Profit and loss format pdf

 Budget 2021 update :Taxpayers need to pay advance tax on dividend income only after the declaration or payment of dividend. Every business wants to know the incomes earned and expenses incurred during a particular period, usually at the end of the year. Profit & Loss Statement/Account shows the profits/losses earned/incurred by a business for a month or a year. Companies use Profit & Loss Statement and others use "T Account" for these below mentioned reasons. Profit & Loss Statement/Account is prepared for two main reasons. i. To know the profits/losses earned/incurred by a business, ii. Statutory requirements (Companies Act, Partnership Act or any other law) Traditionally, there were two steps to know the profit/loss. It meant, the preparation of : a. Trading Account b. Profit & Loss Account Trading account reflects the gross profit or loss of the business. Profit & Loss Account shows the net profit or loss earned by the company. 1. Format for Sole Traders & Partnership Firms No specific format of Profit & Loss Account is given for the sole traders and partnership firms. They can prepare the P&L Account in any form. However, it should reflect the gross profit & net profit separately. Usually, these entities prefer "T shaped form" for preparing P&L account. T-shape Form T-shape form P&L account has two sides – Debit & Credit. Trading account is prepared first followed by Profit & Loss Statement. Trading and Profit & Loss Account Particulars Amount Particulars Amount To Opening Stock xxx By Sales xxx To Purchases xxx By Closing Stock xxx To Direct Expenses xxx To Gross Profit xxx xxx xxx To Operating Expenses xxx By Gross Profit xxx To Operating Profit xxx xxx xxx To Non-operating expenses xxx By Operating Profit xxx To Exceptional Items xxx By Other Income xxx To Finance Cost xxx To Depreciation xxx To Net Profit Before Tax xxx xxx xxx 2. Format of P&L Account for Companies Companies have to prepare the Profit & Loss Account as per Schedule III of Companies Act, 2013. Following is the format mentioned in Schedule III – STATEMENT OF PROFIT & LOSS Name of the Company……………………. Statement of Profit and Loss for the period ended……………. Note No. Figures for the Current reporting period Figures for the previous reporting period INCOME a) Revenue From operations b) Other Income Total Income EXPENSES a) Cost of materials consumed b) Purchases of Stock-in-Trade c) Changes in inventories of finished goods, Stock-in -Trade and work-in-progress d) Employee benefits expense e) Finance costs f) Depreciation and amortisation expenses g) Other expenses Total Expenses Profit/(loss) before exceptional items and tax Exceptional Items Profit/ (loss) before tax Tax Expense: Current tax Deferred tax Profit (Loss) for the period from continuing operations Profit/(loss) from discontinued operations Tax expenses of discontinued operations Profit/(loss) from Discontinued operations (after tax) Profit/(loss) for the period Other Comprehensive Income A. (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B. (i) Items that will be reclassified to profit or loss (ii) income tax relating to items that will be reclassified to profit or loss Total Comprehensive Income for the period Comprising Profit (Loss) and other comprehensive Income for the period) Earnings per equity share (for continuing operation): (1) Basic (2) Diluted Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted Earning per equity share (for discontinued & continuing operation) (1)Basic (2) Diluted Details to be disclosed in the notes a. Amount of "Revenue from operations" will be divided in – i. Sale of products (including excise duty) ii. Sale of services iii. Other operating revenues b. Finance cost will be distributed in – i. Interest ii. Dividend on redeemable preference shares iii. Exchange Differences regarded as an adjustment to borrowing costs, and iv. Other borrowing costs (if any) c. Other Income will be distributed in – i. Interest Income, ii. Dividend Income, and iii. Other non-operating income d. Other Comprehensive Income shall be classified into – i. Items that will not be reclassified to profit or loss 1. Changes in revaluation surplus 2. Remeasurements of the defined benefit plans 3. Equity Instruments through Other Comprehensive Income 4. Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss 5.Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss, and 6. Others ii. Items that will be reclassified to profit or loss 1. Exchange differences in translating the financial statements of a foreign operation; 2. Debt instruments through Other Comprehensive Income; 3. The effective portion of gains and loss on hedging instruments in a cash flow hedge; 4. Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and 5. Others e. Employees benefit expense i. Salaries and wages, ii. Contribution to provident and other funds, iii. Share-based payments to employees iv.staff welfare expenses f. Depreciation and amortisation expense, g. Interest Income, h. Interest Expense, i. Dividend Income, j. Net gain or loss on sale of investments, k. Net gain or loss on foreign currency transaction and translation (other than considered as finance cost), l. Payment to the auditor as i. Auditor ii. For taxation matters iii. For company law matters iv. For other services v. For reimbursement of expenses m. Amount of expenses incurred on corporate social responsibility activities, n. Details of items of exceptional nature o. Any other expense or income which exceeds higher of Rs. 10,00,000 or 1% of revenue from operations Form 23ACA – E-Form for submitting Profit & Loss Account with Registrar For submitting Profit & Loss Account with the Registrar, a company has to file e-Form 23ACA. With the form, it has to attach an audited copy of Profit & Loss Account. The e-form has to be digitally signed by a CA or CMA or CS, who is in whole time practice, certifying that the information entered in 23ACA is correct and audited Profit & Loss Account is attached with the form. A profit and loss statement (P&L), or income statement or statement of operations, is a financial report that provides a summary of a company's revenues, expenses, and profits/losses over a given period of time. The P&L statement shows a company's ability to generate sales, manage expenses, and create profits. It is prepared based on accounting principles that include revenue recognition, matching, and accruals, which makes it different from the cash flow statement.Image: CFI's Financial Analysis Fundamentals.Structure of the Profit and Loss StatementA company's statement of profit and loss is portrayed over a period of time, typically a month, quarter, or fiscal year.The main categories that can be found on the P&L include:Revenue (or Sales)Cost of Goods Sold (or Cost of Sales)Selling, General & Administrative (SG&A) ExpensesMarketing and AdvertisingTechnology/Research & DevelopmentInterest ExpenseTaxesNet IncomeExample Profit and Loss Statement (P&L)Below is an example of Amazon's 2015-2017 P&L statement, which they call the Consolidated Statement of Operations. To learn how to analyze these financial statements, check out CFI's Advanced Financial Modeling Course on Amazon.Source: amazon.comImage: CFI's Amazon Financial Analysis Course.Looking at the above example, we see that Amazon posted a profit of $596 million in 2015, a profit of $2.4 billion in 2016, and a profit of $3.0 billion in 2017.Amazon breaks down its total revenue into product sales and service sales. Its operating expenses consist of cost of sales, fulfillment, marketing, technology, G&A, and others. At this point, it provides a subtotal on the statement for Operating Income, also commonly referred to as Earnings Before Interest and Taxes (EBIT).Below that, interest expense and taxes are deducted to finally arrive at the net profit or loss for the period. To learn more, read Amazon's annual report.Download the Free TemplateEnter your name and email in the form below and download the free Excel template now (see image below)! Income Accounts vs Expenditure AccountsThere are two main categories of accounts for accountants to use when preparing a profit and loss statement.The table below summarizes these two accounts: income and expenditures.IncomeExpenditureRevenueCost of Goods SoldSalesMarketing and AdvertisingInterest IncomeSelling, General & AdministrativeGainsSalaries, Benefits & WagesFees ChargedInterest ExpenseCommissions EarnedInsuranceRental IncomeTelecommunicationProfessional FeesTaxesImpact of Accounting Principles on the P&L StatementIt might not seem obvious by looking at a profit and loss statement, but the final figure at the bottom (i.e., the total profit or the total loss) may be very different from the actual amount of cash that's made or lost.The main factors that create a difference between profit and cash generation are:Revenue recognition principle – revenue is often recognized before cash is received (which creates accounts receivable on the balance sheet)Matching principle – expenses are matched to revenues during the period(s) those revenues are earnedAccrual principleAccrual Principle – income and expenditures should be recorded during the periods they occur, not when cash is received, which can make revenue and expenses materially different from cash flowBeyond the Profit and Loss StatementAnalysts must go beyond the profit and loss statement to get a full picture of a company's financial health. To properly assess a business, it's critical to also look at the balance sheet and the cash flow statement.1. Analyzing the Balance SheetThe balance sheet shows a company's assets, liabilities, and equity at a specific point in time. This snapshot of the company's financial position is important for assessing:The company's asset base – ability to generate future revenuesLiabilities – future obligations the company has to meetWorking capital – the company's short-term liquidity positionCapital structure – how a company is financed between debt and equity2. Analyzing the Cash Flow StatementThe statement of cash flow shows how much cash a company generated and