



**Did you make a
profit or loss?**

**How to read your
Income Statement**

Presented by:
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About BBP & Top Shelf

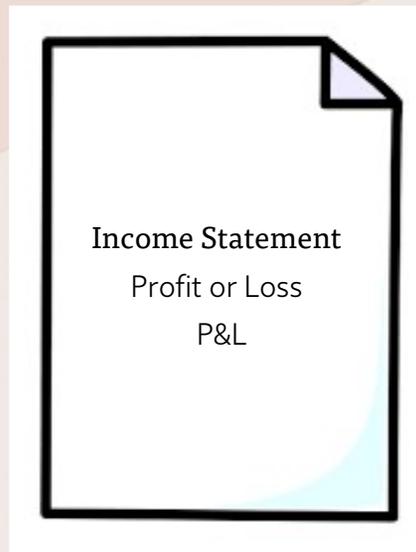
Both BBP and Top Shelf provide bookkeeping and payroll services.

BBP serves various industries, but our specialty is in job costing and complex reporting. Our primary industry is construction.

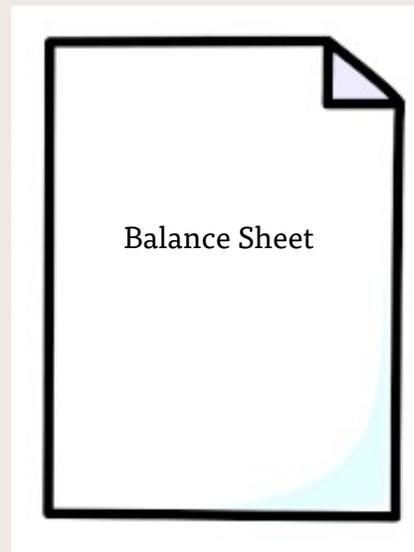
Top Shelf serves all verticals in the cannabis industry.



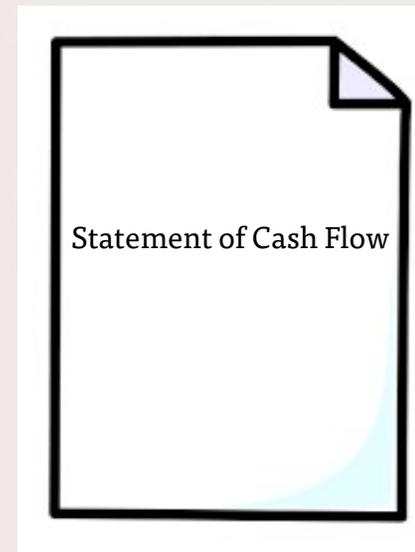
What are financial statements?



How much sales, expenses and profit are in a specific period of time?



Where did the money come from and how was it used?



How was cash generated and used up?

ABOVE THE LINE

ABC Electronics Company		
Income Statement		
For the quarter ending September 30, 2020		
Sales		\$ 200,000.00
Cost of goods sold		(110,000.00)
Gross profit		90,000.00
Operating expenses		
Selling expenses		
Advertising costs	5,000.00	
Payroll and commission	35,000.00	40,000.00
Administrative expenses		
Rent	6,000.00	
Office equipment	1,500.00	
Utilities	700.00	8,200.00
Total operating expenses		(48,200.00)
Operating income		41,800.00
Non-operating and other		
Interest revenues	2,000.00	
Gains from investment sales	1,500.00	
Interest expenses	(600.00)	
Taxes	(200.00)	
Total non-operating items		2,700.00
Net income		44,500.00

Profit & Loss – What is on this?

Sales

Revenue
TOP LINE

What is Revenue?

How much product or services did the company
DELIVER to the customer?

Revenue is NOT the same as Cash

REVENUE RECOGNITION: Only record revenue when the sale is delivered regardless of when the money is paid.

MATCHING PRINCIPLE

Match the Cost of Sales with the Revenue.



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Example – Subscription Revenue



Annual Subscription \$120

Collect Jan 1

Delivered Monthly

Recognize income of \$10 monthly upon 'delivery'

Why do we do this?

Cancellations

Profit & Loss – What is on this?

Cost of Goods Sold (COGS)

Your ingredients

What is COGS?

How much did the company pay for all of the ingredients of the sold product?

Construction Example:

- Lumber, Concrete, Windows, Doors
- Labor
- Third Party Services (Subcontractors)

What is not COGS?

- Admin salaries
- Printer paper
- Utilities
- Education



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Profit & Loss – What is on this?

Gross Profit or Gross Margin

Simply Put: Sales - COGS

What is Gross Profit

When you sell your product, what is left over to pay for overhead?



Higher Price
+ Reduced Cost
Higher Profit

****Boost your margin****

Lower Price
+ Increased Cost
Lower Profit

****Reduce your margin****

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BELOW THE LINE

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Profit & Loss – What is on this?

Operating Expenses

Your non- ingredients
Your Overhead

What are Operating Expenses?

How much was spent running the business?

What is included?

- Selling, General & Admin (SG&A)
 - Upper management and admin payroll expenses
 - Advertising / Marketing
 - Office Supplies
 - Rent

Often these are areas what can be adjusted to impact the budget.

LOWER OPERATING EXPENSES = HIGHER PROFITS



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Now What?

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Your Operating Expenses are paid for with your Gross Profit

Time to do some math!

$$\frac{\text{Gross Profit}}{\text{Total Revenue}} = \text{Gross Profit Percentage}$$

$$\frac{\text{Operating Income}}{\text{Total Revenue}} = \text{Op. Income Percentage}$$

Compare to your competitors!



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	<u>September 29, 2018</u>
Net sales	\$ 265,595
Cost of sales	163,756
Gross margin	101,839
Operating expenses:	
Research and development	14,236
Selling, general and administrative	16,705
Total operating expenses	30,941
Operating income	70,898

Operating Income Percentage: 27%

	<u>Year Ended December 31, 2018</u>
Revenue	\$ 55,838
Costs and expenses:	
Cost of revenue	9,355
Research and development	10,273
Marketing and sales	7,846
General and administrative	3,451
Total costs and expenses	30,925
Income from operations	24,913

Operating Income Percentage: 45%



Thank you

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