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What's included in a profit and loss statement?

Typically, a profit and loss statement includes five main sections: income or revenue, COGS, general expenses, other income or expenses and net income.

1. Income/revenue: Total amount received from sales of goods or services.
2. COGS: Cost of materials and time involved in making a product or service.
3. General expenses: Business overhead costs that aren't factored in the COGS, including payroll, utilities, hardware, software and travel.
4. Other income or expenses: Irregular transactions not associated with daily operations.
5. Net income: The "bottom line" on your P and L statement that shows your profit or loss.

Here's an example of a simple P and L statement:

Your Company

PROFIT & LOSS

For the Fiscal Year Ending October 31, 2020

	TOTAL
Income/Revenue	\$75,895
Cost of Goods Sold	\$8,000
GROSS PROFIT	\$67,895

General Expenses	\$6,000
NET OPERATING INCOME	\$61,895
Other Income	\$275
Other Expenses	\$3,500
NET OTHER INCOME	-\$3,225
NET INCOME	\$58,670

Income or revenue

Each income or expense category has its own line to show you the total earned or spent. If you use subcategories, your profit and loss statement will include a subtotal of the subcategories as in this example:

Income	Total
Mentoring	\$3,500
DigitalProducts	
Social Media Management Mini Course	\$14,375
Branding MasteryPackage Course	\$28,875

Entrepreneurship101E-book	\$4,500
Total DigitalProducts	\$51,250

Cost of goods sold

Here's a sample section outlining COGS:

Total Service Packages	\$24,645
Total Income	\$75,895
COGS – Merchandise	\$8,000
Total COGS	\$8,000

Net income

Your Net Income makes up the final section of a profit and loss statement. It's calculated like this:

$$\text{Net Income} = (\text{Income} - \text{COGS} - \text{Expenses} - \text{Other Expenses}) + \text{Other Income}$$

This sample portion of a P and L statement shows how you arrive at net income:

Other Income	
Investment Income	\$275
Total Other Income	\$275

Other Expenses	
Taxes and Penalties	\$3,500
Total Other Expenses	\$3,500
NET OTHER INCOME	-\$3,225
NET INCOME	\$58,670

A positive net income means you've earned more than you spent—you have a profit! If your net income is negative, it shows that you've spent more than you earned, and your business has incurred a loss.

What else is there to know about profit and loss statements?

In addition to the “total” lines of the five major sections discussed, you'll see a few other “total lines” on a typical profit and loss statement.

Gross profit

The Gross Profit total line comes right after the COGS section. This figure tells you how much you actually earned after subtracting the costs of selling your product or service from your revenue. The gross profit is what you have left to apply toward your operating expenses to keep your business running.

$\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold}$

Bear in mind that showing a profit isn't the same as having available cash. You can show a profit yet have a negative cash flow. This can happen if you need to take owner distributions or have sizeable liability payments.

Net operating income

The Net Operating Income line goes under the General Expenses section of your P and L statement. This figure represents your net income after subtracting operating expenses and costs from your revenue. It doesn't include irregular income or expenses. This is the money you have or don't have left after day-to-day expenses.

Net Operating Income = Income – COGS – Expenses

Other income and expenses

The Other Income and Other Expenses lines highlight uncommon income and expenditures. These lines let you see and discount infrequent transactions. This way, you can easily [budget](#) around these amounts.

- **Other income:** Can include income from dividends, investments, earned interest and one-time income from unusual sources.
- **Other expenses:** Can include taxes or penalties, one-time costs such as legal fees, depreciation and reimbursable expenses.

Putting all the sections together, your P and L statement might look like this:

Income	Total
Mentoring	\$3,500
DigitalProducts	
Social Media Management Mini Course	\$14,375
Branding MasteryPackage Course	\$28,875
Entrepreneurship101 E-book	\$4,500
Total DigitalProducts	\$51,250

ServicePackages	
ABC Branding Package	\$11,119
ABC Branding Strategy Session	\$9,026
ABC Branding Audit	\$4,500
Total ServicePackages	\$24,645
Total Income	\$75,895
Cost of Goods Sold	
COGS – Merchandise	\$13,000
Total Cost of Goods Sold	\$13,000
GROSSPROFIT	\$62,895
Expenses	
Advertising	
Website	\$45

Marketing Expenses	\$1,250
Total Advertising	\$1,295
Gifts	\$80
MerchantProcessing Fees	\$50
Office Expenses	\$370
Supplies	\$540
Software	\$225
Total Office Expenses	\$1,265
Subcontractor	\$2,455
Professional Fees	\$985
	\$6,000
NET OPERATING INCOME	\$56,895
Other Income	



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Investment Income	\$275
Total Other Income	\$275
Other Expenses	
Taxes and Penalties	\$3,500
Total Other Expenses	\$3,500
NET OTHER INCOME	-\$3,225
NET INCOME	\$53,670

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