A business can sell out and still lose money. Every appointment can be booked, every product can leave the shelf, and the owner can finish the month with less money than it took to operate. The reason begins with revenue, the amount earned from selling goods or services before subtracting business expenses. Profit is what remains after the relevant expenses are deducted. These figures answer different questions: revenue measures sales; profit measures what those sales produced after costs (Investopedia investopedia.com). When someone announces that a business "made six figures," the statement is incomplete unless you know which figure they mean. A company with impressive sales may leave its owner very little. Understanding that calculation helps you evaluate a business idea before committing savings, setting prices, or leaving a job.

Follow one imaginary clothing business through a month. It sells $5,000 in shirts. The shirts it sold cost $2,000 to purchase from its supplier. That purchase cost is its cost of goods sold, the cost attributable to the products actually sold during the period. Subtracting it from revenue leaves $3,000 in gross profit. Gross profit shows what remains after those product costs, before the other expenses of running the business (Investopedia investopedia.com). The owner cannot yet treat that $3,000 as personal spending money. Website charges, advertising, payment-processing fees, and other business expenses still need to be accounted for. If all remaining business expenses total $2,500, the company has $500 in net profit, also called net income: the amount remaining after all applicable business expenses for that period. Business income taxes must be included where applicable; an owner's personal income taxes may still be separate. The monthly calculation is $5,000 in sales, followed by $4,500 in total expenses, leaving $500—not $5,000—for the business's profit (Securities and Exchange Commission, the federal agency that regulates securities markets and protects investors Beginners' Guide to Financial Statements).

That remaining portion can be expressed as net profit margin, the percentage of revenue left as net profit. Divide net profit by revenue and multiply by one hundred. The imaginary company's margin is 10 percent, meaning each dollar of sales produced ten cents in net profit (Investopedia investopedia.com). This makes discounts easier to understand. Suppose the company gives customers discounts totaling $500 while selling exactly the same products and incurring the same expenses. Its revenue falls to $4,500, and its entire $500 profit disappears. Customers saved ten percent; the owner surrendered all the profit. A discount can still be worthwhile if it attracts enough additional profitable business or serves another measured purpose. But the price reduction comes out of the money available after costs, and additional sales often bring additional costs of their own. Pricing requires knowing how much room exists before a promotion begins.

For Black business owners, the consequences can extend directly into household finances. A 2019 Federal Reserve Banks report, based on the 2018 Small Business Credit Survey, found that minority-owned businesses relied more heavily on personal funds than white-owned businesses. It also reported weaker financing outcomes for minority-owned applicants, although that comparison did not control for other business

characteristics and therefore cannot establish discrimination by itself. The Federal Reserve Banks are regional institutions within the United States' central banking system (Federal Reserve Banks fedsmallbusiness.org). More recently, a 2024 Securities and Exchange Commission report summarized evidence that Black entrepreneurs' use of personal money for business expenses had delayed goals including building personal wealth and buying a home (Securities and Exchange Commission sec.gov). These findings show why the source of business money deserves attention. Transferring your savings into the business can keep its bills paid, but that transfer does not mean customers generated enough revenue to cover its expenses. Your household may be financing a shortage.

The document that reveals this is an income statement, also called a profit-and-loss statement: a financial report showing revenue, expenses, and the resulting profit or loss over a stated period. It allows you to examine a month, a quarter, or a year without confusing sales with everything deposited into the bank account. Borrowed money and money contributed by an owner can increase the account balance without becoming sales revenue. Likewise, profit does not necessarily equal immediately available cash, because customers may owe money for sales already recorded (Securities and Exchange Commission Beginners' Guide to Financial Statements). For a small operation, the practical beginning is consistent records of sales and expenses, with personal transfers identified separately. Review which products or services leave enough money to support the business after their costs. Then examine whether the remaining profit adequately rewards your time, especially if you have not paid yourself a wage. A full calendar shows demand for your work. Accurate financial records establish whether the price of that work supports the business and the person doing it.