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**Profit & Loss (P&L) Statement**

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**WHAT IT IS:**

The **[profit](https://investinganswers.com/node/2042) & loss (P&L) statement** is one of the three primary [financial statements](https://investinganswers.com/node/2293) used to assess a company’s performance and financial position (the two others being the [balance sheet](https://investinganswers.com/node/1083) and the [cash flow statement](https://investinganswers.com/node/2786)).

**HOW IT WORKS (EXAMPLE):**

The *[profit](https://investinganswers.com/node/2042) & loss statement* summarizes the [revenues](https://investinganswers.com/node/5108) and expenses generated by the company over the entire reporting period. The profit & loss statement is also known as the [income statement](https://investinganswers.com/node/1104), statement of [earnings](https://investinganswers.com/node/1514), [statement of operations](https://investinganswers.com/node/2371), or [statement of income](https://investinganswers.com/node/2372).

The basic equation on which a profit & loss statement is based is Revenues – Expenses = Profit.

All companies need to generate revenue to stay in business. Revenues are used to pay expenses, interest payments on [debt](https://investinganswers.com/node/5752), and [taxes](https://investinganswers.com/node/4567) owed to the government. After the costs of doing business are paid, the amount left over is called [net income](https://investinganswers.com/node/808). Net income is theoretically available to shareholders, though instead of paying out dividends, the firm’s management often chooses to retain earnings for future [investment](https://investinganswers.com/node/4904) in the business.

Profit & loss statements are all organized the same way, regardless of industry. The basic outline is shown in the following example:

**Profit & Loss Statement for Company XYZ, Inc.**
*for the [year](https://investinganswers.com/node/5717) ended December 31, 2008*

**Total [Revenue](https://investinganswers.com/node/5108)                        $100,000**

Cost of Goods Sold               ($ 20,000)
[Gross Profit](https://investinganswers.com/node/2077)                             $ 80,000

**[Operating Expenses](https://investinganswers.com/node/2792)**
 Salaries          $10,000
 Rent               $10,000
 Utilities            $  5,000
 [Depreciation](https://investinganswers.com/node/1328)   $  5,000
**Total Operating Expenses    ($ 30,000)**
**[Operating Profit](https://investinganswers.com/node/2796) ([EBIT](https://investinganswers.com/node/550))           $ 50,000**

**Interest Expense                    ($ 10,000)
[Income](https://investinganswers.com/node/5798) before taxes ([EBT](https://investinganswers.com/node/753))     $ 40,000**

Taxes                                        ($ 10,000)
Net Income                                $ 30,000

Number of [Shares Outstanding](https://investinganswers.com/node/3594)      30,000

**[Earnings Per Share (EPS)](https://investinganswers.com/node/1003)             $1.00**

**WHY IT MATTERS:**

Anyone interested in [active investing](https://investinganswers.com/node/5182), picking [stocks](https://investinganswers.com/node/5150) or investigating the financial health of a company must know how to read [financial statements](https://investinganswers.com/node/2293), including the [profit](https://investinganswers.com/node/2042) & loss statement. The importance of the information contained in the profit & loss statement cannot be overemphasized.

A firm’s ability or inability to generate [earnings](https://investinganswers.com/node/1514) over the long [term](https://investinganswers.com/node/5890) is the key driver of [stock](https://investinganswers.com/node/5150) and [bond](https://investinganswers.com/node/1287)prices. [Operating profit](https://investinganswers.com/node/2796) ([EBIT](https://investinganswers.com/node/550)) is the source of [debt](https://investinganswers.com/node/5752) [repayment](https://investinganswers.com/node/1588), and if a company can’t generate enough EBIT to pay its debt obligations, it [will](https://investinganswers.com/node/4974) have to enter [bankruptcy](https://investinganswers.com/node/5209) or sell itself. [Net income](https://investinganswers.com/node/808) is the source of compensation to shareholders (owners of the company), and if a company cannot generate enough profit to compensate owners for the risks they’ve taken, the value of the owners’ [shares](https://investinganswers.com/node/2011) will plummet. Conversely, if a company is healthy and growing, higher stock and bond prices will reflect the increased availability of profits.

Please [note](https://investinganswers.com/node/5082) that earnings/net income/profits are not the same as [cash](https://investinganswers.com/node/5011) or [cash flow](https://investinganswers.com/node/1175). It is possible for a firm to be profitable on the profit & loss statement, but not be generating cash flow, and vice versa. To see a company’s cash flow, you will need to examine its statement of cash flows.