

We are going to start with a profit and loss statement. So what is this report, why do I need to know about it, and how am I going to use this moving forward? So the profit and loss statement is showing how much money is coming in or how much money you're making, and how much money is going out or how much money you're spending. So this is really important to make sure that we're capturing how much money you're making appropriately, and how much money you're spending appropriately as well, and then how much is leftover. So this is where you put together all the different steps of bookkeeping, and at the end of the month, you're going to review and analyze this report and make sure that it looks right. So this is where and how some of you are able to tell when you're looking at your reports, "Something's wrong with my bookkeeping. This isn't right. I made way more money than that," or "I made a lot less," or "I don't think I spent that much money."

This is a way for you to deeper dive in those reports. So again, this report in particular shows you how much money you're making and then how much money you're spending and then the net result of that. So sales, or revenue, minus expenses equals net income. All right. So let's take a look at that. All right. So you're logged into your QuickBooks and you're in the dashboard. You are going to go on the left-hand side toolbar, down to reports, going to click on that. And at the top, you're going to have your favorites. It's going to default to profit and loss balance sheet and accounts receivable summary. Some of you are not going to need this. You can just de-select it. And then it will leave the balance sheet and the profit loss.

We're going to start with the balance sheet. So what we're going to do is just clicking on the little question mark here to reiterate what it is. Your income and expenses and net income, profit or loss in the business. So again, when you have income and money you're spending, the end result of this is net income, that's the profit or loss of your business. Hence, the name of the report. And it also could be called an income statement. So let's click on it. Again, we're in the demo account we're in Craig's Design and Landscaping Company. So we're just going to let this default. So in QuickBooks, you can do any date range you want, but the important thing here is I want you to ensure that you have all of your bookkeeping up to date when you are doing this. Time and time again, I'll have people, clients that I'm working with, pull the reports and say, "Hey, this isn't accurate."

Well, let's go in your bank feed and let's make sure you have all the transactions categorized. So, that's step number one in the process. If something looks inaccurate and you're like, "Gosh, this isn't right," Or "I'm not sure," go back to your bank feed and make sure all the transactions have been categorized and nothing's sitting in the bank feeds that hasn't been reviewed yet. Again, number two, when you're looking at, you want to make sure you're looking at the right data set. So we're just going to let it default to January 1 to March 26, and you're going to see how it's structured. So this is going to pull in how you created those accounts and the detailed types you used.

So let's just start at the top. There's income, and there's multiple different types of accounts. Now, some of you may have just done one default account. That's fine. Some of you may have done multiple level of detail accounts and income, and that's great too. Some of you now may see, "Wow, okay, I can have this level of detail," and we can have this discussion in a co-working or a Q&A and get your accounts up, if you want to add another level of detail. So this is breaking out for the timeframe of January 1 to March 26, all of the income in these different revenue categories.

In addition, cost of goods sold. So, cost of goods sold is a cost or expense that is directly related to the sale of something. So in this particular instance, he's doing landscaping. So sprinklers and drip systems, fountains, garden, lighting, plants, soil. So actually part of something that he did. So this could be soil, this could be plants, this could be something that he marked up to resell to the clients or something that Craig would have just passed on directly his cost to the client as well. That's cost of goods sold. And you

can see here, it breaks it out and tells you the gross profit. So it tells you your income minus cost of goods sold and then gross profit.

All right. So now we're getting into the expense portion of it. So some of you may have a lot of accounts, some of you may have a few, some of you may have a lot of detail. So again, if you have parent accounts and sub-accounts, this is where you're going to see the breakout, the level of detail here. So automobile is a parent account, fuel is a sub-account. You can see that there's totals for those sections. So that's part of the reason that you do that and the level of detail you can add. And you can see these are in alphabetical order.

So you can see here, we have jobs expenses, and we've got job materials and we've got things broken out. Again, this is a landscape company. So you can relate to the level of detail that Craig is wanting to see here with breaking out. All right, decks and patios, plants and soil, sprinklers and drip systems. As a result, by looking at this, you're probably thinking, "Well, this is different types of revenue. If I'm doing a deck or patio, I'm considering that one type of service. Plants and soil, that's another level of service. And then sprinklers and drip system, that's another level of service." So you can see where you can have revenues or income accounts directly correlated to the amount of job materials or labor that you're spending. So you can get really complex and detailed with your reports. Again, high level overview, we're going to do a brief overview of the P&L just to give you guys an idea of where Craig's design business sits and his landscaping company, and the relation to how you guys are doing it and how you can look at it.

