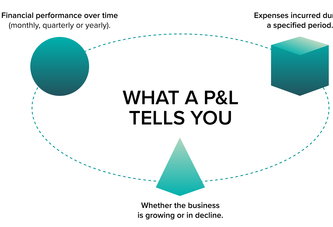
AHRI Australian HR Institute

HOW TO READ A PROFIT AND LOSS STATEMENT

A profit and loss (P&L) statement offers a valuable snapshot of how a business is performing and areas that require HR's attention.

Here's what HR should know about reading a P&L.



KEY LINES TO KNOW

Revenue (sales) → How much money is coming in.

Gross profit → Revenue minus cost of sales, i.e. how much you keep per sale.

Operating expenses (OPEX) → Salaries, rent, utilities, marketing, etc.

EBITDA / EBIT → Earnings before interest and taxes.

Net profit → The final amount remaining, i.e. the bottom line.

WHAT EXECS LOOK AT FIRST

Revenue growth or decline – what trends are emerging?

Gross margin – how much is the business keeping per sale?

Net profit margin – is it healthy or squeezed compared to benchmarks?

Trends over time – how do results compare to budgets, forecasts or previous years?

One-off vs. recurring items – is this a short-term dip or the new normal?

RED FLAGS TO LOOK OUT FOR:

Sales rising but profit flat or down (costs outpacing growth).	**Wages outweigh sales** (watch the %).
Hidden costs accumulating over time (subscriptions, multiple systems).	**Declining revenue trend** (risk of overstaffing).

HOW HR CAN CONTRIBUTE

1. **Before the meeting:** Gather industry benchmarks (net profit margin %, salaries % of revenue).

For example: Review analyst reports, professional association data and government statistics to understand typical financial ratios in your sector, such as average net profit margin or salaries as a percentage of revenue.

This gives you a reference point to assess whether your organisation's people costs are aligned with, above or below industry norms, and provides a stronger basis for conversations with your CFO or board.

2. **During the meeting:** Take note of trends, ask if revenue growth matches resourcing needs and flag if wage costs are out of sync with sales.

For example: If revenue is trending upward but headcount has remained flat, ask whether the current workforce has the capacity to sustain that growth. Or, if salaries are rising faster than sales, flag this as a potential pressure point on margins.

You could also ask clarifying questions like: "Is this increase a one-off due to project work, or is it likely to continue?" This shows you're engaging with the story behind the numbers.

3. **After the meeting:** Feed insights into workforce planning, recruitment ROI and reviews of expenses like subscriptions and HR tools.

For example: If you notice wage costs are creeping above industry benchmarks, incorporate this into discussions about staffing levels, overtime use and long-term workforce planning. Where recruitment spend is high, link it back to ROI by tracking whether hires are translating into measurable revenue gains.

If hidden costs such as multiple software subscriptions were raised, follow up with IT or procurement to assess whether consolidating tools could save money.

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