses).

- **Net Income** | The company is operating at a Net Income for the period if all of the revenues and other income items exceed all of the company’s different types of expenses, including COGS. Except for rare occasions, the goal is for the company to operate at a net income for the period.
- **Net Loss** | In the event the company’s different types of expenses, including COGS, exceed the company’s revenue and other income, the company has a Net Loss for the period. If this occurs for multiple periods, the company should examine the reasons why.

LEARN MORE ABOUT OUR SERVICES.

Dave M. Finklang, CPA/CGMA, MBA
314-655-5566 | dfinklang@anderscpa.com