

# P&L, Balance Sheet

## Lecture 19

# P&L statement

- Purpose – To present a summary of the operating and financial transactions that have contributed to the change in the owners' equity during the accounting period.
- Revenues – Transactions that increase owners' equity
- Expenses – Transactions that decrease owners' equity
- Net change in the owners' equity is the difference between Revenues and Expenses
- Net Income (Earnings After Tax) = Revenues - Expenses

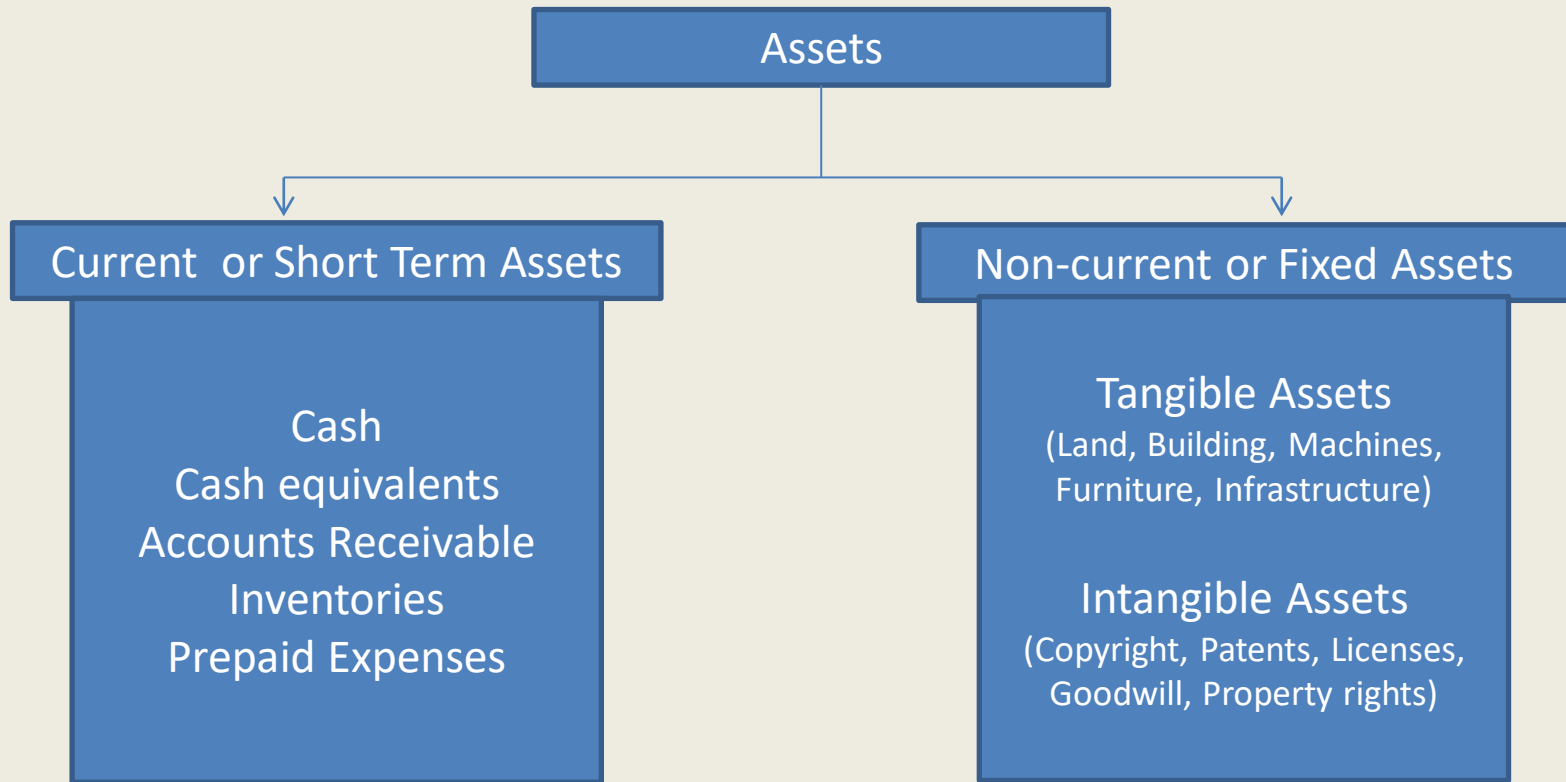
# Profit and Loss Account

Sample Company, Inc.	Profit & Loss Statement	August 2012
<b>Operating Revenue</b>		
Product sales		\$12,000
Service sales		3,000
<b>Total Operating Revenue</b>		<b>15,000</b>
<b>Operating Expenses</b>		
Cost of goods sold		7,000
<b>Gross Profit</b>		<b>8,000</b>
<b>Overhead</b>		
Rent		1,500
Insurance		250
Office supplies		150
Utilities		100
<b>Total Overhead</b>		<b>2,000</b>
<b>Operating Income</b>		<b>6,000</b>
Other Income (Expenses)		
Loan interest		(500)
<b>Earnings Before Income Taxes</b>		<b>5,500</b>
<b>Income Taxes</b>		<b>500</b>
<b>Net Earnings</b>		<b>\$ 5,000</b>

# Balance Sheet

- Main purpose – To provide an estimate of the cumulative investment made by the shareholders in their firm at a given point in time (usually the end of the accounting period).
- This investment is called Owners' Equity
- Owners' Equity = What the shareholders own (ASSETS)-  
What the shareholders owe (LIABILITIES)
- Assets could be in the form of cash, inventories, capital equipment, buildings, infrastructure, etc
- Liabilities could be in the form of debts owed to banks and suppliers

# Assets



# Liabilities

## Types of liabilities

- Short-term debt (overdrafts, promissory notes, Lines of credit)
- Accounts Payable
- Accrued Expenses (Wages, Taxes)
- Non-current liabilities (long term debt, pension liabilities, deferred taxes)

# Balance Sheet

**Paul's Guitar Shop, Inc.**  
**Balance Sheet**  
**December 31, 2015**

<b>Assets</b>		<b>Liabilities</b>	
Current Assets		Current Liabilities	
Cash	32,800	Accounts Payable	49,000
Accounts Receivable	300	Accrued Expenses	450
Prepaid Rent	1,000	Unearned Revenue	<u>1,000</u>
Inventory	<u>39,800</u>	Total Current Liabilities	50,450
		Long-term Liabilities	<u>99,500</u>
Total Current Assets	73,900	<b>Total Liabilities</b>	149,950
Long-term Assets		<b>Owner's Equity</b>	
		Owner's Equity	
Leasehold Improvements	100,000	Retained Earnings	11,950
Accumulated Depreciation	<u>(2,000)</u> 98,000	Common Stock	<u>10,000</u>
Total Long-term Assets	<u>98,000</u>	Total Owner's Equity	<u>21,950</u>
<b>Total Assets:</b>	171,900	<b>Total Liabilities and Owner's Equity</b>	171,900