Additional Notes on Completing a Trading Profit & Loss Account and Balance Sheet.

Before you start there are a few things you have to remember:

1. The Trading Profit & Loss account is a summary of the transactions for a period of time, normally a full year and deals with everything relating to buying, selling and all the expenses i.e. the cost of doing business, to establish what profit was made for the period.
2. The Balance Sheet is a picture taken at a moment in time i.e. close of business of the last working day of the period. It contains details of everything the business owns and owes at that exact moment in time.
3. There is a set formula for preparing the figures from a Trial Balance, and every figure in the trial balance has to go into either the P&L or Balance Sheet once.
4. If there are adjustments to the Trial Balance, these have to go in twice.

Trading Profit & Loss Account

On Preparing a Trading Profit & Loss Account (P&L A/C) – start with the heading “Trading Profit & Loss Account”, the name of the Company and the date.

The first line is always the sales and for clarity you should have three columns of figures, for the purpose of this exercise from left to right we will call them column 1,2& 3. the sales figure goes into column 3.

The next function is to work out the cost of sales.

To Discover how much stock you had available to sell for the year in question, you have to add the Opening Stock to the Purchases and subtract your Closing Stock. This gives you the Cost of Goods Sold and looks like this:

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  |  | €50,000 |
| Opening Stock | €10,000 |  |  |
| Purchases | €30,000 |  |  |
| Less Closing Stock | -€12,000 |  |  |
| Cost of Goods Sold |  |  | €28,000 |

Then you have to subtract the Cost of Goods Sold from your Sales to establish your Gross Profit:

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  |  | €50,000 |
| Opening Stock | €10,000 |  |  |
| Purchases | €30,000 |  |  |
| Less Closing Stock | -€12,000 |  |  |
| Cost of Goods Sold |  |  | €28,000 |
| Gross Profit |  |  | €22,000 |

Then you have to add up all your expenses to establish your total expenses for the year. Expenses should be listed in column 1. The expenses should be entered as per the Trial Balance and adjusted as necessary. It is best to put a \* beside the figures to be adjusted, so you enter the correct figure in your P&L.

When you have extracted all your expenses enter them in Column 1 as below, put the total in column 3 and subtract from your Gross Profit to get your Net Profit:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales |  |  | €50,000 |
| Opening Stock | €10,000 |  |  |
| Purchases | €30,000 |  |  |
| Less Closing Stock | -€12,000 |  |  |
| Cost of Goods Sold |  |  | €28,000 |
| Gross Profit |  |  | €22,000 |
| Less Expenses |  |  |  |
| Admin expenses | €1,000 |  |  |
| Rent, Rates | €6,000 |  |  |
| Wages | €4,000 |  |  |
| Total Expenses |  |  | €11,000 |
| Net Profit |  |  | €11,000 |
|  |  |  |  |

Finally you have to enter your Interest and Tax to get your Retained Earnings, I.e. the amount of money you had left over after all the expenses have been paid:

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  |  | €50,000 |
| Opening Stock | €10,000 |  |  |
| Purchases | €30,000 |  |  |
| Less Closing Stock | -€12,000 |  |  |
| Cost of Goods Sold |  |  | €28,000 |
| Gross Profit |  |  | €22,000 |
| Less Expenses |  |  |  |
| Admin expenses | €1,000 |  |  |
| Rent, Rates | €6,000 |  |  |
| Wages | €4,000 |  |  |
| Total Expenses |  |  | €11,000 |
| Net Profit |  |  | €11,000 |
|  |  |  |  |
| Interest |  | €120 |  |
| Tax |  | €180 |  |
| Retained Earnings |  |  | €10,700 |

That is all there is to preparing a Trading Profit & Loss Account

Balance Sheet

As with the P&L account there is a set lay out for the Balance Sheet. You begin with your heading: Balance Sheet, The name of the Company and the date. Then you enter the data in the following grid:

|  |  |  |  |
| --- | --- | --- | --- |
| **Fixed Assets** | Cost | Depreciation | Value |
| Premises | €120,000 |  | €120,000 |
| Motor Vehicles | €25,000 | €15,000 | €10,000 |
| Fixtures & Fittings | €5,000 | €3,000 | €2,000 |
| **Total Fixed Assets** |  |  | **€132,000** |

The next category is Current Assets:

