

WOODLAND

BUSINESS SOLUTIONS

HOW TO READ A PROFIT & LOSS STATEMENT

The financial side of business can feel overwhelming – especially when reports are filled with unfamiliar terms and numbers that don't immediately tell a story.

You don't need an accounting degree to understand your business. But having a basic understanding of your Profit & Loss statement can change how confidently you make decisions.

This guide is here to help you slow things down, focus on what matters, and understand what your numbers are actually telling you.



HOW TO READ A PROFIT & LOSS STATEMENT

What Is a Profit & Loss Statement?

A Profit & Loss statement (often called a P&L or Income Statement) shows how your business performed over a specific period of time.

Simply put, it answers three core questions:

- How much did you earn?
- How much did you spend?
- What was left at the end?

Your P&L takes your revenue, subtracts your expenses, and shows whether your business ended that period with a profit or a loss.

P&L vs. Income Statement

You may see the terms Profit & Loss Statement and Income Statement used interchangeably — they mean the same thing.

What matters isn't the name of the report, but understanding what it's telling you.

Cash vs. Accrual (At a Glance)

Your P&L can be prepared using either a cash or accrual method. Cash-based reports show income and expenses only when money actually moves, while accrual reports show income when it's earned and expenses when they're incurred — even if payment happens later.

Neither method is better than the other. What matters is knowing which one you're looking at so you can interpret your numbers accurately.



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Revenue (Your Top Line): Revenue shows how much money your business brought in during the reporting period.

If your business has multiple income streams, revenue may be broken out by category. This helps you see:

- Where your money is coming from
- Which services or products are performing well
- Where growth or adjustments may be needed

Expenses

Expenses show where your money is going.

Cost of Goods Sold (COGS)

COGS includes the direct costs associated with producing a product.

For example:

- Ingredients for a bakery
- Materials used in manufacturing
- Inventory costs

Service-based businesses often don't have COGS, and that's okay.

Operating Expenses: Operating expenses support day-to-day operations, such as:

- Wages
- Rent
- Utilities
- Software
- Insurance
- Marketing

These expenses keep your business running.

Gross Profit (If Applicable)

If your business has COGS, gross profit shows:

Revenue minus direct costs

This tells you how much money is available to cover operating expenses and support growth.

Service-based businesses may not see a gross profit line — instead, expenses are typically shown together.

Operating Income

Operating income shows how your business performs before financing and taxes.

This number helps you understand how sustainable your operations are, separate from loans or tax obligations.

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Interest & Taxes

- Interest reflects the cost of borrowed money (loans, lines of credit, credit cards)
- Taxes show what you owe or expect to owe for the period

These numbers don't define success — they provide context.

Net Income (Your Bottom Line)

Net income is what remains after all expenses are accounted for.

This is the number most people look for first — but it's only meaningful when you understand what's behind it.

Profit isn't just about what's left.

It's about how the business is structured to support it.

Why Your P&L Matters: Your Profit & Loss statement isn't just an accounting document — it's a decision-making tool.

When reviewed regularly, it can help you:

- Understand financial patterns
- Identify opportunities for improvement
- Make informed choices about pricing, expenses, and growth
- Feel more confident about where your business stands

Clarity doesn't come from avoiding your numbers.

It comes from understanding them — calmly and consistently.

A Final Thought

Your business exists to support your life — not consume it.

Learning how to read your Profit & Loss statement is one of the simplest ways to feel more grounded, informed, and confident moving forward.

You don't have to do it alone.

You just need the right structure.