consumed over a period of time. It consists of three parts: cash from operations, cash used in investing, and cash from financing. This statement is important for assessing:The company's ability to generate cash from operationsFree Cash FlowFree Cash Flow (FCF) generationHow much money has been raised (debt and or equity)The net change in cash position over the periodThe start and end of period cash balanceHow to Analyze a Profit and Loss Statement (P&L)One of the main jobs of a professional financial analyst is to analyze the P&L of a company in order to make recommendations about the financial strength of the company, attractiveness of investing in it, or acquiring the entire business.Examples of P&L statement analysis include:Comparing year-over-year numbers (horizontal analysis) as well as industry benchmarkingLooking at margins: gross profit margin, EBITDA margin, operating margin, net profit marginTrend analysis: are metrics improving or deterioratingRates of return: return on equity (ROE), return on assets (ROA)Valuation metrics: EV/EBITDA, P/E ratio, Price to Book, etcProfit and Loss Statement Video ExplanationBelow is a video explanation of how the profit and loss statement (income statement) works, the main components of the statement, and why it matters so much to investors and company management teams.Video: CFI's Free Financial Analyst Courses.Additional ResourcesThank you for reading CFI's guide to understanding the profit and loss statement. CFI is the official provider of the Financial Modeling & Valuation Analyst (FMVA)®Become a Certified Financial Modeling & Valuation Analyst (FMVA)® certification and on a mission to help you advance your career. With that goal in mind, these additional CFI resources will be very helpful: Digital Library > Acquiring and Managing Finances > Financial statements"How to Prepare a Profit and Loss (Income) Statement"A Profit and Loss (P & L) or income statement measures a company's sales and expenses over a specified period of time. You can use this guide to create a profit and loss statement for your business.WHAT TO EXPECTThis Business Builder will guide you through a step-by-step process to create a profit and loss statement for your business.WHAT YOU SHOULD KNOW BEFORE GETTING STARTED [top]A Profit and Loss (P & L) statement measures a company's sales and expenses during a specified period of time. The function of a P & L statement is to total all sources of revenue and subtract all expenses related to the revenue. It shows a company's financial progress during the time period being examined.The P & L statement contains uniform categories of sales and expenses. The categories include net sales, costs of goods sold, gross margin, selling and administrative expense (or operating expense), and net profit. These are categories that you, too, will use when constructing a P & L statement. Since it is a rendering of sales and expenses, the P & L statement will give you a feel for the flows of cash into (and out of) your business. The P & L statement is also known as the income statement and the earnings statement.This Business Builder will explain, through a step-by-step process and the use of a worksheet, how to create a P & L statement. Accounting terms will be defined as they are introduced, and a glossary is included for your reference.Watch Out For...Matching sales and costs. If the P & L statement you develop is going to be of value, and acceptable to the Internal Revenue Service (IRS), the revenues and expenses reported during the period must match. That is, the expenses incurred to generate the sales of your product (or services) must be related to actual sales during the accounting period.This Business Builder will define and explain the data needed to put together a P & L statement, but before you start, it might be helpful to consider the following questions:Does your inventory method allow you to calculate or reasonably estimate the quantity and cost of goods sold during a specific time period?Do you have records of general and administrative expenses?Can you separate selling-related expenses from other expenses? Why Prepare a P & L Statement?There are two reasons to prepare a P & L statement. One reason is the P & L statement answers the question, "Am I making any money?" It is a valuable tool to monitor operations. A regularly prepared P & L statement — either quarterly or monthly for new businesses — will give owners timely and important information regarding revenues and expenses and tell them whether adjustments might be necessary to recoup losses or decrease expenses. The P & L statement also allows outsiders to evaluate your ability to manage and use your company's resources.The second reason to prepare a P & L statement is because it is required by the IRS. It is the record of a business' operation that is used to assess taxes on profits earned. It is the only financial statement required by the IRS.An OverviewThe profit and loss statement uses data from your business and three simple calculations to tell you the net