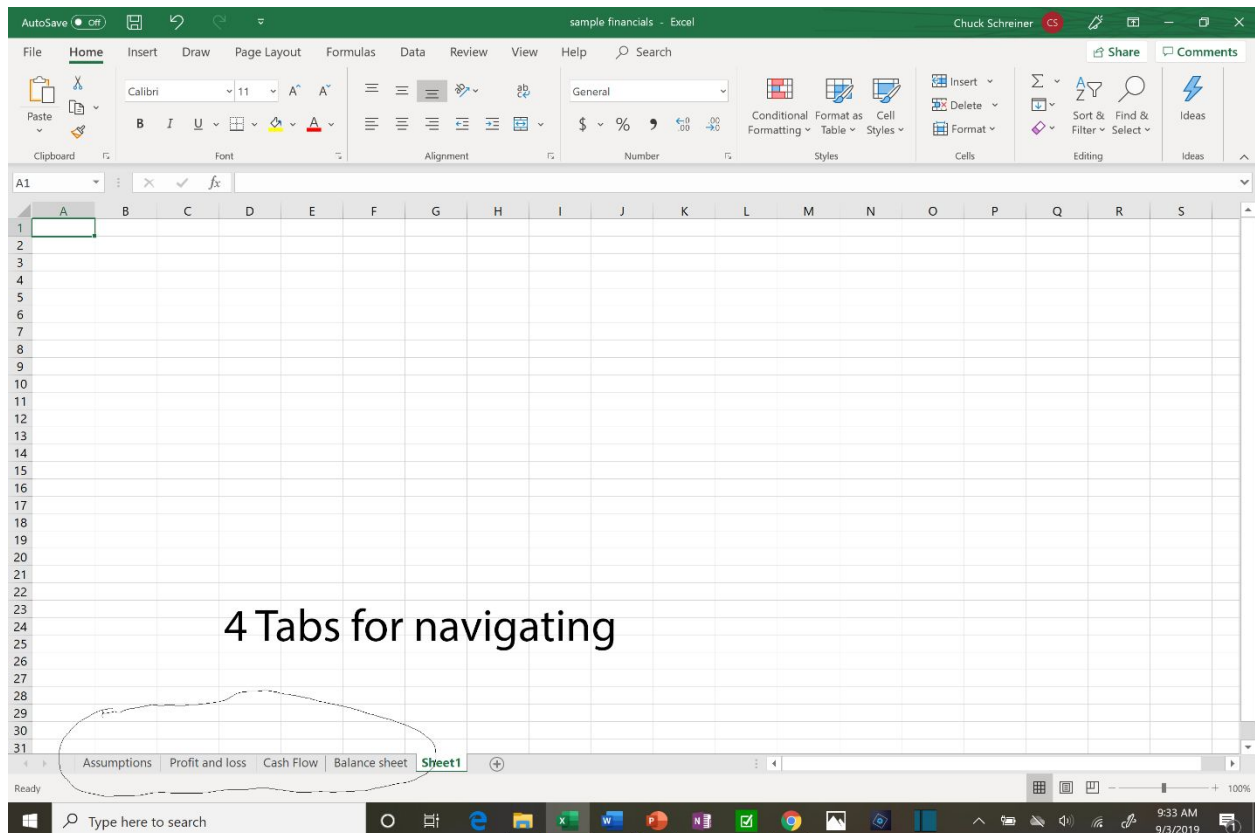


## IE – Business Economics Fundamentals – Lesson 3 – Profit and Loss Statement – Video

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





## 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.  $100 \text{ times } 50 = 5000$ , 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).  $\text{Sales} - \text{CGS} = \text{Gross Profit of } 3,500$ .

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.

sample financials - Excel

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Profit and Loss Statement

	M1	M2	M3	M4	M5	M6	Total for period
<b>Revenue</b>							
Sales	0	0	5000	10000	17500	25000	57500
CGS	0	0	1500	3000	5250	7500	17250
<b>Gross Profit</b>	0	0	3500	7000	12250	17500	40250
<b>Operating Expenses</b>							
Rent	4000	4000	4000	4000	4000	4000	24000
Utilities & phone	200	200	200	200	200	200	1200
Supplies	50	50	50	50	50	50	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
<b>Total Op Ex</b>	7750	9250	10950	10950	10950	10950	60800
<b>Income before interest, taxes, and depreciation</b>	-7750	-9250	-7450	-3950	1300	6550	-20550
Interest						50	50
Depreciation							0
<b>Income before taxes</b>	-7750	-9250	-7450	-3950	1300	6500	-20600
Taxes							0
<b>Net income</b>	-7750	-9250	-7450	-3950	1300	6500	-20600

Assumptions Profit and loss Cash Flow Balance sheet Sheet1

Ready

Type here to search

10:33 AM 9/3/2019

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.