

Income Statement (Profit and loss statement)

This is a financial statement that goes by a few different names—profit and loss statement, income statement, pro forma income statement, P&L (short for “profit and loss”)—and is essentially an explanation of how your business made a profit (or incur a loss) over a certain period of time.

It’s a table that lists all your revenue streams and all of your expenses—typically over a three-month period—and lists at the very bottom the total amount of net profit or loss.

There are different formats for profit and loss statements, depending on the type of business you’re in and the structure of your business

What to include in your profit and loss statement

- Your revenue (also called sales)
- Your “cost of sale” or “cost of goods sold” (COGS)—keep in mind, some types of companies, such as a services firm, may not have COGS
- Your gross margin, which is your revenue less your COGS

These three components (revenue, COGS, and gross margin) are the backbone of your business model — i.e., how you make money.

You’ll also list your operating expenses, which are the expenses associated with running your business that isn’t directly associated with making a sale. They’re the fixed expenses that don’t fluctuate depending on the strength or weakness of your revenue in a given month—think rent, utilities, and insurance.

How to find operating income

To find your operating income with the P&L statement you'll take the gross margin less your operating expenses:

$$\text{Gross Margin} - \text{Operating Expenses} = \text{Operating Income}$$

Depending on how you classify some of your expenses, your operating income will typically be equivalent to your "earnings before interest, taxes, depreciation, and amortization" (EBITDA).

This is basically, how much money you made in profit before you take your accounting and tax obligations into consideration. It may also be called your "profit before interest and taxes," gross profit, and "contribution to overhead"—many names, but they all refer to the same number.

How to find net income

Your so-called "bottom line"—officially, your net income, which is found at the very end (or, bottom line) of your profit and loss statement—is your EBITDA less the "ITDA." Just subtract your expenses for interest, taxes, depreciation, and amortization from your EBITDA, and you have your net income:

$$\text{Operating Income} - \text{Interest, Taxes, Depreciation, and Amortization Expenses} = \text{Net Income}$$