



Understanding Your P&L

*Analyze the performance of your
business like a pro!*

Verity Accounting and Bookkeeping



In order to understand your *profit + loss statement...*

it's important to understand that your P&L (or income statement) is just **one** of the financial statements you need to understand the full financial picture of your business.

Before we take a deep dive into what's on your P&L, here's what it is **NOT** going to show you:

- ➔ Your cash on hand
- ➔ Your assets & liabilities
- ➔ Your equity in your company
- ➔ Bills you haven't paid yet
- ➔ Invoices your clients haven't paid yet

The best use of your P&L is as a tool to see where your revenue is coming from and what expenses your money is going to.

Keep reading to find out how to identify opportunities for investment and unnecessary expenses to cut!



What makes up your *profit + loss statement...*

First, we're going to go over the **profits** part of your income statement. Here's an example of how your income section may look:

Income

Product/Service Sales	\$1,000
Other Income	\$20

Cost of Goods Sold

COGS	\$30
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Gross Profit **\$990**

This section includes the income (a.k.a revenues, sales) and the costs associated with producing that income if you have product sales. Service-based businesses may not have a COGS line item at all.

If you offer multiple products or services, it may be helpful to track the revenue produced by each of these to determine where you are **most profitable**.



What makes up your *profit + loss statement...*

Here are some of the most common expense line items:

Gross Profit	\$990
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Expenses	
Advertising/Marketing	\$10
Employee Wages	\$200
Contract Labor	--
Rent	\$20
Bank Fees	\$2
Office Expenses	\$5
Dues & Subscriptions	\$3
Utilities	\$7
Interest Expense	\$2
Depreciation	\$5
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Income Before Taxes	\$736



What makes up your *profit + loss statement...*

For our purposes, we're going to stop at income before taxes. For most small businesses, your income will be taxed on your personal tax return.

You may, however, include state/local taxes paid on your income statement.

Why are the last two expenses bolded? Some businesses will choose to show **EBITDA** - Earnings Before Interest, Tax, Depreciation & Amortization. Thus, you wouldn't show these expenses. Using your EBITDA can be a great way to show your company's earning potential before accounting for financial decisions.

So... how can you use your P&L to make business decisions?



Analysis using your *profit + loss statement...*

Your P&L is most valuable when you compare period-over-period.

You can review your P&L using a year-to-date view, or view monthly, quarterly, and annual performance.

Instead of comparing your June 2022 to July 2022, you may find more value in comparing your June 2022 to June of 2021.

Why?

This measurement accounts for your business cycles. Maybe all of your clients go on vacation in July, a month-to-month comparison makes it look like your business is doing worse.

Controlling for business cycles can help you see whether you're truly achieving your business goals.



Analysis using your *profit + loss statement...*

When you compare different periods, it's important that you understand **the context** of those differences.

If you chose to invest in expanding your team, you're going to see a significant increase in your wages expense.

Did you see an equal or greater increase in your revenue? If not, that new investment may not be paying off yet.

Want to easily see your subscriptions? if you're using an accounting software, you can click to drill down further into this expense category.

Your P&L is SUCH a powerful tool for seeing what adjustments you need to make in your business day-to-day and year-over-year.





Need more help managing
your business financially?

I'd love to help!