



Balance and profit - loss account

1. Balance

Assets

Capital

An example

2. Profit and loss account

Costs

Returns

An example

As an entrepreneur you are accountable for your business. Annually to the tax authorities, but upon request of a subsidy granter or bank, as well. Being accountable entails submitting the following documents:

- a balance: the summary of assets and debts of your business at that moment; and
- a profit and loss account: an overview of the result you accomplished with your business over a certain period of time.

In this text we take the undertaking of a visual artist as an example.

Balance

In a balance you state your assets (money and goods), your debts and what amounts you still expect to come in. A balance is always in balance, which means that the final amounts in the two columns must be equal. A balance always has the same layout; on the left side, the assets (debit) on the right side the proprietor's capital and the debts (credit).

Assets

The assets of a business consist of:

- Fixed assets: buildings, land and machines;
- Current assets: raw materials, products and stocks*, but also outstanding invoices to customers, the bank balance and liquid equity company.

Capital

The capital of a business consists of:

- proprietor's capital: assets minus debts
- loan capital in the long term: mortgage or loan longer than a year (debt)
- loan capital in the short term: bank credit or outstanding invoices of suppliers (debt)

In order to be able to draw up a balance you will first have to make an inventory of your possessions and your debts. Only after taking those actions, you will be able to determine your proprietor's capital.



An example

Assets

Machines, working table (current market value)	€ 3.000
Material (paper, paint, marble)	€ 5.000
Stock (lithos, sculptures) *	€ 10.000
Debtors (outstanding invoices to customers and VAT to be claimed)	€ 4.500
Cash (bank account and cash)	€ <u>2.356</u>

Total assets **€ 24.856**

Debts

Loan from a family member (longer than a year)	€ 2.500
Creditors (unpaid invoices to suppliers and VAT to be paid)	€ <u>1.850</u>

Total debts **€ 4.350 -/-**

Proprietor's capital **€ 20.506**

Now that the proprietor's capital is known, you can draw up the balance:

Balance as from 1 January 2022

Debit (assets)		Credit (capital)	
Fixed assets	€ 3.000	Proprietor's capital	€ 20.506
Current assets	€ <u>21.856</u>	Loan capital long term	€ 2.500
		Loan capital short term	€ <u>1.850</u>
	€ 24.856		€ 24.856

Profit and loss account

The profit and loss account shows the result of the business over a certain period: loss or profit. The profit and loss account states your costs (debit) and returns (credit).

Costs

The costs of a business can consist of:

- material costs
- costs of third parties (work contracted out)
- studio costs (rent, energy, telephone,)
- expenses related to production of income (exhibition, printing, dinners)
- administration costs
- debit entries (equipment)
- other costs

Returns

Returns can exist of:

- sales
- orders
- fees
- rent compensations
- etc.

When these amounts are known, drawing up the profit and loss account becomes easy.



An example

Profit and loss account over 2022

Credit (returns)

Sales	€ 5.500
Orders	€ 3.150
Fees	€ 240
Rent compensations	€ 900
Total	€ 9.790

Debit (costs)

Material costs	€ 4.000
Costs of third parties	€ 350
Studio costs	€ 2.700
Expenses related to acquisition of income	€ 1.000
Debit entries	€ 400
Administration costs	€ 300
Other costs	€ 250
Profit	€ 790
Total	€ 9.790

Profit/loss € 0

The outcome of the profit and loss account can be copied in the balance of 1 January 2023. This means the proprietor's capital increases with the profit amount.

* Stock of work has the value of the material it is made from. Only when it is sold, it gets its 'real' value!