

Profit and loss account

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A3-1



Outline



What is a profit and loss account?



What does a profit and loss account include?



What is a profit and loss account used for?



Calculating net profit



Conclusion

A profit and loss account shows a company's revenue and expenses over a particular period of time

The profit and loss account represents the profitability of a business

Profit and loss accounts show your total income and expenses

What is a profit and loss account?

The profit and loss account is also known as a P&L report, an income statement, a statement of operation, a statement of financial results, or an income and expense statement.

What does a profit and loss account include?

Operating section

- Revenue
- Expenses
- **Cost of Goods Sold (COGS) / Cost of Sales**
 - **Selling, General and Administrative expenses (SG&A or SGA)**
- **Depreciation / Amortization**
- **Research & Development (R&D) expenses**

Non-operating section

- **Other revenues or gains**
- **Other expenses or losses**
 - **Finance costs**
- **Income tax expenses**

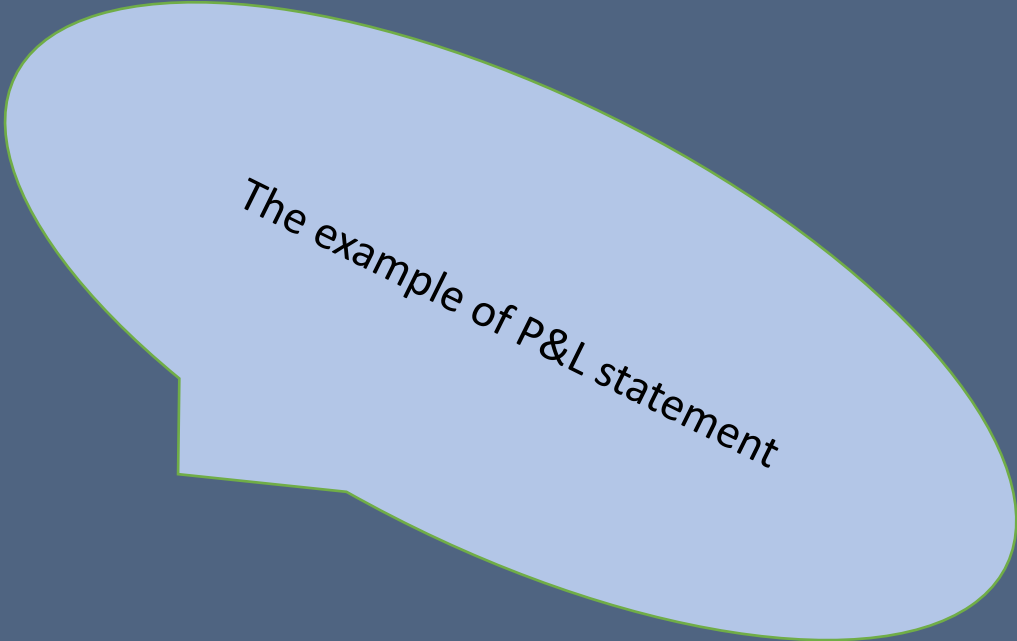
Calculating net profit

To calculate net profit, follow this path:

1. Deduct discounts and allowances from your gross income (excluding VAT) to get your net income.
2. Deduct the cost of sales from your net incomes to find your gross profit.
3. Deduct overheads from your gross profit to get your operating profit.
4. Deduct any other expenses from your operating profit (plus any other income) to find your profit before tax.
5. Deduct tax to reach your net profit or net loss.

• **Profit & Loss Statement for Company XYZ, Inc.**
for the year ended December 31, 2018

Total Revenue	\$100,000
Cost of Goods Sold	(\$ 20,000)
Gross Profit	\$ 80,000
Operating Expenses	
Salaries	\$10,000
Rent	\$10,000
Utilities	\$ 5,000
Depreciation	\$ 5,000
Total Operating Expenses	(\$ 30,000)
Operating Profit (EBIT)	\$ 50,000
Interest Expense	(\$ 10,000)
Income before taxes (EBT)	\$ 40,000
Taxes	(\$ 10,000)
Net Income	\$ 30,000



Conclusion

- The P&L statement is a financial statement that summarizes the revenues, costs and expenses incurred during a specified period.
- The P&L statement is one of three financial statements every public company issues quarterly and annually, along with the balance sheet and the cash flow statement.
- It is important to compare P&L statements from different accounting periods, as the changes in revenues, operating costs, R&D spending and net earnings over time are more meaningful than the numbers themselves.