profit (or net loss) of your company. Usually, it helps to know where you are going before you get there, so here's a shell of a P & L statement and a completed P & L statement for the fictional ABC Company.Shell of a P & L statement:Net Sales − Cost of Goods Sold = Gross MarginGross Margin − Selling andAdministrative Expense =Net Operating ProfitNet Operating Profit + Other Income −Other Expense = Net Profit before TaxesNet Profit before Taxes − Income Taxes = Net Profit (or Net Loss)Sample of a P & L statement:ABC Wholesale Company Profit and Loss StatementFor the Quarter Ended March 31, 200XNET SALES $200,000Cost of goods sold: Beginning inventory− $ 45,000 Merchandise purchases− $120,000 Freight− $ 15,000 Cost of goods available for sale $180,000 Less ending inventory− $ 50,000 COST OF GOODS SOLD − $130,000GROSS MARGIN $ 70,000Selling, Administrative, and General Expenses: Salaries and Wages− $ 22,000 Rent− $ 6,000 Light, heat, and power− $ 1,000 Other Expenses− $ 4,000 State and local taxes and licenses− $ 1,000 Depreciation and Amortization on leasehold improvements− $ 500 Repairs− $ 1,500 Total selling, administrative, and general expenses − $ 36,000Profit From Operations $ 34,000 Other income+ $ 2,500 Other expense− $ 500 Net Profit Before Taxes $ 36,000 Provision for income tax− $ 14,400 NET PROFIT AFTER INCOME TAX $ 21,600HOW TO PREPARE A P & L STATEMENT [top]The heading of the P & L statement should always tell the rea der what period of time is being examined. Unlike a balance sheet, which is a snapshot of a company during a particular date in time, the P & L statement shows a listing of what has transpired or happened during a time period.As such, the heading should contain wording that describes the time period being examined, such as: for the month ending-month/day/year; for the quarter ending — month/day/year; for the year ending — month/day/year.Step 1:Fill in the heading of your worksheet with your company's name and the period the P & L statement will reflect.The data items that you must be able to provide to construct a P & L statement are:Net Sales Cost of Goods Sold Selling and Administrative Expenses Other Income and Other ExpenseNet Sales [top]Net sales is the total sales during the time period being analyzed minus any allowances for returns and trade discounts. The amount allowed for returns will necessarily vary considerably between different types of businesses. A small retail store may have a few returns compared to a manufacturing operation. It is commonly figured as a small percentage (one or two percent) of total sales. An amount allowed for trade discounts recognizes the discrepancy between a standard or "catalog" price and the actual price paid by customers. An allowance for trade discounts decreases total sales to reflect prices actually paid.This is an important consideration if sales are recorded when the order is placed rather than when the goods are shipped or payment is received. The choice of when and how to record sales is a function of your bookkeeping/accounting system and the decisions made related to its setup. This Business Builder assumes that system is in place.Step 2: Fill in total sales, and any allowances on the worksheet. Calculate net sales.Costs of Goods Sold [top]Costs of goods sold is also called the cost of sales. For retailers and wholesalers it is the total price paid for the products sold during the accounting period. It is just the price of the goods. It does NOT include selling or administrative expenses (these expenses are listed elsewhere on the P & L statement).For service and professional companies, there will be no cost of goods sold. These types of companies receive income from fees, commissions, and royalties and do not have inventories of goods. The costs to generate services will be included in the selling and administrative expense and the general expense sections of the income statement.For retailers and wholesalers, the cost of goods sold may be computed several different ways using either a direct or indirect method. This means it will be an actual accounting of the prices of goods sold based on inventory (direct) or an estimate by deduction (indirect), such as deflating sales. Most small retail and wholesale businesses will compute the cost of goods sold directly by taking the value of inventory at the beginning of the accounting period (original inventory), adding the value of goods purchased during the accounting period (new inventory) and then subtracting the value of the inventory on hand at the end of the accounting period (remaining inventory). These calculations will yield the amount of inventory consumed during the accounting period: Beginning Inventory+ Inventory Purchased During the Period− Inventory on Hand at the End of the Period Inventory Used for Product the Time PeriodDeflating Sales FiguresA cost of goods sold could also be derived indirectly by deflating sales figures.For example, if a retail store has a storewide gross margin (or mark-up) of 40 percent and sales of $100,000 are recorded during