



# STARTING A BUSINESS:



## P&L vs. balance sheets – and why they're important

If you're new to business, There's a bit of jargon you'll be introduced to, including P&Ls and balance sheets. Here's what they mean and why they matter.

## What is a profit and loss (P&L) statement?

A profit and loss statement – otherwise known as a P&L statement – gives you a picture of how much money your business is making or losing.

It tends to list things like what sales you've made and what you've spent money on, so that you can track what's coming in versus what's going out. Some businesses complete these statements each month, while others complete them quarterly or even yearly.

While some business owners like to create their own P&L templates, there are also free templates available online, such as this one:

<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-profit-and-loss-statement>

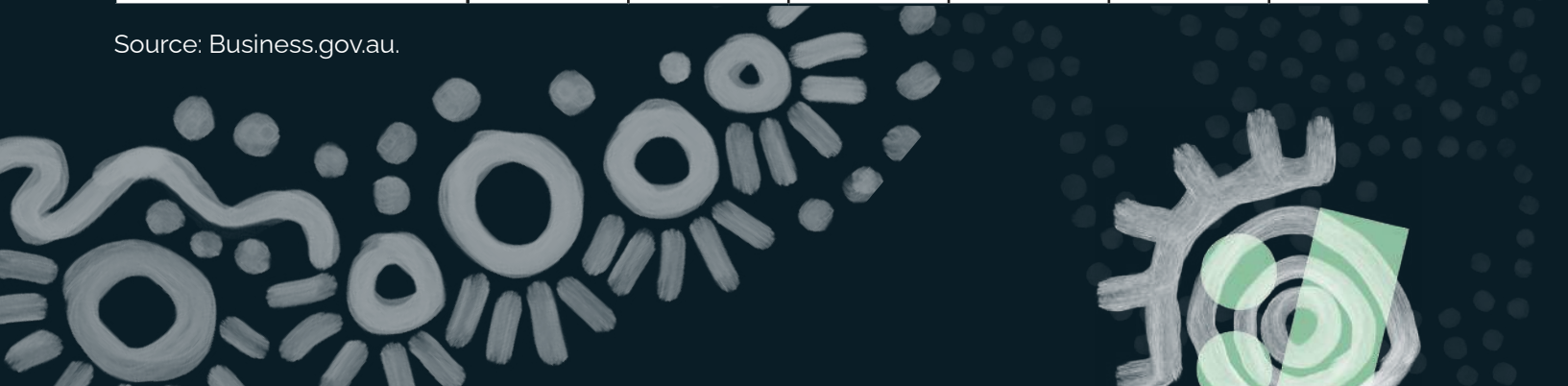
## Example of a profit and loss statement

Profit and loss for [Business name] as at [financial year]



	July	August	September	October	November	December
Sale						
Less cost of goods sold						
More...						
<b>Gross profit / net sales</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Expenses</b>						
Accountant fees						
Advertising and marketing						
Bank fees and charges						
Bank interest						
Credit card fees						
Utilities (electricity, gas, water)						
Telephone						
Lease / loan payments						
Rent and rates						
Motor vehicle expenses						
Repairs and maintenance						
Stationery and printing						

Source: Business.gov.au.



## Why use a profit and loss statement?

- It can help to compare sales across different months and quarters, which can be useful to create sales targets.
- It shows how much your business is spending, which can be used to help set prices.
- It can be useful at tax time to get an idea of how much is spent on deductible items (though it's still worth holding onto receipts).

## What is a balance sheet?

A balance sheet lists a business's assets and liabilities at a given point in time. Assets are things the company owns, such as property, while liabilities are things that are owed, such as debt. By detailing this information, the business owner can get a clearer idea of how the company is performing.

You can download balance sheet templates for free online, like you can with a profit and loss statement. Here's the Business.gov.au template:

<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-balance-sheet>

### Example of balance sheet

#### Balance sheet for [Business name]

	[Year 1]	[Year 2]	[Year 3]
<b>Current assets</b>			
Petty cash			
Accounts receivable			
Inventory			
Pre-paid expenses			
More...			
<b>Total</b>	\$0	\$0	\$0
<b>Fixed assets</b>			
Leasehold			
Property and land			
Renovations / Improvements			
Furniture and fitout			
Vehicles			
Equipment / tools			
Computer equipment			
<b>More...</b>	\$0	\$0	\$0
<b>TOTAL ASSETS</b>	\$0	\$0	\$0

Source: Business.gov.au.

## Why use a balance sheet?

- It can show how healthy a business is by giving a clear picture of how assets compare to liabilities.
- It can be used to compare the company's performance over time.
- It can be shown to investors and other stakeholders to give them an indication of how the company is tracking.

