

# UNDERSTANDING FINANCIAL STATEMENTS

## PROFIT AND LOSS = INCOME STATEMENT

What Came In – What It Took to Get Those Funds = Gross Profit  
 Gross Profit – Overhead Expenses = Net Profit  
 What Came In: Income, Revenue, Sales  
 What it Took to Get Those Funds: Direct Costs (Cost of Goods Sold)  
 Overhead Expenses: Advertising, Office Supplies, Rent, Telephone...

## BALANCE SHEET

Assets = Liabilities + Equity  
 Assets: Bank Accounts, Furniture, Equipment, & Expected Funds (A/R)  
 Liabilities: Loans, Credit Cards, & Bills (A/P)  
 Equity: Retained Earnings, Draws, Investments (or Shareholder Accts)

### INCOME

Sales \$10,000.00

### COST OF GOODS SOLD

Direct Costs 7,000.00

GROSS PROFIT \$3,000.00

### EXPENSES

Advertising \$800.00

Insurance 50.00

Office Supplies 150.00

Rent 1050.00

Telephone 90.00

Utilities 110.00

Total Expenses \$2,250.00

NET PROFIT \$750.00

### ASSETS

Checking \$4,000.00

Furniture 1,200.00

Equipment 9,500.00

TOTAL ASSETS \$15,700.00

### LIABILITIES

Credit Card 1 2,000.00

Credit Card 2 9,900.00

TOTAL LIABILITIES \$12,900.00

### EQUITY

Owner's Equity \$1,900.00

Retained Earnings 150.00

Net Profit 750.00

TOTAL EQUITY \$2,800.00

TOTAL L&E \$15,700.00

ASSETS		LIABILITIES & EQUITY	
DEBIT	CREDIT	DEBIT	CREDIT
INCREASES	DECREASES	DECREASES	INCREASES

