



Mu Sigma

Profit & Loss Account

Revenue, Costs and other components

Do The Math

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▶ Taxes

Consolidated

Operations Data:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Revenues	\$7,346,472	\$6,121,156	\$4,592,389	\$3,278,663	\$2,816,304
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	4,278,241	3,538,622	2,654,569	1,849,443	1,572,816
Selling, general and administrative expenses	1,557,646	1,328,665	972,093	721,359	652,021
Depreciation and amortization expense	149,089	117,401	103,875	89,371	74,797
Income from operations	1,361,496	1,136,468	861,852	618,490	516,670
Other income (expense), net:					
Interest income	44,514	39,249	25,793	15,895	22,188
Other, net	(18,414)	(6,568)	(9,065)	2,566	(23,648)
Total other income (expense), net	26,100	32,681	16,728	18,461	(1,460)
Income before provision for income taxes	1,387,596	1,169,149	878,580	636,951	515,210
Provision for income taxes	336,333	285,531	145,040	101,988	84,365
Net income	<u>\$1,051,263</u>	<u>\$ 883,618</u>	<u>\$ 733,540</u>	<u>\$ 534,963</u>	<u>\$ 430,845</u>

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Identifying revenues

- ▶ Rent earned by a real estate company
- ▶ Interest on Fixed Deposits
- ▶ Car sales by an automobile company
- ▶ Car sales by a software company
- ▶ Maturity of a Fixed Deposit
- ▶ Income tax
- ▶ Parking fees earned by an IT company from its employees
- ▶ Advance from tenant
- ▶ Further Capital invested by founders
- ▶ Pension

Definition of Revenue

In business, **revenue** or **turnover** is the compensation that a company receives or expects to receive from its normal business activities, usually from the sale of goods and services to customers

Related terms: Pipeline, bookings....

When does a transaction qualify as revenue:

- Persuasive evidence of a contract
- Price should be fixed and determinable
- Risks and rewards have been transferred from the seller to the buyer
- Collection of payment is reasonably assured

Types of Revenues

- ▶ Services (IT companies, Consultants, Financial Institutions)
- ▶ Products (Cars, soaps)
- ▶ Dividends
- ▶ Subscription (Licenses)
- ▶ Interest
- ▶ Rent
- ▶ Taxes

Types of expenses

- ▶ Variable / Fixed
- ▶ One-time / recurring
- ▶ Direct / Indirect
- ▶ Cash / Non-cash

As far as financial statements presentation is concerned, in the Income Statement the classification used is direct/indirect also known as cost of revenues/ SG&A expenses.

Depreciation, amortisation and taxes are the other components of the Income Statement

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Direct Costs

- ▶ What a direct/production cost is, depends on nature of business
- ▶ Direct Costs are to a large extent variable in nature
- ▶ The excess of revenue over direct costs is the gross margin
- ▶ Gross margin typically indicates the efficiency of the Line

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Indirect/SG&A Costs

- ▶ Management Cost, Marketing, Office expenses, Support Function Costs etc
- ▶ Predominantly Fixed in nature
- ▶ Depreciation is absorption of capital expenditure over useful life of assets
- ▶ Income from operations is the result after deduction of indirect expenses from Gross Margin

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EBITDA

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Other Income

- ▶ Inflows from sources that is not the primary line of business
- ▶ Interest income from Fixed Deposits
- ▶ Dividends from Mutual Funds and other investments
- ▶ Earnings before Taxes is the sum of operating margins and other income

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Taxes

- ▶ Taxes are an appropriation of profits payable to the Government
- ▶ Taxes in US are typically in the nature of state and federal taxes
- ▶ Profit after Taxes/Net Income is available for distribution as dividends to shareholders or can be used to plough back into business for expanding operations

Other points to consider

- ▶ P&L Statements are generated for management reviews as well and this may be different from the way the statutory presentation is made.
- ▶ Internal P&L may be created based on business unit wise, geography wise or any other segment
- ▶ It may be noted that the sum of MIS P&Ls may or may not tally with entity level P&L