The figures should be entered in column 1 and the total in column 2

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** |  |  |  |
| Debtors | €15,000 |  |  |
| Stock | €12,000 |  |  |
| Bank\* | €3,000 |  |  |
| Prepayments | €1,000 |  |  |
| **Total Current Assets** |  | €31,000 |  |

\* The bank can be an asset or liability depending on whether you have money in the bank or if you are overdrawn. Rather than worrying about debits and credits, look to your trial balance and ask yourself is the bank balance on the same side as the debtors or creditors? If it is on the same side as the debtors it is an asset, if it is on the same side as the creditors it is a liability. There are two schools of thought for recording an overdrawn balance you can either put it in the current liabilities or put it as a minus figure in your current assets, either will do, and will give you the same result.

The Next Category is Current Liabilities

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Liabilities** |  |  |  |
| Creditors | €11,000 |  |  |
| Accruals | €10,000 |  |  |
| VAT | €1,000 |  |  |
| Loan Repayments | €2,500 |  |  |
| **Total Current Assets** |  | €24,500 |  |

Next you have to subtract your Current Liabilities from your Current assets to establish your Working Capital or Net Current Assets as they are also called.

|  |  |  |  |
| --- | --- | --- | --- |
| **Current Assets** |  |  |  |
| Debtors | €15,000 |  |  |
| Stock | €12,000 |  |  |
| Bank\* | €3,000 |  |  |
| Prepayments | €1,000 |  |  |
| **Total Current Assets** |  | €31,000 |  |
|  |  |  |  |
| **Current Liabilities** |  |  |  |
| Creditors | €11,000 |  |  |
| Accruals | €10,000 |  |  |
| VAT | €1,000 |  |  |
| Loan Repayments | €2,500 |  |  |
| **Total Current Assets** |  | €24,500 |  |
| **Net Current Assets** |  |  | €6,500 |

The fourth and final category in this section is Long Term Liabilities. If you see a long term loan in the trial balance, it will tell you how long is to run, and you should work on the basis that it will be paid in equal amounts each year. So if the Loan amount is €10,000 and there is 4 years to run, that means you will be repaying the loan at the rate of €2,500 per year (plus interest) you should include the current year in the current liabilities and the remainder in Long Term.

Then you have to add your fixed assets to your Working Capital and subtract your long term liabilities to discover what the net worth of the business is at that moment in time.

So putting this all together it will look like this:

|  |  |  |  |
| --- | --- | --- | --- |
| **Fixed Assets** | Cost | Depreciation | Value |
| Premises | €120,000 |  | €120,000 |
| Motor Vehicles | €25,000 | €15,000 | €10,000 |
| Fixtures & Fittings | €5,000 | €3,000 | €2,000 |
| **Total Fixed Assets** |  |  | **€132,000** |
|  |  |  |  |
| **Current Assets** |  |  |  |
| Debtors | €15,000 |  |  |
| Stock | €12,000 |  |  |
| Bank\* | €3,000 |  |  |
| Prepayments | €1,000 |  |  |
| **Total Current Assets** |  | €31,000 |  |
|  |  |  |  |
| **Current Liabilities** |  |  |  |
| Creditors | €11,000 |  |  |
| Accruals | €10,000 |  |  |
| VAT | €1,000 |  |  |
| Loan Repayments | €2,500 |  |  |
| **Total Current Assets** |  | €24,500 |  |
| **Net Current Assets** |  |  | €6,500 |
|  |  |  |  |
| **Long Term Liabilities** |  |  | -€7,500 |
|  |  |  |  |
| **Net Worth** |  |  | **€131,000** |

The Net Worth is how much the business is worth at that moment in time if you collected all the money you were owed, realised cost price for your stock, paid back all your loans and sold off all the assets at book value, this figure is how much you would have left.

Almost there! It is called a balance sheet so now is the task of making it balance. All the figures above tell you where the money has gone to – so now you have to see where it came from. For the final part of the balance sheet, you have to add your Capital to your retained earnings, remembering to add this years retained earnings to the figure. So the second part will look like this:

|  |  |  |  |
| --- | --- | --- | --- |
| Financed by |  |  |  |
| Capital |  | €100,000 |  |
| Retained Earnings |  | €31,000 |  |
| **Total** |  |  | **€131,000** |
|  |  |  |  |