SUMMARY

Profit & Loss Account in Report Form

With the **compilation of a profit and loss account** in report form, it is clear to see from which source the profit or loss originates. In this way it is possible to make an initial analysis of the annual result at a glance.

	operating income	income and expenses resulting from the core business
–	operating expenses	
=	**operating result**	
+/–	financial result	interest income and expenses as well as interest income / expenses from securities or investments
=	**profit / loss on ordinary activities**	extraordinary events
+/–	extraordinary result	
=	**pre-tax profit / loss**	
–	income taxes	
=	**profit / loss for the year**	
–	setting up of reserves	
=	**distributable profit**	

The **operating result** shows how the company's **core business** has developed. If the operating result is negative over a longer period of time, there is reason to seriously consider whether the core business is still profitable.
The operating result is also often called **earnings from operations** or **trading result**.

You calculate the **profit or loss on ordinary activities** by adding the financial result to the operating result.

Analysts use the **profit / loss on ordinary activities** as a favourite measure to assess whether - naturally with limitations - a positive result of operations may be expected also in the next year.

In the context of company analyses, we frequently find the terms EBITA (earnings before interest, taxes, depreciation and amortisation), EBIT (earnings before interest and taxes and EBT (earnings before taxes) as a basis for measuring a company's operating performance.

The **pre-tax profit / loss** contains the extraordinary result, which may give rise to significant distortions - in the positive as well as in the negative sense.

If a company has achieved a pre-tax profit this then serves as the basis for calculating the **income tax**, which has to be paid to the state.

The remaining **profit for the year** can
● be withdrawn or distributed **(= distributable profit)**
● or remain in the company **(= setting up of / appropriation to reserves).**

Retaining all and / or part of the net profit for the year is called **"setting up of reserves"**. Setting up of / allocations to reserves reduce the profit to be distributed to the shareholders (distributable profit). When needed, reserves may be dissolved again. Then they result in an increase of the distributable profit.

Reserves are set up by companies to prepare themselves for future investments or for difficult times. They are listed at the end of a profit and loss account in report form.

Reserves should not be confused with **provisions**. While provisions are allocated as a precautionary measure for likely future claims by third parties (external parties), reserves are set up to serve the needs of the company itself.

In the balance sheet, **reserves** are included in the **equity capital**, while **provisions** are part of the **borrowed capital**.

Two frequently used english terms are:
EBIT: Earnings before interest and tax
EBT: Earnings before tax

The term **EBIT** means „earnings before interest and taxes". This is equivalent to the operating result. **EBT** means „earnings before taxes" which is also known as the annual profit.