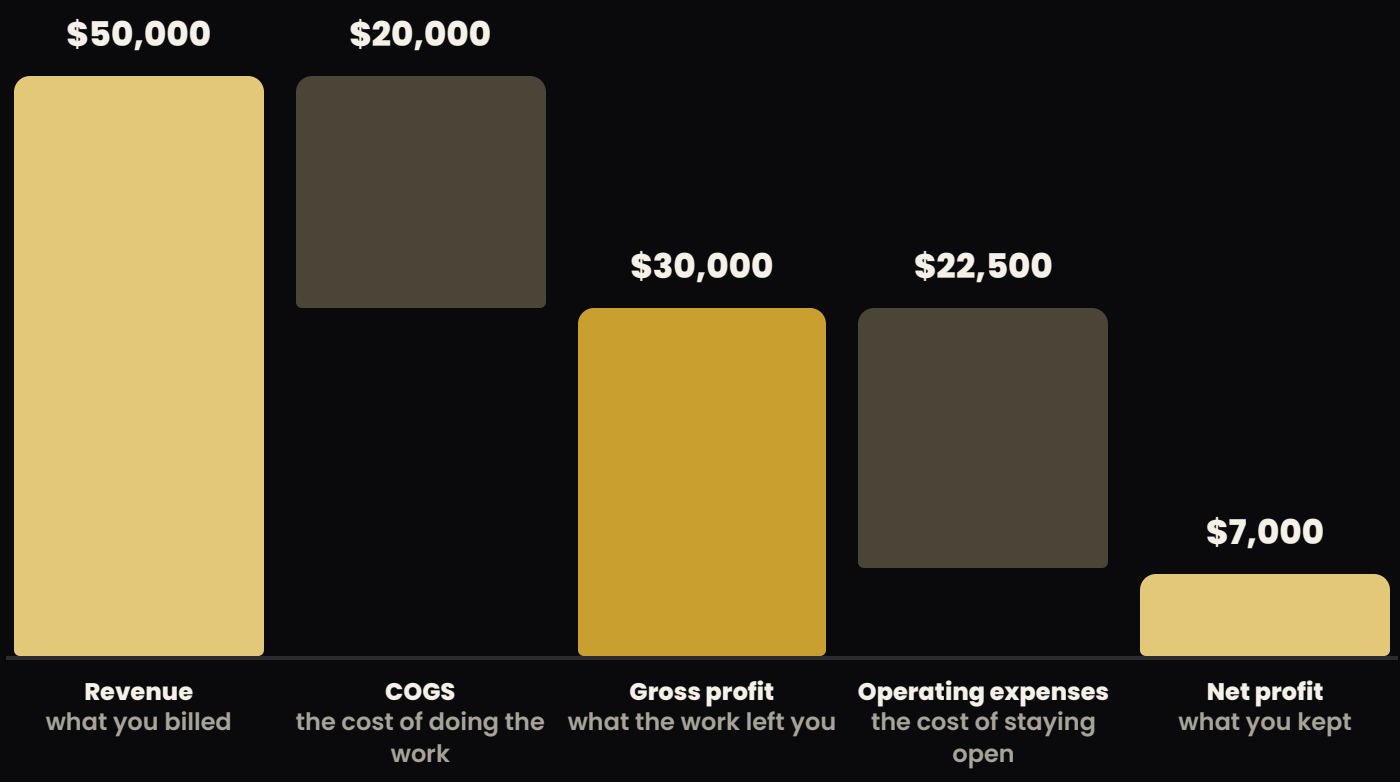
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How to read a P&L

In five minutes. No accounting degree.



Your P&L answers one question: did the business make money last month? Here is how to read the answer.

STEP 1

Your P&L, top to bottom

Every P&L is three things: what came in, what it cost, and what was left. Read it from the top down, like a story about your month. Here is one, line by line.

Profit and Loss

Sample home services company, one month (example numbers)

1	Revenue	$50,000
2	Cost of goods sold	$20,000
	Technician labor	$12,000
	Parts and materials	$8,000
3	**Gross profit**	**$30,000**
4	Operating expenses	$22,500
	Rent	$3,000
	Office staff	$8,000
	Marketing	$4,000
	Software	$1,500
	Insurance	$1,200
	Everything else	$4,800
	Operating profit	**$7,500**
	Interest on a loan	$500
5	**Net profit**	**$7,000**

1 Revenue

Everything you billed this month. Not what landed in the bank. The number that feels good and says nothing yet about what you kept.

2 Cost of goods sold

What it cost to deliver the work: the crew's hours, the parts, the materials. No job, no cost. Often called COGS.

3 Gross profit

Revenue minus COGS. What the work leaves you to run the business. Your first real sign of health.

4 Operating expenses

The cost of staying open whether you sell or not: rent, office staff, marketing, software, insurance.

5 Net profit

What is left after everything. The bottom line, and the answer to "did we make money?"

Ask your bookkeeper one question: is my P&L on the cash method or the accrual method? Accrual counts a sale when you bill it. Cash counts it when the money arrives. It changes what every line above means.

STEP 2

The three numbers that matter

You do not need every line. Work out these three and you know how the month went. The math is one division each.

1. GROSS MARGIN

60%

Gross profit ÷ Revenue = $30,000 ÷ $50,000

How much of every dollar survives the cost of doing the work. If it slides, your prices are too low or your jobs cost more than you think.

2. NET MARGIN

14%

Net profit ÷ Revenue = $7,000 ÷ $50,000

The cents you keep from every dollar, after everything. This one tells you if the business pays.

3. THE TREND

3 months

One month is a snapshot. Three months is the story. Put them side by side.

	REVENUE	NET MARGIN
Month 1	$42,000	19%
Month 2	$46,000	16%
Month 3	$50,000	14%

Revenue up, margin down means busier, not better. Catch it in month two, not at tax time.

Where every dollar went



40¢ the cost of the work · 45¢ running the business · 1¢ interest · 14¢ kept

Compare yourself with your own last three months, not with a business that sells something different. Margins vary widely by industry.

STEP 3

What a P&L will not tell you

Profit is not cash.

You can bill a great month and not be paid for sixty days. The P&L says profit. The bank says otherwise. Payroll does not wait.

See it coming: the 13-Week Cash Flow

Your pay and your tax may be missing.

Owner draws are not an expense, so a healthy profit may be the money you live on. And in an LLC, S corporation or sole proprietorship, the income tax often is not on the P&L at all. It is still coming.

Set it aside: Owner Pay and Tax Set-Aside

This is education, not tax advice. Confirm how your business is taxed with a CPA or enrolled agent.

Ask it five questions, every month

- [ ] **Did we make money?**
  Net profit is above zero.
- [ ] **Is gross margin holding?**
  The same as last month, or better.
- [ ] **Did any expense grow faster than revenue?**
  Find it before it becomes the new normal.
- [ ] **Which line surprised me, and why?**
  A surprise is a question for your bookkeeper.
- [ ] **Does the bank balance match the story?**
  If it does not, open your cash flow.

Build your P&L, free

The Monthly P&L tool in the free Small Business MBA builds the statement from your own numbers and does the math for you. Start with the lesson P&L Mastery. Free, no card.

Join the free Small Business MBA