

# Understanding Financial Statements



**RYEGRASS**  
BOOKKEEPING

*Profit & Loss = Income Statement*

*What comes 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 (Costs of Goods Sold)*

*Overhead expenses: advertising, office supplies, rent, telephone...*

|                    |                 |                   |
|--------------------|-----------------|-------------------|
| Income             | Sales           | \$10,000.00       |
| Cost of Goods Sold | Direct Costs    | <u>7,000.00</u>   |
| Gross Profit       |                 | <u>\$3,000.00</u> |
| Expenses           | Advertising     | \$800.00          |
|                    | Insurance       | 50.00             |
|                    | Office Supplies | 150.00            |
|                    | Rent            | 1,050.00          |
|                    | Telephone       | 90.00             |
|                    | Utilities       | 110.00            |
|                    | Total Expenses  | <u>\$2,250.00</u> |
| Net Profit         |                 | <u>\$750.00</u>   |

## 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 (for shareholder accts)

|                      |                          |                    |
|----------------------|--------------------------|--------------------|
| Assets               | Checking                 | \$4,000.00         |
|                      | Furniture                | 1,200.00           |
|                      | Equipment                | 9,500.00           |
|                      | <b>Total Assets</b>      | <b>\$15,700.00</b> |
| Liabilities          | Credit Card 1            | 2,000.00           |
|                      | Credit Card 2            | 9,900.00           |
|                      | <b>Total Liabilities</b> | <b>\$12,900.00</b> |
| Equity               | Owner's Equity           | \$1,900.00         |
|                      | Retained Earnings        | 150.00             |
|                      | Net Profit               | 750.00             |
|                      | <b>Total Equity</b>      | <b>\$2,800.00</b>  |
| <b>Total L&amp;E</b> |                          | <b>\$15,700.00</b> |

| Assets    |           | Liabilities & Equity |           |
|-----------|-----------|----------------------|-----------|
| Debit     | Credit    | Debit                | Credit    |
| Increases | Decreases | Decreases            | Increases |