



Module 8 Profitability

PARTICIPANT GUIDE

MONEY SMART for Small Business

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The U.S. Small Business Administration (SBA) aids, counsels, assists, and protects the interests of small business concerns. It advocates on their behalf within the government and provides financial, contractual, and business development assistance. To learn more about SBA's work and to access information and resources, visit sba.gov.

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Welcome

Welcome to the FDIC and SBA's Money Smart for Small Business! This training is on **Profitability**.

Participant Guide

Use this participant guide during and after training. You can write in it. It is yours to keep.

Learning Objectives

This training will help you calculate profitability and consider how to make your business more profitable. As a result of completing this module, you will be able to:

- Define profit
- Use a basic profit and loss statement to assess the profitability of a business
- Identify strategies to increase profits
- Explain how priorities and profit intersect

Pre-Survey

Please take ten minutes to complete the pre-survey found at the back of this participant guide.

In part 1, circle the number that shows how much you agree with each statement.

In part 2, answer the questions about today's training topics.

After the training, you will revisit this survey to see what you have learned.





Section 1: Profitability Basics

We will discuss profitability and the basics of assessing profit and loss of a business.

Defining Profit

When you think of a profitable business, what comes to mind?

Profit is the positive financial gain remaining after outflows, such as costs, taxes, and expenses, have been deducted from total sales revenue.

- Sales revenue (often referred to as revenue), is the money your business receives in exchange for the products and services you provide.
- Costs are amounts spent to acquire or produce an asset for the business, something that will provide benefits in the future. Costs are generally one-time payments.
- Expenses are regular outflows of cash to maintain business operations. Expenses do not result in assets.

We will look at three types of profit: **gross profit**, **net profit before taxes** (also known as operating profit), and **net profit**.

People refer to net profit as “the bottom line.” Net profit is the amount of revenue remaining after deducting total costs and expenses, including taxes, from total revenue for a period of time.



Profit and Loss Statement Basics

A **profit and loss (P&L) statement** is a financial statement that shows a company's revenues and expenses over a specific period. It is also known as an income statement.

The P&L statement can be used to assess a company's financial performance and profitability.

Basic Profit and Loss Statement

+ Revenues
– Cost of Goods Sold
= **Gross Profit**
– Overhead
= **Net Profit Before Taxes (also known as Operating Profit)**
– Income Taxes
= **Net Profit**

The basic P&L statement starts with revenues, which is also sometimes called sales or income. Revenues are what you receive for the products and services you sell in a given period of time.

Next the P&L statement subtracts the **cost of goods sold (COGS)** from revenues. COGS is the total expenditure for providing the products or services that have been sold. The revenue, minus the cost of goods sold, is your gross profit.

Overhead is an accounting term for expenses associated with your ongoing business operations. Subtracting overhead from gross profit gives you net profit before taxes, which is also known as operating profit.

Next, the P&L statement subtracts income taxes. That gives us net profit. Net profit is what remains to pay for expansion, equipment, loan repayment, and owner's draw.

Profit margin is a common measure of profitability. Profit margin is calculated by dividing net profit by revenue. It is usually shown as a percentage. The higher the percentage, the more profit a business is generating.

$$\text{Profit Margin} = \text{Net Profit} \div \text{Revenue}$$

Try It: Calculating Net Profit and Profit Margin

Read the scenario. Then, complete the P&L statement and calculate profit margin based on the information provided.

Scenario: Ashante Calculates Net Profit and Profit Margin for Her Photography Business

Ashante's photography studio, Immortal Images, has completed its first year of operations. She provides photography services and develops images in her own darkroom. Ashante wants to calculate her net profit for the year using a P&L statement. She pulled together the following numbers:

- Portrait photography sales: \$75,000
- Event photography sales: \$25,000
- Photography and darkroom supplies (film, darkroom chemicals, etc.): \$5,000
- Payroll expenses for assistant photographers at events, plus applicable taxes: \$5,000
- Depreciation expense for equipment purchases: \$15,000*
- Studio and darkroom rent: \$10,000
- Legal and accounting services: \$5,000
- Other overhead: \$10,000
- Income tax ballpark estimate from accountant: \$10,000



* **Note on depreciation:** When a small business purchases equipment, the full amount is typically not included on the P&L statement immediately. Instead, the equipment cost is spread out over multiple years based on the estimated useful life of the equipment. In this scenario, the \$15,000 in depreciation expense applies to this year's P&L statement and is considered overhead.

