

Profit & Loss Statement

Revenue

- COGS

- Expenses

= Profit



Revenue: Money generated from your product(s).

Cost of Goods Sold (COGS): Direct costs necessary to produce your product.



Gross Profit: Profit after subtracting the Cost of Goods Sold (COGS).

Operating Expenses: Expenses incurred in the normal operation of the business.



- **R&D:** Expenses related to research & Development of product
- **G&A:** General & Administrative expense such as finance, legal, management team
- **S&M:** Expenses related to selling & marketing of product, such as sales commissions



Operating Income: Income after subtracting out cost of goods sold and all operating expenses

Net Income - Income after all operating and non-operating (Taxes, interest) expenses



Scenario Planning

1 **Brainstorm** - Start by coming up with multiple different scenarios that you believe could happen for your business.

2 **Choose Scenarios** - After discussing various scenarios choose which scenarios to model. This can start with ranking scenarios based on which ones you believe will be most valuable to model.

3 **Develop Model** - Build the model or models that allow you to compare each scenario against each other. Focus on key drivers for each scenario.

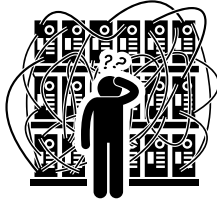
4 **Evaluate Scenarios & Develop Game Plan** - Review each scenario that you modeled in step 3 and ensure you have a game plan for the different scenarios.

5 **Implement Game Plan** - Implement game plan for scenario selected and continually monitor the business and adjust plan or implement new scenario when necessary.



A Financial Model

Textbook Definitions



- **Fed Reserve Definition (SR11-7)** - A Quantitative method, system or approach that applies statistical, economic, financial or mathematical theories, techniques, and assumptions to process input data into quantitative estimates."
- **Investopedia Definition** - Financial Modeling is the process of creating a summary of a company's expenses and earnings in the form of a spreadsheet that can be used to calculate the impact of a future event or decision.
- **Danielle Stein Fairhurst Definition** - A complex spreadsheet - As long as a spreadsheet has financial inputs and outputs, and is dynamic and flexible, I'm happy to call it a financial model!



Profit Frog

- **Profit Frog Definition** - A spreadsheet or application that helps us develop forecasts for business decisions so we can make the decision that optimizes our profits.

Profit Frog Series



- What is Profit & Loss (P&L) and How to Use It Effectively in your Business
- What is a Financial Model? A Guide to Financial Modeling
- What is a Scenario Planning Template and How Can I use it?



Profit Frog