

## IE – Business Economics Fundamentals – Lesson 3 – Profit and Loss Statement – Video

Excel is primary tool - you may need someone to help you with this.

Notice "Tabs" at bottom of sheet – these each are a separate 'sheet' – a page for each report plus a page for assumptions





Assumptions Page

This page gives you a place to organize all of the input to the math that will be done, so you can change things easily and understand how the spreadsheet works.

This is the place to estimate how you think things will unfold – what, how many, how much, when.

You don't do any arithmetic on this page – you just set down your basic inputs to the math that gets done on the P&L, Cash Flow and/or Balance Sheet.

In Column B, this is where I put all the 'things' that are inputs to the financial reports.

People will examine this page.

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		M1	M2	M3	M4	M5	M6											
# sold				100			500											
selling price				50	50	50	50											
	CGS			15	15	15	15											
	Salaries																	
	Person 1	2000					2000											
	Person 2		1500				1500											
	Person 3	500	500	1200			1200											
	Marketing Rent	500 4000					1000											
	Utilities, phone	200					200											
	Supplies	50					50											
	Learning curve	1000					1000											
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	Depreciation																	
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P&L

Now, we start doing the math on the core assumptions.

Notice that now we have clicked on the tab "Profit and loss" at the bottom of the page, which takes us to the P&L Statement. This page does all the math that takes our assumptions and creates the information used by the P&L. For example, under 'Sales' below, you see 5,000 in M3 (e.g. "period 3"), then 10,000 in M4, 17,500 in M5 and 25,000 in M6. These were calculated based on the data in the Assumptions page.

If you scroll up to the Assumptions page, in M3, in the Row "# sold", you see 100 sold at "selling price" of 50. 100 times 50 = 5000, which is the formula in that cell for Sales for that period in the P&L.

This kind of math and approach carries through in a similar fashion throughout this sheet. We do all the math on our assumptions. Let's continue to look at just the period "M3" – you will see we had Sales of 5,000, with Cost of Goods Sold ("CSG") of 1500 (again, calculated from the Assumptions). Sales – CGS – Gross Profit of 3,500.

In similar fashion, the sheet calculates the various Operating Expenses for each item listed in the Assumptions page – Rent, Utilities & phone, Supplies, Salaries and so on. These are all added to produce the Total Operating Expenses. Again, for M3, these expenses totaled to equal 10,950.

Then the sheet subtracts the OpEx from the Gross Profit to determine income before interest, taxes and depreciation, which for M3 is -7,450. (Not unusual to show a loss in the early stages!) In this example, there is no depreciation for any capital assets and no interest, so the Income before Taxes remains the same, -7,450. Since there is no income, there are no taxes, and the Net Income remains -7,450.

At the right-most column, the sheet usually calculates the aggregate for the overall time span – Gross Profit of 40,250, Op Ex of 60,800, and Net Income of -20,600. However, in our little example, the business did show positive Net Income in periods M5 and M6.

The line item I call "Learning Curve" is not a standard cost item – but it is a reality for most entrepreneurs. You need to respect the impact of your learning.



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			M1 M	2 M	3 N	14 N	15 M		period							
		Revenue														
		Sales	0	0	5000	10000	17500	25000	57500							
		CGS	0	0	1500	3000	5250	7500	17250							
		Gross Profit	0	0	3500	7000	12250	17500	40250							
L		Operating Expenses														
		Rent	4000	4000	4000	4000	4000	4000	24000							
		Utilities & phone Supplies	200	200	200	200	200	200	1200 300							
		Salaries	2000	3500	4700	4700	4700	4700	24300							
		Marketing	500	500	1000	1000	1000	1000	5000							
		Learning Curve	1000	1000	1000	1000	1000	1000	6000							
		Total Op Ex	7750	9250	10950	10950	10950	10950	60800							
		Income before interest, taxes,														
		and depreciation	-7750	-9250	-7450	-3950	1300	6550	-20550							
		Interest	10000000					50	50							
		Depreciation							0							
		Income before taxes	-7750	-9250	-7450	-3950	1300	6500	-20600							
		Taxes	1						0							
			7750	0250	7450	2050	1200	6500	20500							
		Net Income	-7750	-9250	-7450	-3950	1300	6500	-20600							
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Tweak this spreadsheet. Play with it. Don't worry if you make mistakes, throw it away and download it again. The goal is just to see how it works.

## **Reflection Task:**

Download spreadsheet – see accompanying PDF for download directions.

Tweak this spreadsheet. Play with it. The goal is just to see how it works.