Complete the P&L and calculate profit margin based on the information provided.

Immortal Images Profit and Loss Statement, January through December

Revenues	
Cost of Goods Sold	(\$)
Gross Profit	
Overhead	(\$)
Net Profit Before Taxes	
Income Taxes	(\$)
Net Profit	

Immortal Images Profit Margin Calculation

$$\text{Profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}} = \frac{\$ \text{ []}}{\$ \text{ []}} = \text{ [] } \%$$

Your Net Profit and Profit Margin Calculations

On your own, use the format below to calculate your net profit and profit margin.

Revenues	
Cost of Goods Sold	(\$)
Gross Profit	
Overhead	(\$)
Net Profit Before Taxes	
Income Taxes	(\$)
Net Profit	

$$\text{Profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}} = \frac{\$ \text{ []}}{\$ \text{ []}} = \text{ [] } \%$$





Section 2: Profitability in Context

We will discuss ways to increase profit and explain how priorities and profit intersect.

What Factors Drive Profitability?

What factors drive profitability? Write your ideas, as well as ideas shared by other participants and the instructor.

Try It: Finding Ways to Increase Profitability

Read the scenario and answer the question.

Ashante Looks for Ways to Make Her Business More Profitable

Ashante is pleased with her first year of operations but knows there's room for improvement. She wants to brainstorm ways to increase her studio's profitability.

How can Ashante increase her studio's profitability? You can make assumptions and guesses about Ashante's business.



Apply It: Looking for Ways to Increase My Profit Margin

How can you increase your business' profitability?

Priorities and Profit

Sometimes, small business owners may make decisions that reduce profitability in the short term to achieve other goals, such as:

- Investing in future growth of the business
- Benefiting the community
- Work-life balance

These decisions can be beneficial in the long run, even if they result in lower profits in the short term.

What are some examples of decisions that small business owners may make, even though they may reduce profitability in the short term?

What are potential longer-term benefits to businesses of those decisions?



Module Closing

You are more likely to act if you commit to taking action now. Write down what you intend to do based on today's training in your participant guide.

What is one goal you will pursue?

What first step will you take toward your goal?

How will you get and give support to other participants?

For More Information

The U.S. Small Business Administration's (SBA's) learning platform includes a Strategic Marketing journey with a section on 'Pricing Strategy.' Visit sba.gov and navigate to the learning platform.

SBA works with resource partners nationwide to provide mentorship and advice to entrepreneurs. Visit sba.gov/local-assistance and search by ZIP code under 'Get Local Assistance' to find out what is available in your area from Small Business Development Centers, SCORE business mentors, Veterans Business Outreach Centers, and Women's Business Centers who provide free or low-cost counseling and training in your area.

SCORE is a national nonprofit that helps entrepreneurs launch businesses. Their website at score.org features resources on profitability including a podcast episode on Pricing for Profit.

You and other training participants can support each other after the training. Exchange contact information and set up plans to stay in touch, one-on-one or as part of a learning community.



Profitability

MONEY SMART for SMALL BUSINESS

fdic.gov/moneysmart

Also explore resources that are specific to your state or locality.

Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$250,000; identifying, monitoring, and addressing risks to the Deposit Insurance Fund; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

Visit the Small Business Topics webpage at fdic.gov/consumer-resource-center/small-business-topics to learn about a wide range of resources and tools for consumers and bankers that help plan, launch, manage and grow small business initiatives in their communities.

The FDIC also encourages bank lending to creditworthy small businesses. Small businesses that may have an inquiry or concern about policies, financial institutions, and referrals to other government agencies can contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ (1-855-334-2249).

Visit fdic.gov/doing-business-fdic for information on doing business with the FDIC.

The **U.S. Small Business Administration (SBA)** provides resources, answers to frequently asked questions and more in support of small business owners. Visit sba.gov to explore the agency's learning platform, business guide, and other resources. Contact SBA's Answer Desk at 1-800-827-5722 or answerdesk@sba.gov for general inquiries.

SBA district offices offer help planning, starting, or growing your small business. Find your SBA district office by visiting sba.gov and searching for 'district office.'

The **U.S. Financial Literacy and Education Commission** hosts mymoney.gov, the federal government's one-stop website for financial education resources from more than 20 federal agencies.

