ILuvAccounting

Read a P&L in 5 Minutes

The Profit & Loss statement (Income Statement) shows whether your business made money over a period of time.

The Structure, Top to Bottom

Line	What It Means
Revenue (Sales)	Everything you earned before any costs
– Cost of Goods Sold (COGS)	Direct cost of what you sold (materials, direct labor)
= Gross Profit	What's left after covering the direct cost of sales
– Operating Expenses	Rent, payroll, marketing, software, insurance, etc.
= Operating Income	Profit from normal business operations
± Other Income / Expense	Interest, one-time gains or losses, taxes
= Net Income	The bottom line — what you actually kept

Read It Backwards

Start at **Net Income** (the bottom line) to see the result, then work your way up to understand *why*. Did revenue drop? Did an expense line spike? The story is always somewhere in the middle.

Three Ratios Worth Knowing

Ratio	Formula	What It Tells You
Gross Margin %	Gross Profit ÷ Revenue	How much you keep after direct costs
Operating Margin %	Operating Income ÷ Revenue	Profitability from core operations
Net Margin %	Net Income ÷ Revenue	Overall profitability, after everything

Red Flags to Watch For

Revenue is growing but Net Income is shrinking · Gross Margin is declining quarter over quarter · Expenses are growing faster than Revenue · Big swings in "Other Income/Expense" that mask what's really happening in the core business.