the accounting period, the cost of goods sold would be $60,000. See the following calculation for how this works:Total Sales x Gross Margin (%) = Gross Margin ($)$100,000 x 40% = $40,000Total Sales ($) − Gross Margin ($) = Cost of Goods Sold ($)$100,000 − $40,000 = $60,000If the application of a uniform margin is inappropriate, product classes could be developed based on gross margins. That is, product group A would be all products with a gross margin of, say, 30 percent; product group B would be products with a gross margin of 25 percent; and Product C would be products with a gross margin of 10 percent. The calculations shown above would then be done for each product category and totaled.Manufacturer's cost of goods soldFor manufacturers, the method for compiling the cost of goods sold (or, more accurately, the cost of goods manufactured) is different than the method for retailers and wholesalers. This is because a manufacturer's costs come from both the acquisition of raw materials to create a product and the costs related to its manufacture.For a manufacturer, the cost of goods sold is divided into two categories: direct costs and indirect costs.Direct costs include inventory costs based on beginning and ending inventories — computed in the same manner as retailers, and it also includes the costs of raw material, and work-in-process inventories, PLUS direct labor costs.Indirect costs include indirect labor, factory overhead and materials and supplies. Because of these additions, the cost of goods manufactured is often compiled as a separate statement. Information from the separate statement is then incorporated into the P & L statement. Here is information on each of the data categories for manufacturers:Labor — direct labor is the cost of labor to convert raw materials into finished products. Indirect labor includes other factory personnel such as shipping personnel or maintenance workers.Factory overhead — includes the following: depreciation of plant and equipment; factory utilities — light, heat and power; insurance; real estate taxes; and the wages of supervisors and others who do not work directly to create the product.Materials and supplies — consumed in the production of goods are included in the direct cost of goods sold for manufacturers. Supplies that are not consumed during the manufacturing process are included as indirect costs.For manufacturers, if containers or packaging is an integral part of the product, then these expenses are included in the costs of goods sold. If they are not integral to the product, then these expenses would be recorded as selling expenses.Step 3: Fill in the cost of sales for your company on the worksheet.If you are a manufacturer, complete the separate Cost of Goods Manufactured Worksheet to make sure all applicable costs are accounted for. Transfer your costs of goods manufactured to the general worksheet and continue using the general worksheet to calculate the net income for your operation.Gross MarginOnce net sales and cost of goods sold are entered on the P & L statement, it is possible to compute the gross margin for the accounting period. Gross margin is also referred to as gross profit.Net Sales − Cost of Goods Sold = Gross MarginStep 4: Calculate the gross margin for your company.Selling and Administrative Expenses [top]Two types of expenses are recorded on a P & L statement for all types of companies: selling expenses and general and administrative expenses.Selling expenses are expenses incurred directly and indirectly in making sales. They include salespeople's salaries, sales office costs, commissions, advertising, warehousing and shipping. In general, selling expenses are the expenses of order taking and o rder fulfilling.General and administrative expenses are operating expenses not directly associated with the sale of goods. They include nonsales personnel salaries, supplies, and other operating costs necessary to the overall administration of the business. General and administrative expenses are commonly considered "overhead" expenses, and include rent, utilities, telephone, travel and supplies.Repairs and improvement expenses incurred for either equipment or property may also be deducted as an expense. However, this is only for expenses to maintain property or equipment — such as roof repairs, repainting and other maintenance. Major overhauls of equipment or maintenance that extend the life of the asset must be capitalized (that is, depreciated over the asset's useful life and not deducted from income as an expense). For managerial purposes, general and administrative expenses are considered managed costs. They are controlled by the decisions of management and not directly tied to sales or production.Step 5: Fill in selling, general, and administrative expenses for your business on the worksheet.Net operating profitNet operating profit is the difference between the gross margin and selling and administrative expenses.Gross Margin − Selling and Administrative Expenses = Net Operating ProfitStep 6: On the worksheet, compute