Office of Early Childhood and Out-of-School Learning

# Create and Utilize a Profit and Loss Statement

***A Profit and Loss Statement (also referenced as an income statement) provides information regarding the financial performance of a business based on its profits and losses. It demonstrates the profitability of the business for a specified time period and can inform business decisions impacting financial sustainability and growth.***

## Background

Financial management can be a challenging and scary topic, but it doesn't have to be. Having a basic understanding about the financial performance of the business can inform decision making that leads to financial sustainability and growth. Prior to making any financial business decisions, it is always important to:

- consistently review and compare the business's financial reports,
- consult with a financial professional with that specific area of expertise, and
- assess all options to minimize loss or risk to the business.

## Taking action

Typically, the goal of a business is to make a profit or, at least, to not incur a loss. A business that incurs a profit is more likely to be sustainable and positioned for growth. Consistently assessing the performance of your business can be achieved through the review of a Profit and Loss Statement and other key financial statements such as the Balance Sheet and Cash Flow Analysis. Monthly or at least quarterly review of the Profit and Loss Statement along with a comparative assessment to the same period of the previous fiscal year provides a thorough review of the business's profitability. Your business accountant or accounting software can create the Profit and Loss Statement or you can implement the 5 easy steps below to create a Profit and Loss Statement for your business.

## Next steps

- *Understand key concepts and the importance of a Profit and Loss Statement.*
    - A Profit and Loss Statement consists of three essential concepts (**income, expenses,**

**and net income**) to determine the performance of a business during a specific time period (monthly, quarterly or annually).

- **Income** consists of any revenue or gains earned from providing a service or selling goods. In a child care business, this usually consists of tuition, fees, grants, and cash donations.
- **Expenses** are goods or services purchased to operate the child care business. In a child care business, this can include mortgage/rent, personnel wages/ benefits, classroom supplies, health and safety supplies and food or tuition write-offs.
- **Net income** is the amount of income remaining after all expenses have been covered. Net income is calculated by subtracting total expenses from total income. If the result of this calculation is a positive number that indicates a profit, or, if the result is a negative number that indicates a loss. If this calculation results in zero, that indicates that the business broke even and did not make or lose money but was simply able to cover its expenses with its income.
- The Profit and Loss Statement can inform decisions about entering new markets, investing in expensive equipment and taking out a business loan. If your Profit and Loss Statement demonstrates prolonged periods of losses, you may think twice about investing in the operations. If profit is surging, it may be time to expand or enter new markets(1).
- The Profit and Loss Statement can be a complex report based on the complexity of your business. Consultation with a financial accountant and utilization of an automated accounting system can support the creation of a Profit and Loss Statement that accurately reflects the performance and profitability of your business. Additionally, reviewing the Profit and Loss Statement in conjunction with other financial reports such as the Balance Sheet and Cash Flow Analysis can provide a comprehensive illustration of your business.

- *Implement 5 steps to create and utilize a monthly single-step Profit and Loss statement.*
  - The table below demonstrates 5 easy steps to create and utilize a monthly single-step Profit and Loss Statement. Each step and the action that needs to occur within that step are detailed in the process column, while the notes column provides additional details and/or tips towards the creation of your monthly Profit and Loss Statement.
  - The process can be modified to accommodate any reporting period of the business such as quarterly or annually and in such a case, the documentation used to create the statement should reflect that specific time period (re: Step 1).

- Be mindful that a Profit and Loss Statement can only be generated on a time period that has already occurred and it is only as accurate and reliable as the information entered, therefore consultation for thoroughness and accuracy with a financial professional is strongly advised.

- Page 5 provides a detailed example of a Profit and Loss Statement and Page 6 provides a Profit and Loss Statement template (a fillable template is available in My Spark Learning Lab; the accuracy of a fillable template relies on the accuracy of the information entered).

