

What is an income statement?

Category: Accounting | Created: May 27, 2026 | Updated: September 01, 2026

A profit and loss statement (also referred to as an income statement or just P&L) is a financial report that shows a company's revenue and expenses during a particular time period along with the gross profit (or net income) calculated from adding the two together.

In short, a P&L is a detailed report on your company's health which you can then use to fix problems and make improvements (unlike that sketchy doctor...). However, it's used for much more than that including [qualifying for a business loan](#) and acquiring investors.

In fact – The [IRS](#) makes you create one every year when you file your taxes. So without knowing you might have already have one from last year.

**SCHEDULE C
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)**Profit or Loss From Business**
(Sole Proprietorship)► Go to www.irs.gov/ScheduleC for instructions and the latest information.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2017
Attachment
Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)**B** Enter code from instructions**C** Business name. If no separate business name, leave blank.**D** Employer ID number (EIN) (see instr.)**E** Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**G** Did you "materially participate" in the operation of this business during 2017? If "No," see instructions for limit on losses ☐ Yes ☐ No**H** If you started or acquired this business during 2017, check here ☐ Yes ☐ No**I** Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No**J** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Income**

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ☐	1	
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9		19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	12		b Other business property	20b	
13 Employee benefit programs (other than on line 19)	13		21 Repairs and maintenance	21	
14 Insurance (other than health)	14		22 Supplies (not included in Part III)	22	
15 Interest:			23 Taxes and licenses	23	
a Mortgage (paid to banks, etc.)	15a		24 Travel, meals, and entertainment:		
b Other	15b		a Travel	24a	
16 Legal and professional services	16		b Deductible meals and entertainment (see instructions)	24b	
17 Total expenses before expenses for business use of home. Add lines 8 through 27a	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29		27a Other expenses (from line 48)	27a	
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		27b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31				
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.			32a ☐ All investment is at risk. 32b ☐ Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2017

Why should I create a profit and loss statement?

In general, a profit and loss statement helps show you where the company is going before it gets there. As mentioned, it offers a detailed report on the health of the company and this has several important benefits.

Most notably, a P&L statement allows you to do 2 things:

1. Make adjustments if things look off-course
2. Maximize your profit if things are already going great

No matter where you are in your business, a profit and loss statement will help you optimize your process so that you stay on track and can maximize profits.

In addition, a profit and loss statement is the only financial statement required by the IRS, so you might as well invest the time and effort necessary into producing an accurate and detailed statement as it can very well help move your business forward.

How to prepare a profit and loss statement

Here's how to complete- and benefit from- a profit and loss statement (the 3,000-foot view):

1. **Calculate revenue**
2. **Calculate expenses**
3. **Calculate profit**
4. **Study the numbers**

Pretty straightforward, right? It gets more complicated, but just remember that this is the basic idea.

You want to get an accurate calculation of your gross profit (or net profit, depending on how you'll be using your P&L), study those numbers, and then use them to improve your cash flow and overall process. And don't worry, if you're unfamiliar with any of the terms I just mentioned, we'll talk more in a bit about what each of those things are.

Let's dig into more detail. But, first, there are two very important points you need to keep in mind before we begin:

1. **You need to track your revenue and expenses accurately:** If you're not tracking your revenue and expenses accurately, it will be impossible to produce an accurate profit and loss statement, if at all. Plus, an inaccurate P&L statement can be just as, if not more, damaging than not running one at all because you'll be taking action based on false information. This isn't complicated, though. You can use something like [Quickbooks](#) to partially automate the process for you. Either way, make sure this is implemented before attempting to run a P&L. The SBA has a great guide on how to track your revenue [here](#)
2. **You need to specify a period of time:** A profit and loss statement is always done within a specified time period, so identify what that period of time is for you before moving forward. Examples of this could be a P&L for all of 2018 or a single 3-month quarter.

Got it? Great. Now let's talk about how to prepare a profit and loss statement:

***Note:** Keep in mind that you can use software like [Xero](#) or Quickbooks to not only track revenue and expenses (as mentioned above), but also to generate your P&L or income statement for you with much less work and hassle as compared to doing it manually.

1. Calculate revenue

The first step is pretty simple– calculate your revenue for the specified time period. Revenue is defined as the total amount of money your business generated during a specified period of time. Typically, this money is generated by the selling of your products and services.

2. Calculate expenses

Next, it's time to calculate your expenses. Yay...

This includes everything, most notably, the various costs to produce and sell the goods or service which you used to generate revenue.

Examples include:

1. Marketing & advertising
2. Raw materials (if you make a product)
3. Office supplies
4. Payments to contractors
5. Etc.

Gather any all relevant expenses, even the odd ones you'd be likely to forget such as returns and refunds. As mentioned earlier, the usefulness of your P&L report will be based on how accurate it is, so make to include everything here.

3. Calculate profit

Now is the fun part. Take your two calculations and put them together to get your gross profit (I.E. before taxes):

Revenue - Expenses = Gross profit

Keep in mind that this is a bit of a simplification of what most P&Ls look like. In all likelihood, your P&L will look something more like this:

Revenue

- Cost of goods sold (product or service creation-related expenses)

Gross profit

- Selling / administrative expenses (expenses related to moving or maintaining the product or service)

Net operating profit

- Income taxes

***Net profit (or loss)**

Net profit or loss, depending on if you ended in the positive or negative for the selected time period, is the final number your P&L report will generate and it is the actual profit the company generated (or money it lost).

However, keep in mind that gross profit (profit before additional non-product-related expenses) and net operating profit (the money the business has left after all expenses are paid for) are the numbers that you'll typically be most interested in as that's what is in your control to change.

4. Study the numbers to understand the profit and loss statement

Now that your profit and loss statement is complete, it's time to study the numbers. Take time to pour over every detail from gross profit to net profit to get an idea of the overall health of your business.

The primary thing to look for here is weaknesses. Is your cost of goods sold too high? Are other expenses getting a bit out of hand? Is there a period in the year where revenue consistently increases by a noticeable margin? Do you know why?

The more time you take to study the information in your P&L the better you can take advantage of the information you've uncovered.

Now that you're done studying your new P&L, all that's left is to take action based on the information you've found. Keep in mind that your profit and loss statement is only useful to the degree that you use the information (or the statement itself, in the case of acquiring a business loan), so take action and make the most of the insights you've uncovered.

No matter your business goals, whether it's to identify room for improvement in your budget or cash flow, apply for an [SBA Loan](#) or other type of business loan, or attract investors, a profit and loss statement is a

useful tool for moving your business forward. Use your P&L to obtain an accurate gauge of the health of your business and move forward towards profitability.

<https://www.excelcapmanagement.com/profit-and-loss-statement/>