

Improving Your Small Business Skills

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PO Box 4020 Carlton NSW 2218. Ph: (02) 9588 3471

E-Mail: david@djcaccounting.com.au

Information to Increase both the Wealth and Lifestyle of Your Family
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Increase Your Understanding of The Profit and Loss Statement

The Profit and Loss Statement summarises the income earned by the firm and the expenses incurred over the period (this can be a month, quarter or a year). The difference between them is the Net Profit or Loss. I provide an example for a Consulting Firm.

Profit & Loss Statement for Year Ending 30 June 2016

	2016
<u>Income</u>	
Consulting Fees	193,000
Interest Received	<u>250</u>
TOTAL INCOME	<u>193,250</u>
<u>Expenses</u>	
Accountancy Fees	1,000
Bank Charges	600
Bad Debts	4,050
Computer Running Expenses	850
Depreciation of Fixed Assets	2,600
Electricity	800
Entertainment	750
Fines	250
Hire of Equipment	300
Insurance	1,500
Interest	1,800
Lease of Equipment	5,400
Legal Expenses	450
Motor Vehicle Expenses	8,500
Reference Books	2,800
Rent	15,000
Repairs & Maintenance	650
Salaries	100,000
Seminars	2,750
Staff Amenities	1,800
Superannuation	15,000
Telephone	4,000
Travel	<u>2,400</u>
TOTAL EXPENSES	<u>173,250</u>
NET PROFIT	<u>20,000</u>

Terms Explained

Total Income: is the value of the cash received and the debtor's owed from consulting fees and interest which are recognised as being "earned" during the relevant period.

"Earned Income": I will explain its meaning by an example. The above consulting firm received \$50,000 in its business bank account during the year from its main client. The work was 50% completed as at 30 June 2016, and will be completed in the next financial year. The amount included as Consulting Fees in the 2016 Profit and Loss Statement was \$25,000 (50% x \$50,000). The remaining \$25,000 will be fees earned in the 2017 financial year.

Total Expenses: represents the value of the resources used up in earning the current period's Total Income. *Not all money expended during the period, for example rent, will be classed as "Expenses" for the period.* For instance, the firm decided to pay in June 2016 \$2,500 rent for July and August 2016. The money was taken out of the company's bank account during the year, but was not included in the above \$15,000 rent expense for the 2016 year. This \$2,500 will appear as rent expense in the 2017 financial year.

Net Profit: it is the increase in the firm's net resources during the period. The consulting firm has generated \$20,000 of additional funds to be either distributed to the owners or used to grow the business.

Net Profit's Connection to the Balance Sheet: the net increase in resources must appear in the balance sheet as an increase in Net Assets over the period. It may be in the company's bank account, the purchase of more computers, or used during the year to reduce a bank loan.

Net Profit's Connection to the Owner: the \$20,000 profit increases his ownership in the business by the same amount. He may decide to withdraw those funds for this personal use, or use them in the business.

<i>This information is for the benefit of our clients and interested parties. The commentary contained does not purport to be comprehensive advice. Please contact David Chambers if specific assistance is required.</i>

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