| 5 STEP PROCESS | NOTES |
|---|---|
| ***Step 1***<br><br>**Gather** documentation of all transactions (income and expenses) that were received or paid out in the month for which the statement will reflect. | For example, if you are creating a Profit & Loss statement for April 2022, you will need documentation for all income received and expenses paid in April 2022. This statement can be generated after the last day in April 2022 when all transactions that occurred in April 2022 have been accounted for. |
| ***Step 2***<br><br>**Categorize** all transactions as either income or expenses and calculate the total of each category separately resulting in a total dollar amount of all income and a separate total dollar amount for all expenses | Transactions are categorized as income or expenses and can be further categorized by types within income or expenses. For example, tuition is income which can also be a type of income to include all fees for the provision of child care services such as enrollment fees and late fees; grants are another income category type to include Build Learn Grow Stabilization Grant funds and reimbursement for the Child and Adult Care Food Program (CACFP/ Meal program). Likewise for expenses, payroll is a category which includes all child care staff compensation and utilities can be another expense category to include electric, gas, water and sewage for the business.mCategorizing income and expenses by type allows for a condensed report, otherwise the Profit and Loss Statement can be several pages long and more challenging to read and review. |
| ***Step 3***<br><br>**Calculate** the net income by subtracting the total dollar amount of the expenses from the total dollar amount of income.<br>*Net income = income- expenses* | This is your Profit and Loss Statement for that month. Keep in mind, income and expenses can change from month to month. |
| ***Step 4***<br><br>**Maintain** documentation of all current transactions and build the statement for the current month after the month ends. | Good recordkeeping and documentation is critical to producing accurate financial reports. The utilization of an automated accounting system can simplify and expedite this process. |
| ***Step 5***<br><br>**Assess** your statement for accuracy and information about managing your business. | Refer to suggested reflective questions to help identify trends or anomalies to further gauge the health of your business to support making sound financial decisions. |

- *Assess the data from the Profit and Loss Statement.*
    - Once you have created the Profit and Loss Statement, assessing that statement to determine the health and profitability of your business is crucial. Below are reflective questions to support the assessment of your Profit and Loss Statement data:
        - Is your business making a profit? What helped your business make a profit or caused it to incur a loss? What expenses can be reduced to generate/increase profit? How are income or expenses changing monthly or quarterly? Are there time periods when income or expenses are higher or lower than expected; if so,why?
        - What systems do you have in place to automate transactions or calculations?
        - Does your current system of documentation and recordkeeping adequately reflect the business income and expenses, is that information easily accessible?
        - If your business continues to operate in this manner, where will your business be in 1-2 years? What is the ultimate goal for your business?
        - What is this statement telling you about your business? Do you need assistance to better understand and synthesize this data? What financial advice have you received from your accountant, bookkeeper, financial advisor or tax consultant regarding this statement?

## Attachments

- Profit and Loss Statement Example
- Profit and Loss Statement Template

## Note

- This resource does not constitute or substitute as professional financial advice; there are many criteria to consider in managing a business. With all business and financial matters, consultation with a financial professional and utilization of an automated accounting system are strongly advised.

## Additional resources

- Indiana Small Business Development Center, https://isbdc.org/
- Civitas, https://indianaspark.com/civitas/

## How to get more help

Contact the OECOSL Child Care Support Line for assistance at 1-800-299-1627. We are available Monday – Thursday: 8:00am – 7:00pm EST and Friday: 8:00am – 5:00pm EST

## Source(s)

Everything you need to know about the income statement. Everything You Need to Know About the Income Statement. (2020, September 8). https://www.score.org/

## EXAMPLE

# Profit & Loss Statement

| |
|---|
| Happy Learning Academy |
| September 1, 2022 - September 30, 2022 |
| Jane Doe |
| October 5, 2022 |

| INCOME | |
|---|---|
| Tution | $15,000.00 |
| Late Fees | $300.00 |
| Build Learn Grow Grant | $25,000.00 |
| Food Program Reimbursement | $3,500.00 |
| *TOTAL INCOME* | $43,800.00 |

| EXPENSES | |
|---|---|
| Staff Payroll | $30,000.00 |
| Mortgage | $500.00 |
| Utilities | $350.00 |
| Meals | $1,300.00 |
| Health & Safety Supplies | $200.00 |
| Classroom Supplies | $500.00 |
| Insurance | $250.00 |
| *TOTAL EXPENSES* | $33,100.00 |

| NET INCOME | $10,700.00 |
|---|---|

**TEMPLATE**

# Profit and Loss Statement

<Enter Business Name>
<Enter beginning to ending of statement time period in mm-dd-yyyy format>
<Enter Statement Preparer's Name>
<Date Statement was prepared>

## INCOME

| | |
|---|---|
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |
| Enter Description of Income Category (i.e. Tuition, Grants) | Enter Amount of Income |

| | |
|---|---|
| TOTAL INCOME | $0.00 |

## EXPENSES

| | |
|---|---|
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |
| Enter Description of Expense Category (i.e. Wages, Food, Mortgage, Utilities) | Enter Amount of Expense |

| | |
|---|---|
| TOTAL EXPENSES | $0.00 |

| | |
|---|---|
| NET INCOME | $0.00 |