Clara Vista
BOOKKEEPING

How to Read Your Profit & Loss

What your P&L is actually telling you — in 5 minutes.

First, what is a P&L?

A Profit & Loss statement (some people call it an income statement — same thing) answers three simple questions. How much money came in? How much went out? What's left? It always covers a period of time: a month, a quarter, a year.

Think of it as the story of one month of your business, told in numbers. That's it. No magic.

The five lines that matter

Most P&Ls have dozens of lines. You only need to understand five of them.

- **1. Revenue.** Everything you sold this period. Also called "sales" or "income." It sits at the top of the report — that's why people say "top line."
- **2. Cost of Goods Sold (COGS).** What it cost to deliver what you sold — materials, the crew's wages on the job, shipping. When you sell more, this number grows with it.
- **3. Gross Profit.** Revenue minus COGS. This answers the big question: *can you make money on the thing you sell?* If gross profit is thin, no amount of trimming elsewhere will save you.
- **4. Operating Expenses.** The cost of simply existing: rent, software, insurance, the office phone. These stay roughly the same whether you sell a little or a lot.
- **5. Net Profit.** What's actually left after everything. The famous "bottom line."

A real-ish example

Here's one simple month for a landscaping company:

Green Scene Landscaping — May		
Revenue (mowing, mulch jobs, installs)	$42,000	
Cost of Goods Sold (crew wages, plants, mulch, fuel)	– $22,500	
Gross Profit	**$19,500**	46% of revenue
Operating Expenses (rent, insurance, office, software)	– $11,300	
Net Profit	**$8,200**	20% of revenue

Now read it out loud: “We sold $42,000 of work. Delivering it cost $22,500, so we made $19,500 on the work itself. Running the business cost another $11,300. We kept $8,200.” That’s the whole skill. Five lines, one story.

Three questions to ask every month

- **Is revenue growing or shrinking?** Compare this month to last month — and to the same month last year, because many businesses are seasonal.
- **Is my gross profit margin holding steady?** “Margin” just means gross profit as a percent of revenue (Green Scene’s was 46%). If it slips month after month, your prices or your costs are quietly drifting — catch it early.
- **Which expense grew the most?** One line almost always jumps. Find it and ask why. Sometimes there’s a good reason. Sometimes there isn’t.

KEY TAKEAWAY

Your P&L answers one question: is the business model working? Read the five lines, ask the three questions, and you’ll know more than most owners ever bother to learn.

One last thing: if your P&L doesn’t look anything like this — or you’re not sure the numbers in it are even right — that’s a bookkeeping problem, not a you problem. And it’s very fixable.