

JIL & ASSOCIATES

**DECODE  
YOUR  
PROFIT  
& LOSS**

*like a professional*



# The Income Statement at a *Glance*

The Profit and Loss Statement (also known as the Income Statement as we will be referring to it in this ebook) provides a financial snapshot of the business's revenue, expenses, and profit over a specific period. The specific period of the Income Statement runs through the company's financial year, but can be reviewed and analyzed over shorter periods such as monthly or quarterly.

*We like to review the Income Statement monthly, quarterly, AND review the final income statements yearly.*

## *Monthly Comparison*

April 01 - April 30, 2023

March 01 - March 31, 2023

## *Quarterly Comparison*

April 01 - June 30, 2023

January 01 - March 31, 2023

## *Yearly Comparison*

January 01 - December 31, 2023

January 01 - December 31, 2022

# What the Income Statement *tells* You

The Income Statement demonstrates sources of income and expenses; ultimately landing on the company's profit.



- ✓ Revenue the company earns
- ✓ The company's expenses
- ✓ How much profit is left over

What it does not tell you what it does not tell you what it does not tell you what it does not tell you what it does not tell you



- ✗ Balance of liabilities owed
- ✗ Available cash in the business
- ✗ Your equity in the company

# An *Example* of the Income Statement

Your Company Income Statement Date Range	
<b>Income</b>	
Sale of Product	\$1000
Sale of Service	\$200
<b>Cost of Goods Sold</b>	
COGS	\$300
<hr/>	
<b>Gross Profit</b>	<b>\$900</b>
<hr/>	
<b>Expenses</b>	
Advertising	\$100
Bank Fees	\$25
Office Supplies	\$225
Rent	\$300
Payroll Wage Expense	\$300
Payroll Tax Expense	\$55
<b>Operating Profit</b>	<b>\$250</b>
<hr/>	
<b>Other Income/Expense</b>	
Interest Income	\$20
Depreciation Expense	\$40
<hr/>	
<b>Net Income</b>	<b>\$230</b>

**Example**

**Let's break this down!**

**INCOME - EXPENSES = PROFIT**

# The Income Section

Your Company  
Income Statement  
Date Range

<b>Income</b>	
Sale of Product	\$1000
Sale of Service	\$200
<b>Cost of Goods Sold</b>	
COGS	\$300
<hr/>	
<b>Gross Profit</b>	<b>\$900</b>
<hr/>	

The income portion will show your gross sales, organized by the source of the sale. It is helpful to manage sales categories in the Chart of Accounts in a manner that allows measurement of profitability for specific segments of your business. Tracking gross sales enables you to pinpoint important avenues of revenue to double down on. See examples of organization below:

- *A landscaping company - May want to track recurring monthly revenue vs. one-off projects*
- *An eCommerce company - May want to track revenue by sales channel*
- *A window retailer - May want to track product sales vs installation sales*

# The Cost of Goods Sold Section



Your Company  
Income Statement  
Date Range

## Income

Sale of Product	\$1000
Sale of Service	\$200

## Cost of Goods Sold

COGS	\$300
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<b>Gross Profit</b>	<b>\$900</b>
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The Cost of Goods Sold (COGS) tracks the direct cost of selling your product or service (COS). When determining what goes into your COGS accounts, think of which costs are absolutely necessary to obtain the product to sell. This section helps you determine the gross profit margin and strategize how to retain profit by lowering the costs associated with selling to your customers. Please see examples of COGS for company types below:

- *A landscaping company - COS may include necessary materials needed to complete the landscaping work.*
- *An eCommerce company - COGS includes the cost of product that you're selling (raw materials, direct labor, merchant fees, freight costs)*
- *A window retailer - COGS includes Window purchase for resell, installation materials, installation labor*



# Gross Profit

Your Company  
Income Statement  
Date Range

<b>Income</b>	
Sale of Product	\$1000
Sale of Service	\$200
<b>Cost of Goods Sold</b>	
COGS	\$300
<b>Gross Profit</b>	<b>\$900</b>

Gross Profit is the first of three separate measures of profitability on the Income Statement. Gross Profit measures the revenue earned after the cost of selling the product. You can use your gross profit and gross profit margin to determine if your company needs to raise prices or seek methods to reduce the cost of selling the product.

