



How to Review Your Profit & Loss and Balance Sheet

A Simple guide to help you understand what the numbers are telling you.

Introduction

For many small business owners, the Profit & Loss and Balance Sheet can feel confusing – but they don't have to be. These reports are valuable tools that can help you understand how your business is performing and where it stands financially.

This simple checklist will help you review your reports with confidence, even if you're not a bookkeeper or accountant.

You'll learn what to look for, what the numbers mean, and how to spot anything that doesn't look quite right.

Use it as part of your regular bookkeeping routine or before meeting with your bookkeeper or accountant.

Before You Start

Before reviewing your reports, make sure your bookkeeping is up to date:

- All transactions are entered and bank accounts are reconciled.
- Run your Profit & Loss and Balance Sheet reports for the same date range (e.g. This month, this quarter, or this financial year).
- If your business reports on a **cash basis**, that's fine – review your reports the same way you normally do for BAS.
- If you want to see how your business is performing overall (not just by cash flow), try switching to **accrual basis** to see income and expenses when they're earned or incurred, not just when paid.

Reviewing Your Profit & Loss Report

Your Profit & Loss (P&L) shows what your business **earned and spent** over a period of time. It helps you see whether you're making a profit, breaking even, or running at a loss.

Income (Sales)

- Is all your income showing in the right category (e.g. products, services, commissions)?
- Are there any missing or duplicate amounts?
- Does the total income seem realistic for how busy you were?
- If you're registered for GST, check that it's been applied correctly.

Cost of Sales (Direct Costs)

- Are the costs directly linked to your sales (e.g. materials, stock, subcontractors) showing here?
- Have any general expenses been accidentally coded here?
- Check that your profit margin (income minus cost of sales) looks reasonable.

Operating Expenses

- Review main expenses such as wages, rent, insurance, subscriptions, fuel, and software.
- Are there any new, missing, or unusually high expenses compared to other months?
- Look out for personal or one-off costs that shouldn't be in business expenses.
- If income or expenses fluctuate, check whether it's seasonal or a sign of change in your business.

Net Profit (or Loss)

- Does it match your expectations for how busy you've been?
- Remember: **profit isn't cash** — it doesn't include unpaid invoices or bills.
- If the number seems off, go back and double-check your income and expense categories.

Reviewing Your Balance Sheet

Your Balance Sheet shows what your business **owns (assets)** and **owes (liabilities)** at a point in time — and the difference between the two (equity).

Assets – What You Own

- Do your bank balances match your actual accounts?
- Are all customer invoices listed under Accounts Receivable still current?
- Is your inventory accurate and up to date?
- Have any new assets (equipment, vehicles, etc.) been added correctly?

Liabilities – What You Owe

- Do you recognise all the bills in Accounts Payable?
- Are there any old or duplicate bills still showing as unpaid?
- Does your ATO, super, or loan balance look right?
- Do loan or credit card balances match your statements?
- If you pay PAYG Instalments or use a BAS clearing account, make sure the balances reflect your most recent lodgement.

Equity – Your Business Value

- Retained Earnings shows the total profit your business has kept over time.
 - If you're a sole trader or partnership, look for "Owner Drawings" or "Owner Contributions" — these track money you take out or put in personally.
 - If you operate through a company or trust, review any **shareholder, director, or beneficiary loan accounts** to make sure they reflect genuine business transactions and not personal spending.
 - Your equity section helps show how much of the business is truly "yours" after debts are paid.
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Understanding the Link Between Reports

Your **Profit & Loss** shows how your business performed, while your **Balance Sheet** shows its overall financial position.

Together, they help explain your **cash flow** — for example, you might show a healthy profit but have little cash in the bank if customers haven't paid yet or you've recently bought equipment.

Common Mistakes to Watch For

- Mixing personal and business expenses
 - Forgetting to record or reconcile new assets (e.g. vehicles, equipment)
 - Old unpaid bills or invoices that should've been cleared
 - Not checking that GST has been applied correctly
 - Looking only at the Profit & Loss without reviewing the Balance Sheet
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Wrapping It Up

Review both reports together – they tell the full story of your business. Compare this period with last month, last quarter, or last year to spot trends. Save or export a copy of both reports each quarter for your records, and make notes of anything that doesn't look right to follow up later.

Final Tip

Reviewing your reports regularly helps you understand what's working, where your money's going, and how your business is really performing — so you can make confident decisions, not just react at tax time.

Need a Second Pair of Eyes?

If you'd like some extra clarity around your reports, my **Bookkeeping Health Check** can help identify problem areas early and give you confidence that your figures are accurate. It's a simple way to make sure your numbers are working for you — not against you.

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