

## FAST FACTS 12: UNDERSTANDING PROFIT AND LOSS STATEMENTS

Trading, profit and loss and appropriation accounts can be explained in three parts – the trading statement, the profit and loss statement and the appropriation statement.

### Trading statement

Calculates the gross profit on goods sold. Take opening stock plus the purchases of stock for the year, then from this total take away stock at the end of the period and you have the cost of goods sold. The cost of goods sold is subtracted from sales and the resultant figure is gross profit.

### Profit and loss statement

From the gross profit figure, take away all the overhead expenses of the business to determine the net profit. The overheads can be grouped under sub headings so they can be better understood and controlled.

### Appropriation statement

Transfer into this statement the net profit from the profit and loss statement. This figure is added onto the opening balance, drawings taken into account, to arrive at the accumulated surplus (or deficit) figure. An owner could include in this area any new money brought into the business.

### Ratio analysis

By taking sales as your starting point, you can take percentages of all values in your statement and compare them against the last year or future projections. Falling sales will cause fixed expense percentages to increase, while costs that vary with sales should remain at the same percentage.

### Summary

Watch for trends in your figures. The percentages will direct you to those areas of your business requiring attention. Two periods of similar trends usually suggest that action by the owner may be required to arrest deteriorating situations. Positive trends might mean extra funds for new working capital are required. If you do not fully understand the situation, call in your accountant to analyse and explain what is happening to your business.

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Example only

## Mr and Mrs Bill Smith Trading, Profit & Loss and Appropriation Account for the financial year ended 30 June 2008

	30/6/08	%	30/6/07	%
<b>Sales</b>	\$200 000	100	\$180 000	100
<b>Cost of Goods Sold</b>				
Stock	\$ 62 000	31	\$ 58 000	32
Purchases	<u>\$120 000</u>	60	<u>\$110 000</u>	61
	\$182 000	91	\$168 000	93
Less Stock on hand	\$ 60 000	30	\$ 62 000	34
Cost of Goods Sold	<u>\$122 000</u>	61	<u>\$106 000</u>	59
<b>Gross Profit</b>	<b>\$ 78 000</b>	<b>39</b>	<b>\$ 74 000</b>	<b>41</b>
<b>Expenses</b>				
Freight	\$ 4 000	2	\$ 3 000	2
Commission	\$ 10 000	5	\$ 9 000	5
Salary	\$ 18 000	9	\$ 17 000	9
Office expenses	\$ 4 000	2	\$ 3 000	2
Rates	\$ 1 000	1	\$ 1 000	1
Insurance	\$ 3 000	1	\$ 2 000	2
Depreciation	\$ 1 000	1	\$ 1 000	1
Discounts allowed	\$ 5 000	3	\$ 4 000	2
Bad Debts	\$ 2 000	1	\$ 6 000	3
Total Expenses	<u>\$ 48 000</u>	24	<u>\$ 46 000</u>	26
<b>Net profit</b>	<b>\$ 30 000</b>	<b>15</b>	<b>\$ 28 000</b>	<b>16</b>
<b>Appropriation Statement</b>				
Balance brought forward	\$ 10 000		\$ 15 000	
Net profit	<u>\$ 30 000</u>		<u>\$ 28 000</u>	
	\$ 40 000		\$ 43 000	
Less drawings	<u>\$ 34 000</u>		<u>\$ 33 000</u>	
<b>Accumulated Surplus (deficit)</b>	<b>\$ 6 000</b>		<b>\$ 10 000</b>	

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## Need further assistance?

Your accountant is best placed to help you to analyse your financial statements.

The Territory Business Centre also has workshops to assist you or visit [www.tbc.nt.gov.au](http://www.tbc.nt.gov.au)

For more information refer to other Fast Facts in this series or contact:

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