



Sample Profit and Loss Statement

A Profit & Loss Statement (P&L) measures the activity of a business over a period of time—usually a month, a quarter, or a year. This financial report may have several different names: profit & loss, P&L, income statement, statement of revenues and expenses, or even the operating statement. The P&L basically tells you revenue, expenses, profit, and loss. Keep in mind that in almost all circumstances, profit is not the same thing as cash flow.

The basic formula for the profit-and-loss statement is:

Revenues – expenses = net profit

P&L statements generally follow this format:

- Revenues
- Operating (variable) expenses
- = **Gross profit (operating) margin**
- Overhead (fixed expenses)
- = **Operating income**
- +/- Other income or expense (non-operating)
- = **Pre-tax income**
- Income taxes
- = **Net income (after taxes)**

Profit and loss definitions

Revenue is the money you receive in payment for your products or services.

Operating, or variable, expenses are the expenses that rise or fall based on your sales volume.

Gross profit margin or operating margin is the amount left when you subtract operating expenses from revenues.

Overhead, or fixed expenses, are costs that don't vary much month-to-month and don't rise or fall with the number of sales you make. Examples might include salaries of office staff, rent, or insurance.

Operating income is income after deducting operating and overhead expense.

Other income or expenses (non-operating) generally don't relate to the operating side of the business, rather to how the management finances the business. Other income might include interest or dividends from company investments, for example. Other expenses might include interest paid on loans.

Profit and loss definitions (continued)

Pre-tax income is income before federal and state governments take their share.

Income taxes How income tax is shown on the P&L varies based on the type of legal entity. For example, a C corporation almost always shows income tax expense, but S corporations, partnerships, LLCs, and sole proprietorships rarely show income tax expense on the P&L.

Net income (after taxes) is the final amount on most profit-and-loss statements. It represents the net total profit earned by the business during the period, above and beyond all related costs and expenses.

Here's a simple example of a Profit & Loss Statement:

Sample Company, Inc.
Sample Profit & Loss Statement
August 1–31, 2010

Operating Revenue	
Product sales	\$ 12,000
Service sales	3,000
Total Operating Revenue	15,000
Operating Expenses	
Cost of goods sold	7,000
Gross Profit	8,000
Overhead	
Rent	1,500
Insurance	250
Office supplies	150
Utilities	100
Total Overhead	2,000
Operating Income	6,000
Other Income (Expenses)	
Loan interest	(500)
Earnings Before Income Taxes	5,500
Income Taxes	500
Net Earnings	\$ 5,000

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