It's okay if there's not a lot of detail on yours, or if there is, or even if there's not. The important thing is I want you to understand the money that's coming in and the money that's going out and the money that's leftover at the end. Here you can see there's legal and professional fees, and you can see the total. So again, the benefit of having a parent and a sub-account. And you can see the different accounts as well and how they go. And you could see here it's broken up and says net operating income. So you can see there is another expense called miscellaneous. Something that would be another expense that most of you can probably relate to is if you pay your quarterly estimated tax payments out of the business, that would be something that I would have you set up as another expense that sits at the bottom of your statement because taxes are not a tax deduction.

So when you're looking at your business and you're going to get to the point where going through the academy, you're able to look at your P&L and estimate how much taxes you're going to owe. You're going to be looking at the net operating income number and not this number where it's got the other expenses counted here. The reason the other expenses are there, sometimes you'll see other income, sometimes you'll see other expenses. It's a way to break out the level of detail to show differences in your income and something that may or may not be included or something you're unsure of that you need to talk to your tax or accounting professional about depending on how you've set up your accounts. So going through the academy, there will be a time when you guys will probably ask questions or be in the Q and A, or you'll be in a hot seat, or you'll be in a co-working session.

And somebody will have a question and be like, "Oh, wow. I need to break something out. I need to do a type of account." So that's why. Most of you in the beginning are not going to utilize other income or other expenses, and that's totally fine. The importance is, again, we want to look at the money you're making at the top and the money you're spending after that. And then the end result, which is the net income or the profit and loss in your business. Now, in this particular instance, at the end of this given period that we're looking at, roughly three months, the net income or the profit that Craig's making, you can see the difference here is \$4,354.29. Or if you remove that other miscellaneous expense of \$2,916, he's making \$1,438.29. Now when you're calculating taxes, that makes a big difference on that number.

However, for purposes of this and a general overview of what a profit and loss statement shows you, again, we're looking at revenue expenses, what's left over, the profit or loss you're making in the business. So let's just say you're looking at this and you're like, "Hmm, I'm not sure this number is right." If you see if you hover over any of these, you see that they turn into a hyperlink. You can click into any of these once it turns into a hyperlink and you can see the level of detail it gives. Now what you want to do is if you want to go back, you're going to go back to the other hyperlink right here, back to report summary. This is what I do with all of my clients in the one-on-one trainings. When they're learning reports, they're able to know because they're doing the day-to-day bookkeeping or the weekly coding of the bank feed, that these numbers look relatively right.

If you're not doing the day to day bookkeeping, or you're doing it once a month, or once every three months, this is where it's going to be a little bit harder for you to ensure the accuracy of these. However, with that being said, you're coding the bank feeds, you're reconciling in the accounts, and then you're reviewing financials in that order, that's going to give you the consistency and key to know these are accurate. Nothing's wrong in my bookkeeping, I'm doing it right. However, when we went over those other steps and coding of the bank feed, if you know something is funky, or looks off with one of your accounts, this is how you're going to tell. You're going to be able to tell when you're in that bank feed, you're going to be able to tell when you're reconciling, if it's not reconciling to zero, or when you're coming in the financials and something's negative, when it should be a positive number or the number looks too big, or it looks way too small, you can tell something doesn't look right, it looks amiss.

In the academy, this is where you're going to ask questions, and we're going to teach you higher level of detail, but this is the starting point. And I want you guys to trust in the process and look at your P&L, and be able to say, "Hey, this is how much money I'm making, yep. This is how much I'm spending. This is my profit at the end of the month," or "This is my loss." And then as a result, you're going to be able to see, "Hmm, I want to be able to make more profit. Well, how do I do that? Hmm, I have a loss. How can I change this so that I don't have a loss?" So in that instance, when you're looking at profit and you're like, "I want to make more of this." I would say to you, "All right, do you need to increase your prices? Are you being efficient with your time? Is there ways you can be more productive to have a bigger profit margin on those sales?"

If you have a loss, I would prompt you to look at the revenue questions as well. Are you being as productive as possible? Can you spend less money on paying people to do those services? Can you cut expenses? So with that being said, there's a lot of detail and a lot of analysis that can be done and questions that can be answered if you have all of this together, and you're not piecing it together at the end of the year. If you're able to look at this on a regular basis at the end of the month when you're doing bookkeeping, it's kind of eye-opening to allow you to see from month to month, how much profit or how much loss you're making and what you're spending.

Also, as a result, this is also when people are wanting to cut expenses or make their profit more so because they want to give themselves a raise. They're able to dive deep and look at where they're spending money and see if there's any way they can cut costs. I hope this makes sense. And I hope it helps. I'm sure it's going to cause lots of feelings, lots of thoughts, lots of questions. Please do share with me how you guys feel, but I hope this is a good overview of what your profit and loss means and helps you get excited about looking at your numbers and doing your bookkeeping every other week. See you in the next lesson.