What are Profit and Loss Statements and Balance Sheets?

DECAL
Thriving Child Care Business Academy

In this resource, we will review Profit and Loss (P&L) Statements and Balance Sheet reports and how they can help a business owner or director/administrator.

As a business owner, there are many valuable financial reports you can create, but two of the most critical are a **profit and loss statement** (also called an income statement or a statement of operations) and your **balance sheet**. They both serve different, complementary functions so understanding both can provide a stronger sense of how your child care business is doing financially. The profit and loss (P&L) statement shows your revenue, expenses, and generates a net profit for a specific time period. The balance sheet provides a snapshot of the value of the business by presenting the assets, liabilities, and owner's equity.

You may ask yourself if you even need to worry about these documents, especially if the business is just you or it is small. We've found that child care businesses of all sizes benefit from understanding a **profit and loss statement** and a **balance sheet** since they let you know how your business is doing and where you may need to make changes to stay in business.

Profit and Loss Statement

In its most basic form, the P&L statement shows the profitability of the business for a set time period. The time period can be for the year, quarter, month, or even a day – whatever you need to understand. **Profit** is how much you are making from the business; **loss** is how much you are losing on the business. You calculate the profit or loss by taking all the revenue (how much you took into the business in that period) and subtracting the expenses. The result is either a profit (how much you made) or a loss (how much your expenses exceeded your revenue).

For example, Luz had a revenue of $55,000 for Quarter 2. In the same quarter, she had $47,000 in expenses. As a result, she has a profit of $8,000 ($55,000 - $47,000 = $8,000).

It can be most helpful to not only look at the P&L Statement for one period but to have a similar period to compare it to. For example, if you look at the monthly P&L Statement for February you might also compare it to January to see if you are getting more or less profitable. In addition, the P&L Statement can show you more than just profit. Since it is broken up by categories of revenue and expenses, you can often get a sense of where changes in expenses or revenues are affecting your business.

Let's look at a more detailed example from Luz's child care business. Here is her P&L Statement for Quarters 1 and 2:

Category	Quarter 1	Quarter 2	Percentage Change
REVENUE			
Fee income	$40,000	$40,000	0%
Subsidy revenue	$12,000	$10,000	-16%
Child Care Food program reimbursement	$3,000	$5,000	+66%
TOTAL REVENUE	**$55,000**	**$55,000**	**0%**
EXPENSES			
Wages	$35,000	$35,000	0%
Rent and utilities	$5,000	$10,000	+100%
Supplies	$2,000	$2,000	0%
TOTAL EXPENSES	**$42,000**	**$47,000**	**+12%**
PROFIT OR LOSS	**$13,000**	**$8,000**	**-38%**

By comparing the two quarters, Luz can learn some interesting things about her business. Her revenue stayed the same from Quarters 1 to 2. However, her expenses went up by 12% resulting in a profit that was 38% lower. Looking at the expenses, Luz found that her Rent and Utilities doubled. She had no explanation as to why. Once she investigated, she found that a broken pipe was leaking and running up her water costs.

The Balance Sheet

Where the P&L Statement shows the performance of the business over a period of time (such as a year, quarter, or month), the balance sheet just focuses on the state of your business on a given date.

The balance sheet has three components:

- **Assets:** Cash, accounts receivable (the money that is owed to you)
- **Liabilities:** Overhead, debt, accounts payable (the money that you owe others)
- **Owner's equity:** Total assets minus liabilities (your net value)

The balance sheet lets you know how healthy your business is since it shows you a picture of revenue, debt, and how much money you are taking out of the business.

The balance sheet gets its name from being “in balance;” specifically the total assets should equal your liabilities plus the owner’s equity.

Let’s look at Luz’s balance sheet for last week:

Category	Assets	Liabilities
ASSETS		
Checking account balance	$10,000	
Parent fees receivable	$2,000	
Child Care Food program receivable	$2,500	
TOTAL ASSETS	**$14,500**	
LIABILITIES		
Credit Card balance (accounts payable)		$2,500
Small business loan		$5,000
TOTAL LIABILITIES		**$7,500**
EQUITY		
Retained Earnings/Profit (Assets $14,500 – Liabilities $7,500)		**$7,000**
	$14,500	**$14,500**

In this case, Luz has a good amount of assets including cash in her bank account and funds receivable. She owes some money on her credit card and has a business loan, but even with those debts she would still have $7,000 left over in earnings (that is, assets of $14,500 – liabilities of $7,500 = $7,000)

Which One Should I Use?

Both! The P&L statement, balance sheet, and your cash flow statement provide a holistic view of your business’s health. Remember, the data is only as good as what you enter into your accounting system, so it’s worth ensuring you have a good record-keeping system.

Additional Resources

If you have questions or need help, assistance is available.

GaPDS Website

DECAL Thriving Child Care Business Academy Website

To Find Other Study Guides: Click on Resources on the Academy home page

To Find Training: Click on Trainings on the Academy home page

To Register for Training: Click on Schedules & Registration on the Academy home page

To Sign Up for Study Groups: Fill out the Intake Assessment

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the DECAL Website

For General Questions about the Academy: Email thriving@decal.ga.gov

For More Information:

Family Child Care Learning Home Rules and Regulations

Child Care Learning Center Rules and Regulations