

A business creates **profit and loss statements (P&L statements)**—also known as income statements—to summarize its revenues, costs, and expenses over a specific period (like a month, quarter, or year). Here's a step-by-step breakdown of how it's done:

Step-by-Step: How to Create a Profit and Loss Statement

**1. Choose the Time Period**

Decide the period the P&L will cover (e.g., January 1–March 31, 2025).

**2. Gather Revenue Data**

Add up all income generated from business activities during that period. This includes: Product sales, service revenue, and any other income (e.g. rental, interest)

Example:

* Product Sales: $50,000
* Service Income: $10,000
* Total Revenue: $60,000

**3. List Cost of Goods Sold (COGS)**

Include direct costs to produce the goods or services sold: Raw materials, direct labor, and manufacturing supplies.

Example:

COGS: $20,000

**4. Calculate Gross Profit**

Gross Profit = Total Revenue – COGS

Example:

$60,000 (Revenue) – $20,000 (COGS) = $40,000 Gross Profit

**5. List Operating Expenses**

Include all regular business expenses: Rent, utilities, wages, marketing, insurance, depreciation

Example:

Operating Expenses = $25,000

**6. Calculate Operating Profit**

Operating Profit = Gross Profit – Operating Expenses

Example:

$40,000 – $25,000 = $15,000 Operating Profit

**7. Add or Subtract Other Income/Expenses**

Include things like: Interest income or expenses, gains/losses from sales of assets, and taxes.

Example:

Interest Expense: $1,000

Taxes: $2,000

**8. Calculate Net Profit (or Net Loss)**

Net Profit = Operating Profit ± Other Income/Expenses

Example:

$15,000 – $1,000 – $2,000 = $12,000 Net Profit

**Final Profit and Loss Statement (Summary)**

Item Amount

Revenue $60,000

COGS ($20,000)

Gross Profit $40,000

Operating Expenses ($25,000)

Operating Profit $15,000

Interest Expense ($1,000)

Taxes ($2,000)

Net Profit $12,000

If you’re using accounting software like QuickBooks, Xero, or even Excel, these tools can auto-generate a P&L once the financial data is entered.

