

MINDING YOUR PROFIT & LOSS STATEMENT

Kerry Leaks, CPA/PFS, CFP®, MST, RLP®
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Topics to Discuss

- Setting up your profit & loss statement
- Analyzing your profit and loss statement
- Other uses for your profit and loss statement

Housekeeping

- A copy of this presentation can be sent to you via email.
- Please feel free to stop me at any time to ask a question during the presentation.

Setting up your P&L statement

- But first.....what is a profit and loss statement.
 - Measures activity over a period of time
- It is important to understand what basis of accounting your p&l statement represents
 - Accrual basis
 - Cash basis

Setting up your P&L statement

- Types of expenses
 - Cost of sales
 - Operating expenses
 - Other expenses
- Make sure it is meaningful to you

Setting up your P&L statement

- Review your classifications
 - Material expenses classified incorrectly could have an impact on your analysis.
 - Can save substantial time later in the analysis

Setting up your P&L statement

- Questions

Analyzing your P&L statement

- Gross Profit/Profit Margin
- Breakeven analysis
- Net profit on net sales

Analyzing your P&L statement

- Gross Profit/Profit Margin
 - Net sales-Cost of Goods Sold/Net sales
 - $\$348,500 - \$92,350 / \$348,500$
 - 73.50%
- Represents the amount of each dollar that is retained to cover operating expenses and profit.

Analyzing your P&L statement

- **Gross profit/Profit Margin**
 - Watch for decreases in the percentage
 - Could indicate a need to re-price your service or product
 - Gain an understanding why there are fluctuations
 - Different lines of business

Analyzing your P&L statement

- Breakeven analysis

- This builds on the gross profit concept
- Determine the sales needed to cover expenses
- In the example total expenses are
 $\$109,830 + \$21,000 = \$130,830$
- Need \$130,830 in gross profit to cover expenses
- With a 73% margin this would be approximately
\$180,000 in sales to breakeven
- However.....

Analyzing your P&L statement

- Breakeven analysis
 - This does not factor in a profit
 - Understand your p&l – does it include an owners salary?
 - Add owner salary of \$100,000 and profit of \$25,000.
 - New breakeven is approximately \$350,000

Analyzing your P&L statement

- Breakeven analysis
 - Convert sales dollars to something meaningful in your business
 - How to factor in different lines of business
 - New line of business

Analyzing your P&L statement

- Net profit on net sales
 - Net profit/Net sales
 - \$125,320/\$348,500
 - 36%
- What percentage of each sale dollar is profit.

Analyzing your P&L statement

- A few final thoughts
 - Comparing year to year
 - Comparing against industry standards
 - Work on the business instead of in the business
- Other ratios
 - Debt to equity
 - Current ratio

Analyzing your P&L statement

- Questions

Other uses for your P&L statement

- P&L statements look at history but as a business owner it is important to look to the future
 - Financial projections
 - Cash flow planning
 - Tax planning
 - Obtain financing

Other uses for your P&L statement

- How often to review and compare
- Cost savings opportunities
- Continue to review industry information

Other uses for your P&L statement

- Questions

A few final thoughts....

- New business lines/products/services
- Keep current
- Understand relationships

Minding your P&L statement

- Questions

Kerry Leaks, CPA/PFS, CFP®[®], MST, RLP®[®]

Kerry Leaks has more than 15 years of experience providing tax consulting, financial and business planning guidance to individuals and closely held businesses. Kerry consults with closely held business owners regarding planning strategies while providing them with day to day tax, accounting and business consultation. Kerry provides tax consulting services that span the entire business owner life, from equity and business structure planning for founders to exit planning strategies and beyond.

You can contact Kerry at 603-434-2889 or email kerry@dufresnecpa.com.