READING A PROFIT AND LOSS STATEMENT

The report that shows money in, money out and what's left, explained line by line with a real example.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 10 MINUTES LEVEL: BEGINNER

AT A GLANCE

- A **profit and loss statement (P&L)** shows your sales, your costs and your profit over a period, usually a month, quarter or year. It's also called an **income statement**.
- It reads from top to bottom: **revenue, minus direct costs, equals gross profit; minus operating costs, equals operating profit**.
- Lenders and investors read it first. Learning to read your own makes you a stronger owner.

Why it matters

Being busy is not the same as making money. The P&L tells you whether your business earned a profit, which costs are growing fastest, and whether your prices are high enough. Reading it every month helps you catch problems while they're still small.

How it works

Line	What it means
Revenue (sales)	All the money from sales in the period.
Cost of goods sold (direct costs)	Costs tied directly to making each sale, such as materials or the workers who do each job.
Gross profit	Revenue minus cost of goods sold.
Operating expenses	Costs of running the business that don't change much with each sale, such as rent, insurance and marketing.
Operating profit	Gross profit minus operating expenses.
Other items	Interest on loans, and other income or costs.
Profit before taxes	What's left before income taxes.

Example: Rosa's Cleaning Co., one year

> EXAMPLE
>
> Rosa runs a home and office cleaning company with contract cleaners. These numbers are made up to show how a P&L works.

	Amount	% of revenue
Revenue	**$96,000**	100%
Cleaning supplies	$7,200	7.5%
Contract cleaners	$38,400	40.0%
Cost of goods sold	**$45,600**	47.5%
Gross profit	**$50,400**	52.5%
Vehicle	$6,000	
Insurance	$2,400	
Marketing	$3,600	
Software and phone	$1,800	
Bookkeeping	$1,200	
Total operating expenses	**$15,000**	15.6%
Operating profit	**$35,400**	36.9%
Interest on van loan	$600	
Profit before taxes	**$34,800**	36.3%

What Rosa learns

- **Gross margin is 52.5%.** For every $100 of cleaning, about $52.50 is left after supplies and cleaners. If her cleaners' pay rises and her prices don't, this number shrinks.
- **Operating costs are low** at about 16% of sales.
- **Her own pay isn't on this P&L.** Rosa's company is a single-owner LLC, so the money she takes for herself is an owner draw, not an expense. Her real "take-home" comes out of the $34,800, before her personal taxes. See **M-12 Paying Yourself as a Founder**.

> KEY POINT
>
> Compare percentages, not just dollars. If revenue grows 20% but cost of goods sold grows 30%, your gross margin is shrinking, even though sales look great.

Step by step: reading your own P&L

1. **Run the report** for last month and the same month last year, if you have it.
2. **Check revenue.** Is it up or down? Why?
3. **Check gross margin.** Divide gross profit by revenue. Is it steady?
4. **Scan operating expenses.** Which ones grew? Are any surprises?
5. **Check operating profit.** Is the business making money from its main work?

6. **Write down one action**, such as raising a price, cutting a cost or chasing a late payment.

Common mistakes

- **Confusing profit with cash.** A P&L can show profit while your bank account is empty. See **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**.
- **Putting loan payments in expenses.** Only the **interest** part is an expense. The rest pays down the loan and shows on the balance sheet.
- **Putting big equipment in expenses.** Larger purchases, like a van, usually go on the balance sheet and are spread over years. Ask your accountant.
- **Only looking at the year.** Monthly P&Ls show trends a yearly one hides.

Your checklist

- ☐ Run last month's P&L from your bookkeeping software
- ☐ Calculate your gross margin percentage
- ☐ Compare it to the month before
- ☐ Find your three largest operating expenses
- ☐ Write down one action to improve profit

Key words, explained

Word	What it means
Revenue	All the money from sales, before costs.
Cost of goods sold (COGS)	Direct costs of making what you sell.
Gross profit	Revenue minus COGS.
Gross margin	Gross profit as a percentage of revenue.
Operating expenses	The costs of running the business day to day.
Operating profit	What the main business earns after operating costs.

Where to go next

- **M-05 Reading a Balance Sheet**
- **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**
- **M-17 Profit and Loss and Balance Sheet Templates**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.