1. How To Read And Understand Income Statements As A Small Business - YouTube

<https://www.youtube.com/watch?v=LGGNgAq5wSg>

Transcript:

[Music] hey there aiden from bench accounting here today we're going to talk about income statements also known as profit and loss statements in this video we'll go over what an income statement is why it's valuable how to read one and we'll also look at some real-life examples of what you can learn from analyzing an income statement an income statement is a financial statement that shows you how profitable your business was over a given reporting period like in the last month or the last year it shows your revenue

minus your expenses the income statement will show you if your business is spending too much money or not earning enough revenue to be profitable it's one of the three main financial statements and it's super valuable for understanding your business plus if you want to get a business loan or bring on investors they'll want to see your income statements to verify your business is profitable unfortunately they won't just take your word for it here's what an income statement looks like we'll go over

each line so you know how to read one for yourself first sales revenue this is the amount of revenue coffee roaster enterprises made from selling coffee and pastries in 2019 if you really want you can break this down by product so you can see exactly which products give you how much revenue next cost of goods sold or cogs this is how much it directly costs to produce and distribute all the goods or services you sold to your customers for coffee roasters this includes cost of raw coffee beans employee wages and packaging

indirect expenses like utilities bank fees and rent aren't included in cogs next gross profit this is what you get when you subtract total cogs from revenue gross profit tells you how profitable your business is after taking into account direct costs but before taking into account overhead costs it's a rough measure of how efficient your business is next general expenses also sometimes referred to as operating expenses these include rent bank and atm fee expenses equipment expenses marketing and advertising expenses

merchant fees and any other expenses you need to help keep your business going basically it's all the cost of your business that aren't cost of goods sold operating earnings this is how profitable your business is after taking into account all internal costs which you have more control over but before taking into account external costs like loan interest payments and taxes which you have less control over accountants will sometimes call this operating profit or operating income interest expense if your business owes someone money it

probably has to make monthly interest payments your interest expenses are the total interest payments your business made to its creditors for the period covered by the income statement earnings before income tax this is your business's profitability before it pays taxes income tax expense this is how much you paid to the irs in income taxes net profit ever wonder where we get the expression bottom line from this is it this is the final total profit for your business now what can we actually learn about a business from reading an income

statement lots you can see how much money they're making how much they're spending how profitable and efficient they are and you can see overspending let's analyze coffee roaster enterprises to see what we come up with as a specific example the first thing that stands out is that they only made seven thousand dollars of profit all year which means the business owner isn't really making any money that's a problem we can see that they only sold 57 000 worth of products if the owners are going to make a living

they'll probably need to double their revenue and we can see that they only spent 500 in marketing if they want to increase revenue and attract some more customers they might have to invest their profit into marketing maybe facebook ads or local flyers they also paid a lot of money in interest this usually means they have a business loan they're trying to pay off or maybe credit card debt and they're getting dinged on interest fees besides rent and taxes it's their biggest expense they may want

to do some debt consolidation to get that paid off as fast as possible so they don't have to pay so much interest that could mean getting another cheaper loan to pay off the credit card debt or just putting their profit into paying off the credit card and holding off on the marketing investment for now now that you know how to read an income statement how do you actually create your own you can't produce an income statement without bookkeeping bookkeeping is the act of recording and categorizing all your financial transactions when you

add up and summarize all the transactions on your books you get an income statement if you're currently not keeping up with your bookkeeping check out our bookkeeping basics video for a simple walkthrough of how to do your own bookkeeping if you are keeping up with bookkeeping you have two main options for how to get income statements first you can use a simple income statement excel template like this one built by our expert bookkeepers here at bench you can download it by clicking the link in the description below

it's a pretty simple template that lets you enter your transactions and category and it will automatically produce an income statement for you second if you're comfortable using accounting software most of them will allow you to produce income statements if you don't want to do bookkeeping yourself you can hire someone like bench that's us to do it for you we'll do your bookkeeping every month and send you a custom income statement for the month and an annual income statement at tax time we'll even file your taxes for you if

you don't already have a cpa you're happy with we've done books for thousands of small business owners and we'd love to take bookkeeping off of your plate so you can focus on running your business that's it from us here at bench good luck on your entrepreneurial journey and happy bookkeeping