



# Profit and loss statement (P&L)

This statement sets out sample figures for Merryn and Leni, of our fictional tech company. It shows two years, before and after they move from expensive rented premises to a co-working space — see operating expenses. Profit and loss statements are also called P&L or income statements. They show all earnings and all costs over a time period, eg a quarter or a year. To get the most from this sample statement, read our guide to income statements, and follow Merryn and Leni’s story, on the business.govt.nz website.

Profit and loss statement		Last year	This year
<b>Income</b>			
<b>Revenues</b>			
	Hardware sales	1,800,000	2,200,000
	Software sales	600,000	900,000
	Servicing sales	420,000	1,000,000
	<b>Total sales</b>	<b>2,820,000</b>	<b>4,100,000</b>
<b>Cost of goods sold (COGS)</b>			
	Hardware COGS	540,000	660,000
	Software COGS	180,000	270,000
	Servicing COGS	126,000	300,000
	<b>Total cost of sales</b>	<b>846,000</b>	<b>1,230,000</b>
	<b>Gross profit</b>	<b>1,974,000</b>	<b>2,870,000</b>
<b>Expenses</b>			
<b>Operating expenses</b>			
	Advertising	60,000	60,000
	Rent	200,000	100,000
	Internet	10,000	-
	Power	15,000	-
	Gas	5,000	-
	Phones	6,000	6,000
	Vehicle petrol	4,000	4,000
	Vehicle finance	20,000	20,000
	<b>Total operating expenses</b>	<b>320,000</b>	<b>190,000</b>
<b>Non-operating expenses</b>			
	Interest expenses		
	Unusual expenses		
	<b>Total non-operating expenses</b>		
	<b>Operating Profit</b>	<b>1,654,000</b>	<b>2,680,000</b>
	Depreciation	2,000	2,000
	<b>Profit Before Tax</b>	<b>1,652,000</b>	<b>2,678,000</b>
	Tax (28%)	462,560	749,840
	<b>Net income</b>	<b>1,189,440</b>	<b>1,928,160</b>

If you show separate line items for each product, service or location, then tracking and forecasting will be more accurate.

If you break down cost of goods sold (COGS) for each product, service or location, then tracking and forecasting will be more accurate.

If gross profit is positive, then that’s good. It should be enough to cover all expenses, with money left over to give you a profit. If negative, then it’s a red flag. Your products or services cost more to make or do than you earn from selling them. This means no money left to cover operating costs, let alone earn profit. Talk to your advisor as soon as possible. You’ll probably need to raise prices and/or use cheaper raw materials.

If operating profit is positive, then it’s a good sign. If negative, then it isn’t always bad, eg spent more on advertising to help boost sales. But if it’s negative and unexpected, double-check each line item and compare these with previous statements to see if costs have increased. You’ll probably need to cut costs.