

## Your Balance Sheet

*Your SCORE counselor can help you to understand the terminology used in a Balance Sheet, and to prepare a Balance Sheet for your business. Here's a quick overview to help you get started.*

At the top of the page, fill in the legal name of the business, and the day, month and year. Indicate whether amounts will be shown in hundreds or thousands of dollars (never show cents).

**ASSETS** - Assets are anything of value that is owned by or legally due the business. Total assets include all net values: the amounts obtained when you subtract depreciation and amortization from the original cost of acquiring the assets. Acquisition costs are used in these values in most cases.

### Current Assets – Holdings within a 12 month period

- **Cash:** Include money on hand and demand deposits in the bank (e.g., checking accounts and regular savings accounts).
- **Petty cash:** If your business has a fund for small miscellaneous expenditures, include the total here.
- **Accounts receivable:** Amounts due from customers in payment for merchandise or services.
- **Inventory:** Raw materials on hand, work in progress, and all finished goods, either manufactured or purchased for resale. Usually list at lower cost or market.
- **Short-term investments:** Also called *temporary investments* or *marketable securities*, these include interest- or dividend-yielding holdings you expect to convert into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at their cost or market value, whichever is less.
- **Prepaid expenses:** Goods, benefits or services a business buys or rents in advance (e.g., large amount of office supplies, insurance protection, and floor space).

Long-term Investments Also called *long-term assets*, these are holdings the business intends to keep for at least a year and which typically yield interest or dividends. Include stocks, bonds and savings accounts earmarked for special purposes, listed at the lower cost or market value.

### Fixed Assets

Also called *plant and equipment*, fixed assets include all resources a business owns or acquires for use in operations and not intended for resale. If fixed assets are leased, depending on the leasing arrangements, both the value and the liability of the leased property may need to be listed on the Balance Sheet or on a separate footnote.

- **Land:** List original purchase price without allowances for market value.
- **Building, Improvements, Equipment, Furniture, Automobile/vehicles:** For each of these, include original purchase price, less depreciation.
- **Other Assets:** Any other asset you want to list. (Include intangibles, licenses, patents, goodwill, etc.)

## LIABILITIES

### Current Liabilities

All debts, monetary obligations and claims payable within 12 months or within one cycle of operation. These typically include:

**Accounts payable:** Amounts owed to suppliers for goods and services purchased in connection with business operations.

**Notes payable:** The balance of principal due to payoff short-term debt for borrowed funds. Also includes the current amount due of the total balance on notes whose terms exceed 12 months.

**Interest payable:** Any accrued fees due for use of both short-and long-term borrowed capital and credit extended to the business.

**Taxes payable:** Amounts estimated to have been incurred during the accounting period.

**Payroll accrual:** Salaries and wages currently owed.

### Long-term liabilities

**Notes payable:** Notes, contract payments or mortgage payments due over a period exceeding 12 months. They are listed by outstanding balance, less the current position due.

## **NET WORTH**

Also called *owner's equity*, this is the claim of the owners on the assets of the business. For older businesses, equity is each owner's original investment plus any earnings after withdrawals.

## **TOTAL LIABILITIES & NET WORTH**

The sum of these two items must always equal the amount of total assets

This information was excerpted from a 48-page U.S. Small Business Administration publication entitled *The Business Plan -Road Map To Success*.

## **FINANCIAL STATEMENTS**

Overview: There are four financial statements that are fairly standard with any type of business organization:

1. **Balance Sheet:** Reports the financial condition of the business at a point in time (e.g., 12/31, quarter end, or month end). Based on the fundamental accounting formula:

Assets (what the company owns) less liabilities (what the company owes) = Owners' Equity (from two sources -the amount capital invested by the owners and profit earned and retained in the business)

2. **Income Statement:** Report financial transaction activity between balance sheet dates.

Revenue (what the company earns) less Expenses (what the company pays to generate revenue) =  
Pre- Tax Income -less income tax liability (applicable only to C corps) = Net Income

Also referred to as Profit and Loss Statement.

3. **Cash Flow Statement:** A summary of the sources and uses of cash in the business during a financial period (a year, a quarter, or a month). It is important that business owners and managers not only focus

on making a profit (reported in the income statement) but also generate a positive cash flow. **In other words, cash is king.**

For financial reporting purposes, cash flows are divided into three basic categories:

- **.Operating Activities:** these are the cash flows arising out of the profit making activities of the business.
- **.Investing Activities:** these are uses of cash to invest in plant and equipment or investment of temporary excess cash in short-term marketable securities (such as corporate money market accounts, etc.). Negative numbers are outflows representing making the investments or acquiring plant and equipment. Positive numbers denote liquidation of investments.
- **.Financing Activities:** associated with raising funds to finance the business (either debt or equity) reduced by distributions to owners.

**4. Changes in Owners' Equity:** Supplements balance sheet information which reconciles the owner equity accounts between balance sheet dates.

In addition, many financial statements will include one or more footnotes. As with footnotes in a book, they contain supplementary information to what is reported in the basic financial statements. Reading and understanding of them (not always easy) is essential to the reader's understanding of the financial statements.

A term frequently encountered is that of **generally accepted accounting principles (or GAAP for short)**. GAAP consists of the authoritative standards and approved accounting methods that are to be used by businesses, public and private, as well various types of not for profit organizations to measure and report revenue and expenses and to present assets, liabilities, and owners equity, and to report cash flows in their financial statements. While many GAAP elements have remained unchanged for many years, there are many others subject to frequent change.

It is a very good idea that you report your financial results in accordance with GAAP. Because of the complexity of and ever changing nature of accounting standards and rules, most small business owners are best advised to retain the services of an accounting professional.

Whether you have extensive accounting knowledge and background or are a novice, an easy to understand reference source is from the dummy series:

John A. Tracy, CPA, Accounting for Dummies, 2nd Edition published by Hungry Minds, Inc., available in most bookstores or from various e-based sources.