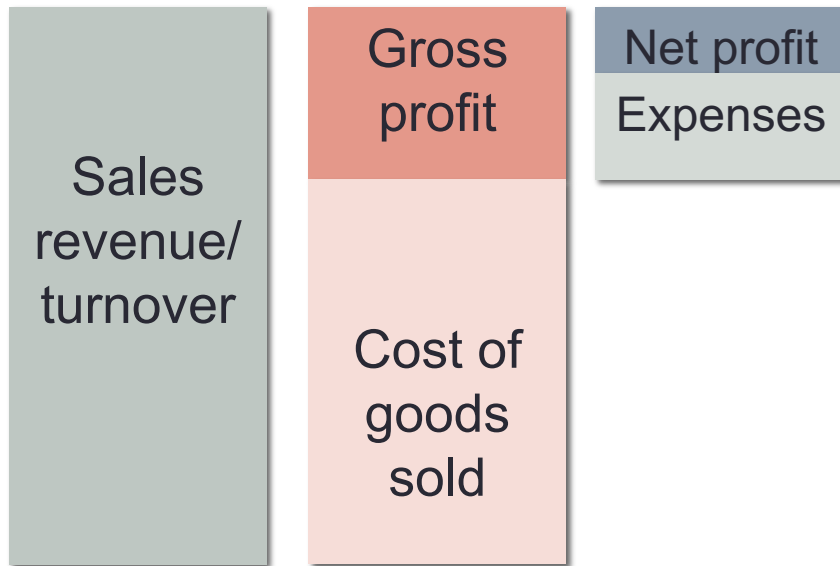


Income statement

Minne Li

P&L account

- **Profit and loss account/Income statement** is a financial statement of a firm's trading activities over a period of time, usually one year. It shows the profit or loss of a business.



Sales revenue/turnover = price * quantity sold

Gross profit = turnover – cost of good sold

Net profit = gross profit - expenses

Cost of goods sold: the **direct** cost of the goods that are actually sold, e.g. direct material, direct labour

Expenses: **indirect** costs of production, e.g. insurance, rent, management salaries

Expenses and COGS

- Chata owns a small bakery. He only makes bread. Chata's main items of expenditure are listed below. Separate the list items into costs of goods sold and expenses.
 - Flour
 - Electricity
 - Yeast
 - Rent
 - Advertising
 - Water
 - Machinery repairs
 - Salt

Exercise

Chata sells the loaves of bread he makes in his bakery for \$0.3 each. The table below shows Chata's sales and costs for the first six months of 2018.

	Jan.	Feb.	Mar.	April	May	June
Sales (loaves)	1600	1580	1550	1530	1520	1500
COGS (\$)	160	158	155	153	152	150
Expenses (\$)	100	100	100	100	100	100

1. Calculate Chata's total revenue for the six-month period, January – June.
2. Calculate Chata's gross profit and net profit for the same six-month period.

Profit & Loss account for (*Company name*), for the year ended (*date*)

	\$m
Sales revenue	700
Cost of Goods Sold	350
	<hr/>
Gross Profit	350
Less Expenses:	200
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Net profit before interest and tax	150
Less Interest	10
Net profit before tax	140
Less Tax	25
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Net profit after interest and tax	115
Dividends	35
	<hr/>
Retained profit	80

Corporate tax is the compulsory levy imposed by the government on company profits

Dividend: the net profits that are divided at the end of the tax year for the owners of the company

Retained profit: an important internal source of finance

Group work

Construct a financial plan using profit and loss statement for the first two years

