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STRESS-FREE FINANCIAL STATEMENT GUIDE: BALANCE SHEETS

For most startups, entrepreneurs and new business owners, there is often a mystique surrounding the company's accounting and finances. While accounting can be complex, the fundamentals of bookkeeping and financial reports can be much less intimidating than most entrepreneurs and new business owners first imagine.

There are many reasons to understand these concepts. If nothing else, understanding your financial statements is "sort of a big deal" when developing and running a business.

Investors and banks will rely on your financials when deciding whether or not to loan you money or invest in your business.

Business decisions should not be made without these documents, and of course tax agencies require them.

The Balance Sheet is essentially a snap shot of your business at a specific point in time in which it will provide the "Book Value" of your entity at that specific time; i.e. what your business is worth. The Balance Sheet will not provide much information regarding your entity's daily operations; however, that does not downplay its importance. What most entrepreneurs do not realize is that the balance sheet is critical because investors, banks, and other financing sources rely heavily on it when making capital investment decisions. An important and easy formula to remember when you are referring to the Balance Sheet is that

Assets = Liabilities + Equity

or

Equity = Assets – Liabilities.

So your next question might be what is an asset or liability, and how do I determine how much equity I have in my business? Here is some basic terminology of the three main parts of a Balance Sheet and the common accounts listed within these sections:

ASSETS are resources owned by an entity that have value and can be turned into cash. Common assets will include bank accounts, accounts receivable, inventory, and fixed assets. Assets can be further categorized as current assets or other assets.

- Current assets– are assets that is either cash, a cash equivalent, or a resource that can be converted to cash within one year. Common current assets will include bank accounts and accounts receivable.

- Accounts Receivable – are amounts owed to your business by customers due to a product sold or a service provided; i.e. you have completed a transaction on your end and now waiting for receipt of payment. Some common questions to consider when getting started is how much credit should your company extend to customers and how quickly will your company be able to collect debts owed? You will quickly learn that the availability of cash to pay for products, R&D, and liabilities when they are due is an integral part in the progression of your business.

- Fixed Assets – these are resources owned by an entity with a useful life greater than one year. Common assets will include land, property, and equipment. Fixed assets are classed under other assets as their economic use is greater than one year.

LIABILITIES are obligations of an entity based on past transactions or events. In other words, money owed by the entity. Common liabilities will include accounts payable, notes payable, credit card payable, and line of credit.

- Accounts Payable are debts owed by the company to a supplier or vendor in exchange for a good or service provided. Common questions to consider when getting started related to your accounts payable account is tracking how much the company owes, when are these amounts due, and can I cut back or eliminate some items?

- Credit Cards, Loans, and Payroll Liabilities are other examples of liabilities many businesses incur.

The Balance Sheet provides startup owners with a summary of the overall financial health of the company.

EQUITY is the residual interest in the assets of the entity after deducting the liabilities. It is the value you, your family, venture capitalist, and other owners have accrued in the company. Common equity accounts are capital stock, retained earnings, and dividends. The larger the equity balance of your company, the more valuable the company will most likely be perceived by investors, banks, and other funding sources.

Partnering with an experienced professional services firm to make informed business decisions is important. The health of your organization depends on it. We understand the startup industry and offer valuable insights on a wide range of issues that impact the growth and visibility of your organization.

To discuss how to increase the value of your startup or arrange meeting with our team, please contact:

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