



PROFIT

How it's calculated and what it means

| Profit Term | Meaning | Usefulness to you | Formula |
|---------------------------------------|--|---|---|
| Gross Sales | Total sales for cash and on credit for a period | Am I selling enough? | |
| Net Sales | Total invoiced Gross Sales adjusted for any returns, discounts, or allowances | Am I giving away too much of my revenue just to make sales? Are too many of my customers dissatisfied with what I'm selling? | Net Sales = Gross Sales – Returns – Discounts – Allowances |
| Gross Profit / Gross Income | The difference between the selling price and the direct costs of producing a product or service. For the whole business it is <i>Net Sales</i> less <i>Cost of Goods Sold</i> . | Am I producing cheaply enough? Is my labour cost or supplier cost too high? Everything else you have to pay for must come out of your Gross Profit (overheads, interest, tax), so it's got to be big enough. | Gross Profit = Net Sales – Cost of Goods Sold |
| Operating Profit/EBIT | Gross Profit less Overhead or selling, general, and administrative expense (SG&A), and depreciation, which is the allocation of the costs of fixed assets, such as equipment, over their useful life. EBIT is <i>Earnings Before Interest & Taxes</i> | Are my marketing, sales and distribution costs too high? Is administration and finance eating up profit? Do I own too many assets that cost me too much through depreciation? | Operating Profit = Gross Profit – Sales costs – General Expenses – Administration costs – Depreciation |
| Net Profit /Net Income | Operating Profit less Interest on debt and loans and income taxes | Is my business sustainable even considering my financing? Do I need to manage tax better? | Net Profit = Gross Profit – Overhead – Depreciation – Other Business Expenses – Interest on Debt – Tax (sometimes + Other Income) |
| Cost of Goods Sold | The direct cost of producing a product or service. It includes variable costs (labour, materials) and direct factory overheads (power), but not things like distribution costs, sales costs or head office costs. | Key driver of business success. If it is too high, you can't pay for anything else out of your Gross Profit. | |
| Operating Costs & Overhead | Selling, general and administrative expenses not directly related to producing your product or service. | These eat up your Gross profit and should be about the average for your sort of industry, or something is wrong | |
| Total Revenue | All revenue for a period, no matter what the source. Includes from irregular activities. | | |
| EBITDA | A type of profit between Gross Profit and Operating Profit that excludes Depreciation and Amortisation costs. <i>Earnings Before Interest, Taxes, Depreciation and Amortization</i> | A stand-in for how much you make based on revenue and cash expenses. Depreciation is a book expense. | EBITDA = Gross Profit – (Sales, General and Admin costs) |