BeroepKunstenaar
Amsterdam University of the Arts

Balance and profit - loss account

As a self-employed person, you are faced with several situations in which you have to be accountable about your business; annually to the tax authorities, but upon request of a subsidy granter or bank, as well. Being accountable entails submitting:

- 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.

Balance

In a balance, it becomes clear what you own in money and goods, what your debts are 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 capital goods: buildings, land and machines;
- current capital goods: raw materials, products and stocks*, but also outstanding invoices to customers;
- liquid assets: bank balance, 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 b e 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)	€ 4.500		
Cash (bank account)	€ 2.356		
Total assets			**€ 24.856**

Debts

Loan 'tante Agaath' (longer than a year)		€ 2.500	
Creditors (unpaid invoices to suppliers)	€ 1.850		
Total debts	**€ 4.350 -/-**		
Proprietor's capital			**€ 20.506**

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

Debit	**Balance as from 1 January 2008**		**Credit**
Fixed capital assets	€ 3.000	Proprietor's capital	€ 20.506
Current capital assets		Loan capital long term	€ 2.500
(material, stock and debtors)	€ 19.500	Loan capital short term	€ 1.850
Liquid means	€ 2.356		
	€ 24.856		**€ 24.856**

Note: Naturally, the balance can never be adapted only to the proprietor's capital. In the course of the year, you naturally paid your creditors, debtors paid you and your stock might have increased or decreased. Therefore, you will have to draw up inventory repeatedly.

Profit and loss account

In a profit and loss account it becomes clear what the result of the business over a certain period has been: loss or profit. The profit and loss account has a left side (debit) in which the costs are stated and a right side (credit) in which the income is stated.

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

Debit	Profit and loss account over 2008		Credit
Material costs	€ 4.000	Sales	€ 5.500
Costs of third parties	€ 350	Orders	€ 3.150
Studio costs	€ 2.700	Fees	€ 240
Expenses related to acquisition of income	€ 1.000	Rent compensations	€ 900
Debit entries	€ 400		
Administration costs	€ 300		
Other costs	€ 250		
Profit	€ 790		€ 9.790
	€ 9.790		

The outcome of the profit and loss account can be copied in the balance of 1 January 2009. 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!