the net operating profit for your business.The last items on a P & L statement are: other income, other expense and income taxes. Let's look first at other income and expense.Other Income and Other Expense [top]These are line items for any unusual income or expense items not directly related to the operations of the business. Other Income includes income from interest, dividends, miscellaneous sales, rents, royalties and gains from the sale of capital assets. Other Expenses is a line item to record any unexpected losses unrelated to the normal course of business. It could include a loss from the disposal of equipment. Other income is added to net operating profit and other expense is subtracted from net operating profit to compute Net Profit Before Income Taxes.Net Operating Profit + (Other Income − Other Expenses) = Net Profit Before Income TaxesStep 7: Enter any Other Income or Other Expense for your business on the worksheet and calculate Net Profit Before Income Taxes.Net ProfitNet Profit is calculated by subtracting what you estimate is owed for state and federal income taxes from Net Profit Before Income Taxes.Net Profit Before Income Taxes − Income Taxes = Net ProfitStep 8: Calculate the net Profit for your business.ConclusionThe creation of a profit and loss statement is an important event for a small business. At one glance, it provides a summary of the most important activities of the company.A P & L statement is the record of the good news of sales and the less propitious news of expenses. It provides valuable information to managers and owners including the costs of goods sold, gross margin, selling and administrative expenses, and net profit. Compiled on a regular basis, the P & L statement is one of the most important tools for a small business owner to use to evaluate and make adjustments to operations.CHECKLIST [top] Net Sales and Cost of Goods Sold___ Did you subtract an allowance for returns, transportation, and discounts from total sales?___ Are all appropriate costs included in the costs of goods sold?___ If you are a manufacturer, have you included labor costs, factory overhead, and inventory costs in the costs of goods sold? Selling Expenses and Net Profit___ Have selling expenses been separated from general and administrative expenses?___ Has any income or expenses from outside of the normal course of business been added to or subtracted from Net Operating Profit to compute Net Profit?___ Are allowances for both state and federal taxes included in the deduction for income taxes?RESOURCES [top]BooksAnalysis and Use of Financial Statements, 2nd ed., by Gerald I. White, Ashwinpaul C. Sondhi, and Dov Fried. (John Wiley & Sons, 1997).Corporate Controller's Handbook of Financial Management, 2nd ed., by Joel G. Siegel, Jae K. Shim, and Nicky A. Dauber. (Prentice Hall, 1997).MagazinesJournal of AccountancyOther SourcesSmall Business AdministrationAmerican Institute of Certified Public AccountantsGLOSSARY [top]Allowance for Returns - In the computation of net sales, an amount subtracted from sales to reflect returns of merchandise. Generally figured as a small percentage of sales.Back to main document.Cost of Goods Sold - Total price paid for products sold during the accounting period, plus transportation costs to acquire the goods. Service and professional companies will have no costs of goods sold, whereas, manufacturers will have detailed statements.Back to main document.Direct Labor - The cost of labor to convert raw materials into finished products. Direct Labor is included in the cost of goods sold for manufacturers.Back to main document.Discounts - Allowance subtracted from total sales for trade discounts. Used in the calculation of net sales.Back to main document.General and Administrative Expense - Overhead expenses not directly associated with the sale of goods. Includes salaries (of nonsales personnel), rent, utilities, telephone, travel and supplies.Back to main document.Gross Margin - Net sales minus any adjustments for returns or discounts.Back to main document.Net Sales - Total sales minus any adjustments for returns or discounts.Back to main document.Selling Expense - Expenses related to order taking and product sales.Back to main document.Other Income - Income produced from other than the normal operations of the business. Includes interest, dividends, and gains from the sale of assets.Back to main document.Other Expense - Expenses not incurred from normal operations. Can include losses on the sale of assets.Back to main document.Net Operating Profit - Gross margin minus selling and administrative expense.Back to main document.Net Profit Before Income Taxes - Net operating profit plus other income and minus other expense.Back to main document .Writer: E. Bond Acquiring and Managing FinancesArticles in our Entrepreneur's Resource Center appeared in print and online newsletters published previously by the foundation. More than 1,000 articles can be found in the categories below, addressing timeless challenges faced by entrepreneurs of all types.