HOW TO READ A PROFIT AND LOSS STATEMENT

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Standalone Procedure

This procedure is about how to read and understand the layout of a profit and loss statement for a period and for an entire year.

* **Step 1**: Open your profit and loss statement from whichever period you would like to analyze
* **Step 2**: First analyze the current period
	+ **Sub Step 1**: Under “Current Period” there will be an “Actual Column”, a “Budget Column”, and a “Prior year” column
	+ **Sub Step 2**: Look first at the top line labeled “Store Sales”
		- This is the total amount the store took in for all sales during the period
	+ **Sub Step 3:** Compare Store Sales to the budget sales
		- Budget sales is the amount of sales budgeted to hit during the period set by a manager, franchisee, and/or a supervisor
	+ **Sub Step 4:** Compare store sales to the prior year sales
		- Prior year sales are the sales during the same period the year before
	+ **Sub Step 5:** Determine how sales could have been improved
	+ **Sub Step 6:** Compare the food cost line to the budget and the prior year
	+ **Sub Step 7:** Determine how food cost could have been improved
		- Was Ideal food cost high? Was actual food cost high? Was the food cost variance high?
	+ **Sub Step 8:** Compare the Labor costs to the budget and the prior year
		- Was labor higher? Was it controllable? Were there increases in wages that affected labor costs?
	+ **Sub Step 9:** Continue comparing each line item to the budget and the prior year down the entire P&L statement commenting on which ones seem out of line with the budget and prior year.
	+ **Sub Step 10:** Decide if there are any things that could have been better controlled at the store level
		- Example: If “Food Cost” is much higher than budgeted or compared to last year could it have been lower with better portioning or doing better inventory?
	+ **Sub Step 11:** Decide which items could have been better controlled at the franchisee, supervisor, or management level
		- Example: If “Cable” is much higher than budgeted or compared to prior year could the manager, franchisee, or supervisor find a better cable company or negotiate a better deal?
* **Step 3:** Analyze the Year to Date section
	+ Set up the same as Current Period, but is a running total from the beginning of the year to the current period
	+ Prior year is the beginning of last year up to the period of last year that matches the current period.
		- Example: If you have the P&L from Period 5 of 2017 the year to date should have running totals from beginning of the year through Period 5 of 2017. The prior year would have running totals from the beginning of 2016 to Period 5 of 2016
	+ Repeat sub steps 1-11 for the Year to Date P&L
* **Step 4:** Communicate P&L observations to the store, Supervisor, and Franchisee
* **Step 5:** Use results to enact changes
	+ Refer to “[How to Use P&L Data to Affect Change](https://toppershq.sharepoint.com/_layouts/15/WopiFrame.aspx?sourcedoc=%7BD226C6A2-4271-41CB-AABE-6F5ED6A0E6A7%7D&file=How%20to%20Use%20P%26L%20Data%20to%20Affect%20Change.docx&action=default&DefaultItemOpen=1)” procedure