

PROFIT AND LOSS STATEMENT PROJECTIONS

The Profit and Loss Statement Projection is a valuable planning and a management tool. It helps you to use estimates of expected monthly and yearly income (based on reasonable predictions of monthly sales, costs, and expenses), as goals for controlling your business operation.

Record your estimates on one copy of the Profit and Loss Statement. As actual operating results become known, record them on a second copy of the statement. Comparing these two pages will allow you to identify discrepancies between the estimated and actual figures, and take action to correct any problems.

A blank Profit and Loss Statement appears on page 3 of this handout. You may find it helpful to refer to the form as we discuss each of these items.

Total Net Sales (Revenues): Determine the total number of units of products or services you believe you will sell each month in each department, at the prices you expect to get. (As you create the estimates, you should review your pricing practices.) Subtract from this any returns or discounts allowed.

Costs of Sales: For products, this is the cost of inventory items sold to customers. It can consist of the cost of purchasing items, freight, manufacturing costs, modification costs, packaging, etc. For services, this is the cost of providing services, including labor, material used, transportation, etc. The key to calculating your cost of sales is to be sure that you don't overlook **any** costs that you incurred. Calculate the cost of sales for all products and services to determine Total Net Sales.

Gross Profit: Subtract the Total Costs of Sales from the Total Net Sales to obtain this figure.

Gross Profit Margin: Your Gross Profit expressed as a percentage of Total Net Sales (revenues), or: $\frac{\text{Gross Profit}}{\text{Total Net Sales}}$

Controllable Expenses (expenses that generally vary with your sales volume):

Salaries/wages: base pay plus overtime

Benefits: paid vacations, sick leave, health insurance, unemployment insurance, social security , unemployment and workers compensation taxes (insurance premium expense)

Legal/accounting: outside professional services

Advertising: include advertising expenses by type --e.g., yellow pages, radio, brochures, TV

Automobile: charge if personal car is used in business, including parking, tools, buying trips

Office Supplies: services and items purchased for use in the business

Dues/subscriptions: include Chamber of Commerce dues, professional society dues, etc.

Utilities: electric, gas, water, telephone, etc.

Taxes: personal property taxes, excise taxes, and real estate taxes (if land and building additions are optional) .

Repairs & maintenance: regular maintenance /repair, including periodic large expenditures like painting

Miscellaneous: small items not belonging in any of the other categories

Fixed Expenses (expenses that will be incurred whether you have any sales or not):

Rent: list only real estate used in business

Depreciation: amortization of capital assets

Utilities: electric, gas, water, telephone, etc. (minimums only)

Insurance: fire or liability on property or products. Include workers' compensation here.

Licenses/permits: county business licenses, liquor licenses, building permits, etc.

Loan payments: interest on outstanding loans

Miscellaneous: small expenditures without separate accounts

Net Profit (loss) Before Taxes: Subtract Total Expenses (controllable and fixed) from Gross Profit

Taxes: Federal State and local income taxes

Net Profit (loss) After Taxes: Subtract Taxes from Net Profit Before Taxes.

Annual Total: For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the result in the Annual Total column.

Percent: In the last column, put the percentage of each item to Total Net Sales. This percentage is key to determining whether any cost item is out of line.

NOTE: Do not show cents on the Income Projection Statement. Indicate whether you are preparing the statement in hundreds or thousands of dollars.

When comparing current profit and loss statements with prior year profit and loss statements, the percentage of sales are a quick guide to changes in costs, gross profit, expenses and net income.

The information was excerpted from a 48-page U.S. Small Business Administration publication entitled *The Business Plan- Road Map To Success* .

Profit and Loss Statement

(in hundreds _____ or thousands _____ of dollars)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Annual Total | Percent % |
|-----------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|--------------|-----------|
| Total Net Sales | | | | | | | | | | | | | | |
| Costs of Sales | | | | | | | | | | | | | | |
| Gross Profit | | | | | | | | | | | | | | |
| Gross Profit Margin | | | | | | | | | | | | | | |
| Controllable Expenses: | | | | | | | | | | | | | | |
| Salaries/wages | | | | | | | | | | | | | | |
| Benefits | | | | | | | | | | | | | | |
| Legal/accounting | | | | | | | | | | | | | | |
| Advertising | | | | | | | | | | | | | | |
| Automobile | | | | | | | | | | | | | | |
| Office Supplies | | | | | | | | | | | | | | |
| Dues/Subscriptions | | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | | | |
| Repairs & maintenance. | | | | | | | | | | | | | | |
| Miscellaneous | | | | | | | | | | | | | | |
| Total Control. Expenses | | | | | | | | | | | | | | |
| Fixed Expenses: | | | | | | | | | | | | | | |
| Rent | | | | | | | | | | | | | | |
| Depreciation | | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | | |
| Insurance | | | | | | | | | | | | | | |
| Licenses/permits | | | | | | | | | | | | | | |
| Loan payments | | | | | | | | | | | | | | |
| Miscellaneous | | | | | | | | | | | | | | |
| Total Expenses | | | | | | | | | | | | | | |
| Net Profit (loss) Before Taxes | | | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | | | |
| Net Profit (loss) After Taxes | | | | | | | | | | | | | | |