

The 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 then 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 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.

An example of a Trading, Profit & Loss and Appropriation Statements is:

Mr & Mrs Bill Smith
 Trading, Profit & Loss and Appropriation Account
 For the financial year ended 30th June 1998

	30/6/98	%	30/6/97	%
Sales	\$200,000	100	\$180,000	100
Cost of Goods Sold				
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
Gross Profit	\$ 78,000	39	\$ 74,000	41
Expenses				
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
Net profit	\$ 30,000	15	\$ 28,000	16
Appropriation Statement				
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>	
Accumulated Surplus (deficit)	\$ 6,000		\$ 10,000	

Need help?

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 the website:
www.tbc.nt.gov.au

For more information refer to other Fast Facts in this series or contact the Territory Business Centre on the numbers below or visit the TBC website

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