

# An example of a Profit & Loss Statement.

She Sells Sea Shells  
Profit & Loss Statement  
as at 30 June 2007

	<b>2007</b>
<b>1.</b> Sales	\$200 000
<b>2. Cost of Goods Sold</b>	
Stock	\$62 000
Purchases	<u>\$120 000</u>
	<b>\$182 000</b>
Less stock on hand	\$60 000
<b>Cost of goods sold</b>	<b><u>\$122 000</u></b>
<b>Gross Profit</b>	<b><u>\$78 000</u></b>
<b>3. Expenses</b>	
Freight	\$4 000
Commission	\$10 000
Salary	\$18 000
Office expenses	\$4 000
Rates	\$1 000
Insurance	\$3 000
Depreciation	\$1 000
Discounts allowed	\$5 000
Bad debts	<u>\$2 000</u>
<b>Total expenses</b>	<b><u>\$48 000</u></b>
<b>4. Net profit</b>	<b><u>\$30 000</u></b>

## 1. Sales

Total sales of products and/or services in a trading year can be referred to as: sales, services, fees and or subscriptions. This information can be sourced from copies of sales invoices issued by your business, the rolls of till receipts if using a cash register, the totals from your cash receipts book, and or bank deposit slips.

If your business generates income in another manner different to the core nature of the business, you will need to add another line under sales called other income. Examples of "other income" include: rental of equipment, sale of assets, interest on bank accounts held in the name of the business, and or any other income earned through investments in the name of the business.

## An example of a Profit & Loss Statement. continued

### 2. Cost of Goods Sold

Cost of Goods Sold (COGS) refers to the total value of the goods sold to your customers during a specified period of time. COGS (also, cost of sales or cost of revenue) describes the direct expenses incurred in producing a particular good for sale, including the actual cost of materials that comprise the good, and direct labor expense in putting the good in salable condition. The calculation for COGS is:

$$\text{Opening stock} + \text{Purchases made} - \text{Closing Stock} = \text{Cost of Goods Sold}$$

COGS does not include indirect expenses such as office expenses, accounting, shipping department, advertising, and other expenses that cannot be attributed to a particular item for sale.

“Cost of sales” does not usually apply if you supply a service only. Total revenue less cost of goods sold equals your gross profit.

*The calculation for cost of sales can include:*

- The cost of stock you buy for resale
- Interest on loans to buy stock or production equipment
- Components/raw materials to make your product
- Labour to produce the product
- Machine hire
- Small tools
- Any other directly related production costs.

Please note there is additional information on how to calculate Cost of Goods Sold, in our excel template Profit & Loss Statement, (download available).

### 3. Expenses

These are all the ongoing expenses associated with running your business that you can deduct from your “gross profit” figure on your profit and loss account to calculate a figure of “profit before taxation”.

Legitimate business expenses for accounting purposes are:

- Employee costs
- Premises costs
- Repairs
- General administration
- Motor expenses
- Travel
- Advertising
- Interest
- Bad debts
- Legal/professional costs
- Other finance charges
- Depreciation or loss - profit - on sales of equipment
- any other expenses

Note that some elements of these expenses are not allowed for tax purposes and are added back before your taxable profit is calculated.

### 4. Net Profit

The net profit generated by your business is the best indicator of what action is required and or corrective action. If the net profit is small then your efforts may be better directed toward other activities. A small net profit can also highlight the need to increase profit margins or confirm that the service is very close to cost neutral. You need to review your net profit in light of the circumstances surrounding your business.

Net profit is calculated by deducting from gross profit the operating expenses such as cleaning, wages, paper bags and other items that do not affect the cost of goods sold.

## **An example of a Profit & Loss Statement. continued**

### **Other considerations to take into account:**

#### **Cost of equipment**

Any items of equipment purchased are called “capital expenditure” or “fixed assets”.

These might include:

- Furniture
- Computer equipment
- Motor Vehicles necessary for the business
- Machinery

Capital purchases cannot be deducted from your net profit in the same manner that expenses are. Having said this you still need to keep accurate records because you are entitled to spread the cost of a capital purchase over several accounting periods, this is called depreciation and is an expense item in your profit and loss statement.

**Don't forget to download our excel based templates!!!**