$$\text{Gross Profit Margin (\%)} = \frac{\text{Gross Profit}}{\text{Revenue}}$$

# Operating Expenses

Your Company  
Income Statement  
Date Range

**Expenses**

Advertising	\$100
Bank Fees	\$25
Office Supplies	\$225
Rent	\$300
Payroll Wage Expense	\$300
Payroll Tax Expense	\$55

**Operating Profit** **\$250**

**Other Income/Expense**

Interest Income	\$20
Depreciation Expense	\$40

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**Net Income** **\$230**

Your operating expenses are expenses that are necessary to run your business. Reviewing your operating expenses often allows you to measure expenditure trends as well as determine if eliminating unnecessary expenses is necessary to increase operational profit.



# Operating Profit

Your Company  
Income Statement  
Date Range

## Expenses

Advertising	\$100
Bank Fees	\$25
Office Supplies	\$225
Rent	\$300
Payroll Wage Expense	\$300
Payroll Tax Expense	\$55

<b>Operating Profit</b>	<b>\$250</b>
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## Other Income/Expense

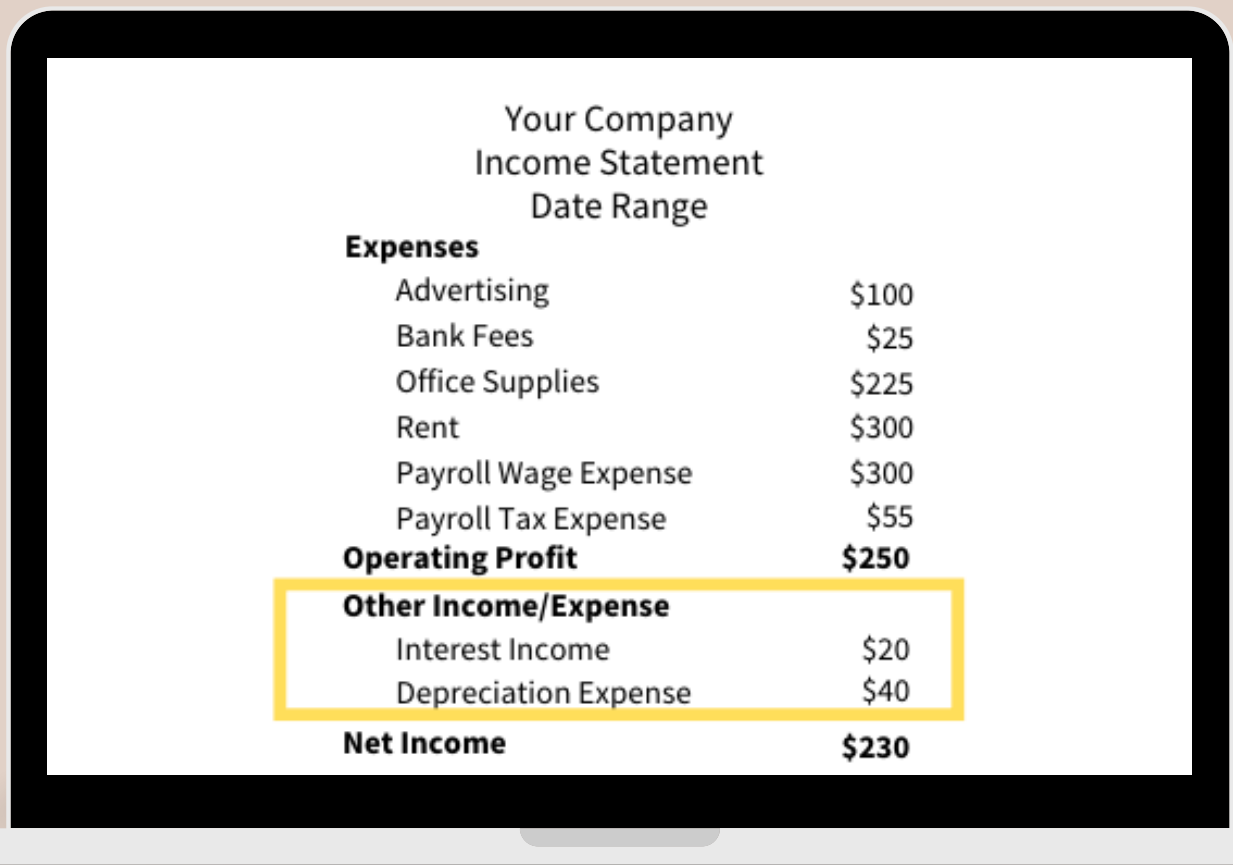
Interest Income	\$20
Depreciation Expense	\$40

