

Business Plan Workbook #27	
Course	Profiting From Your Dream
Topics Addressed	The Profit and Loss Statement Using Your Profit and Loss Statement

## Key Points

### What Is A Profit and Loss Statement?

All over the world, companies use a report called a “Profit and Loss Statement” to track their money. A Profit and Loss Statement is sometimes also called an Income Statement.

A Profit and Loss Statement shows how much money you’ve received during a certain period of time. It also shows how much money you’ve spent during the same period. So, it will tell you whether you’ve made a profit, experienced a loss, or broke even.

### How Often Should You Update Your Profit and Loss Statement?

You will want to update your Profit and Loss Statement on a regular basis. Pick a reporting frequency that works for you and your business, and stick to it. When you are first starting out, it’s very important to review this on a monthly basis.

### What Makes Up a Profit and Loss Statement?

A Profit and Loss Statement is divided into three sections: Revenue, Expenses, and Net Income.

#### ***Part 1: Revenue***

Part 1 of the Profit and Loss Statement is the Revenue section. It tracks the money that is coming into your business from customers.

#### ***Part 2: Expenses***

Part 2 of the Profit and Loss Statement can be divided into two sections: direct expenses and indirect expenses.

#### ***Direct Expenses and Gross Profit***

When you track your direct expenses, you’re tracking the direct costs that you incur when you make your product or deliver your service. This includes the money you spend on ingredients and/or raw materials, packaging, and labor. You’ll subtract these costs from your total revenue to find your gross profit.

Keep in mind that businesses that sell products may use the term “Cost of Goods Sold” to refer to their direct expenses.

### ***Indirect Expenses***

You will also need to keep track of the other costs you incur to operate your business. These additional costs get accounted for in the Indirect Expenses section of your Profit and Loss Statement. Your indirect costs may vary, depending on the type of business that you're running.

### ***Part 3: Net Income***

Part 3 of the Profit and Loss Statement is the Net Income section. Take your gross profit (calculated in Part 1) and subtract your indirect expenses (calculated in Part 2) to determine your profit BEFORE taxes.

In the United States, if this number is positive, then you'll need to pay income taxes. If the number is negative, then you won't need to pay income taxes. If you do business in another country, check the rules on paying tax to be sure you are following the law.

### ***Why Do You Need a Profit and Loss Statement?***

It may seem like a lot of work to keep track of your revenue and expenses, but a Profit and Loss Statement is an important tool that will help you manage your business.

In a way, tracking your income and expenses is like taking the temperature of a sick child – the thermometer tells you when there is a health issue so you can address the problem. Similarly, a Profit and Loss Statement lets you “take the temperature” of your business so you can determine whether or not you need to make a change in how you are running your company.

### ***Using Your Profit and Loss Statement***

This is a list of some of the common uses for a Profit and Loss Statement:

- You can use your Profit and Loss Statement to analyze your direct expenses. Analyzing your direct expenses can help you decide how much you're willing to invest in the quality of your product or service.
- You can analyze the information in the Indirect Expenses section of your Profit and Loss Statement, to see how much you're spending on other parts of your business, and make changes as needed.
- You can use your Profit and Loss Statement to compare and track your business performance from month to month.
- Potential investors or banks may ask to see your Profit and Loss Statement – if they're thinking about loaning you money to grow your business.

## **Other Indicators of How Your Business Is Doing**

Customer satisfaction surveys can tell you if your customers are satisfied. They can also provide feedback that may help you improve your business.

Depending on your business, there are other indicators you can look at, such as the amount of waste, whether deliveries are on time, or whether or not you have repeat customers.

**Related Business Plan Questions**

Below, you will see a list of business plan questions related to the topics noted above. If you print this worksheet, you can use the space below each question to write down some initial thoughts and ideas.

When you're ready to start working on your business plan, return to the course, and select "Open My Business Plan".

Q: If you have already started your business, write down how much money your business received and spent during the past year. Also, how many different kinds of items or services have you sold in the past year (an estimate)?

Describe the measurements you will use to determine how you are doing in your business. (other measures include waste/scrap, customer satisfaction, on-time delivery, etc.)