Glossary

Term	Definition
Cost of Goods Sold (COGS)	The total expenditure for the products or services sold to customers, including materials and direct labor.
Depreciation	A way to spread out the cost of an asset over the time you use it, helping businesses understand how much value an asset loses over time.
Expenses	The total expenditure for the products or services sold to customers, including materials and direct labor. This includes all costs incurred by a business to generate revenue covering operating costs such as rent, utilities, salaries, and the costs of goods or services.
Gross Profit	Revenue minus the cost of goods sold; it shows how much money is made before overhead and taxes.



Term	Definition
Income Statement	Another term for a profit and loss statement; it shows revenues and expenses over a specific period.
Net Profit	The amount of revenue remaining after deducting all costs, expenses, and taxes; also called the bottom line.
Net Profit Before Taxes	Gross profit minus overhead expenses, before income taxes are deducted; also called operating profit.
Overhead	Ongoing business expenses not directly tied to producing goods or services, such as office rent payments, administrative salaries, etc.
Owner's Draw	Money taken out of the business by the owner for personal use.
Profit	The financial gain remaining after all costs, taxes, and expenses are deducted from total revenue.
Profit Margin	A measure of profitability calculated by dividing net profit by revenue, usually shown as a percentage. It calculates what percentage of the sales turns into profits.
Profit and Loss Statement (P&L)	A financial statement that shows a business' revenues, expenses, and profit or losses over a specific period.
Revenue	The total amount of money a business earns from its operations.
Self-Employment Tax	Taxes paid by self-employed individuals to cover Social Security and Medicare contributions.



Pre-Survey

This form will allow you and your instructor to see what you know about today’s topics before the training.

Instructor: _____ Date: _____

Part 1. What Do You Know Before the Training?

Read the statements below and circle the number that shows how much you agree with each one.

	Strongly disagree	Disagree	Agree	Strongly agree
Statement				
1. I can define profit.				
2. I can use a basic profit and loss statement to assess the profitability of a business.				
3. I can identify strategies to increase profit.				
4. I can explain how priorities and profit intersect.				

Part 2. Questions on Today’s Training Topics

Answer these questions.

- Profit is the positive financial gain remaining after outflows, such as costs, taxes, and expenses, have been deducted from total sales revenue.
 True False It depends
- Gross profit is calculated by subtracting overhead expenses from total sales revenue.
 True False It depends
- Profit margin is usually shown as a percentage.
 True False It depends
- Increasing prices will increase profitability.
 True False It depends
- Entrepreneurs may wish to make decisions that decrease short-term profitability.
 True False It depends



Post-Survey

Instructor: _____ Date: _____

Part 1. What Do You Know After the Training?

Read the statements below and circle the number that shows how much you agree with each one.

Statement	Strongly disagree	Disagree	Agree	Strongly agree
1. I can define profit. 2. I can use a basic profit and loss statement to assess the profitability of a business. 3. I can identify strategies to increase profit. 4. I can explain how priorities and profit intersect.				

Part 2. Questions on Today’s Training Topics

Answer these questions.

- Profit is the positive financial gain remaining after outflows, such as costs, taxes, and expenses, have been deducted from total sales revenue.
 True False It depends
- Gross profit is calculated by subtracting overhead expenses from total sales revenue.
 True False It depends
- Profit margin is usually shown as a percentage.
 True False It depends
- Increasing prices will increase profitability.
 True False It depends
- Entrepreneurs may wish to make decisions that decrease short-term profitability.
 True False It depends



Evaluation Form

Please answer the following questions about this training.

1. Please indicate the degree to which you agree with each statement below about the training and supporting materials.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
b. a. The training content was clear.					
c. b. The training content was relevant to me as an entrepreneur.					
d. c. As a result of this training, I feel more capable of moving my business forward related to the module topic.					
e. d. The activities and discussions helped me learn.					
f. e. The PowerPoint slides helped me learn.					
g. f. The participant guide helped me learn.					
h. g. I will use the participant guide after the training.					
i. h. The training took a reasonable amount of time.					

2. Please indicate the degree to which you agree with each statement below about the delivery of the training.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
c. a. The instructor was well-prepared.					
d. b. The instructor was knowledgeable.					
e. c. The instructor made the subject understandable.					
f. d. The instructor was engaging and cultivated a positive learning environment.					
g. e. The instructor encouraged questions.					
h. f. The participants had opportunities to share experiences and ideas.					



3. Were the online questionnaires user friendly?
True False I don't know / Did not use online questionnaires
4. Which portion of the training—a presentation, activity, discussion, etc.—was most useful to you?
5. Which portion of the training, presentation, activity, discussion, etc., was least useful to you and how could it be improved?