<b>Net Income</b>	<b>\$230</b>
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Your operating profit is the second measure of profit on the Income Statement and measures your companies profit after the costs that are necessary to run your business. To increase this level of profit, you will need to focus on eliminating unnecessary expenses OR strategize to increase your gross profit (profit measurement #1!).

# Other Income *and* Other Expense



The image shows a laptop screen with an income statement. The title is 'Your Company Income Statement' with a 'Date Range' field. The statement is divided into 'Expenses' and 'Other Income/Expense' sections. The 'Expenses' section lists Advertising (\$100), Bank Fees (\$25), Office Supplies (\$225), Rent (\$300), Payroll Wage Expense (\$300), and Payroll Tax Expense (\$55). Below these is 'Operating Profit' of \$250. The 'Other Income/Expense' section, highlighted with a yellow border, lists Interest Income (\$20) and Depreciation Expense (\$40). The final line is 'Net Income' of \$230.

Your Company Income Statement Date Range	
<b>Expenses</b>	
Advertising	\$100
Bank Fees	\$25
Office Supplies	\$225
Rent	\$300
Payroll Wage Expense	\$300
Payroll Tax Expense	\$55
<b>Operating Profit</b>	<b>\$250</b>
<b>Other Income/Expense</b>	
Interest Income	\$20
Depreciation Expense	\$40
<b>Net Income</b>	<b>\$230</b>

There is a final section on the Income Statement for "other" income and expenses. These are transactions that are not necessary to sell your product, not typical revenue, nor necessary to run your operations. You will typically find interest income/expenses and depreciation expense here. If your company is a C Corporation, you will see your income tax expense here.

# Net Income

You're likely familiar with this one! Net Profit is the final calculation to determine how much your company earned after revenue less expenses

Your Company  
Income Statement  
Date Range

## Expenses

Advertising	\$100
Bank Fees	\$25
Office Supplies	\$225
Rent	\$300
Payroll Wage Expense	\$300
Payroll Tax Expense	\$55

**Operating Profit** **\$250**

## Other Income/Expense

Interest Income	\$20
Depreciation Expense	\$40

**Net Income** **\$230**



# Net Profit Margin (%)

The last and final measure of profitability on the P&L is your net profit. This is the profit margin that tells you how much net income is generated as a percentage of revenue.

# Analyzing and Asking the Big Questions

Now that you understand that your Income Statement measures your revenue, expenses, and 3 levels of profit over a specific period of time you can analyze the Income Statement to make smart business decisions.

Analyze your gross profit - How can you increase this margin? Are there trends in your business where revenue slows down? How is the economy looking? Are you expecting the cost of your sales to increase and will that warrant an upcoming increase in your sales pricing?

Analyze your operating profit - How can you increase this margin? Are your current expenses contributing to your operations and/or customer experience? What can be eliminated? Have you considered switching vendors to lower costs?

Analyze your net profit - Does this final profit margin meet your profit goals? Do you have plans to increase this margin in upcoming years? How will you focus on the gross profit margin and operating profit margin to increase this percentage? Have you taken recent loans and expect to see the cost of interest increase?

Understanding the flow of the profitability in your business allows you to use the Income Statement as a powerful tool to make necessary adjustments in your company to maintain your ideal level of profitability.

# ABOUT JIL & ASSOCIATES, INC.

**JIL & ASSOCIATES, INC.** is your trusted partner in navigating the intricate landscape of financial management.

With a passion for precision and a commitment to clarity, our firm stands as a beacon of excellence in the world of Accounting and bookkeeping.

Our team of dedicated professionals brings together a wealth of expertise, ensuring your financial records are not just meticulously maintained, but transformed into valuable insights that drive informed decisions for your business.

Beyond numbers, we value relationships and great service by introducing a collaborative journey towards prosperity.



# Need Help With Your *Finances*?

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SET UP A CALL***

