

How to complete a Profit & Loss Statement in California

Itemized P&L; (income statement) with revenue, COGS, operating expenses and net income calculation.

What this form is for

Banks require a Profit & Loss Statement to assess your business's ability to generate profit and repay debt. You'll submit this when applying for a loan, line of credit, or whenever a lender requests updated financials to evaluate operating performance over a specific period.

Before you start

- Sales records, invoices, and revenue reports for the reporting period (monthly, quarterly, or annual)
- Cost of Goods Sold documentation including inventory purchases, direct labor, and materials expenses
- Operating expense records such as rent, utilities, payroll, insurance premiums, marketing costs, and office supplies
- Bank and credit card statements to verify expenditures and reconcile transactions
- Prior year P&L statements if available, for comparison and consistency checking

Step-by-step

1. Enter your business legal name, reporting period dates, and preparation date at the top of the form.
2. List all revenue sources in the income section. Include gross sales, service income, and other operating revenues. Total these amounts to show gross revenue.
3. Record your Cost of Goods Sold. Itemize direct costs like raw materials, inventory purchases, manufacturing labor, and freight. Subtract total COGS from gross revenue to calculate gross profit.
4. Detail operating expenses by category. Common line items include salaries and wages, rent or lease payments, utilities, insurance, professional fees, advertising, vehicle expenses, office supplies, and depreciation. California businesses should verify that state-mandated expenses like workers' compensation and disability insurance are properly categorized.
5. Sum all operating expenses. The form will typically have a total operating expenses line.
6. Calculate operating income by subtracting total operating expenses from gross profit.
7. Add any non-operating income or expenses such as interest income, interest expense, or one-time gains and losses.
8. Arrive at net income (or net loss) by combining operating income with non-operating items. This bottom-line figure shows profitability before taxes.

9. Review all calculations for accuracy. Most forms auto-calculate subtotals, so verify your input figures are correct.

10. Sign and date the statement. Some lenders require both owner signature and accountant certification.

What lenders look for

- Underwriters compare your gross profit margin and operating margin against industry benchmarks. Margins significantly below sector averages raise red flags about pricing power or cost control.

- Inconsistent categorization between periods makes trend analysis impossible. Use identical expense categories each reporting period and match the chart of accounts your bookkeeper or CPA uses.

- California lenders often scrutinize labor-related expenses closely due to higher state wage requirements and compliance costs. Be prepared to explain payroll tax rates, benefits, and any independent contractor payments separately.