

## WHAT DOES MY BUSINESS' BALANCE SHEET MEAN?

The Balance Sheet represents one day in the life of your business. It shows how much of your business that you own (assets) and how much it owes (liabilities) on that one day in time. In other words, it is a snap shot of a specific day in the life of your business. The difference between what is owned and what is owed on the day is your business' net worth.

A Balance Sheet has three components: assets, liabilities, and equity. It's like a scale. Assets and liabilities (business debts) are by themselves out of balance until you add your business' equity or net worth.

**Assets:** An asset is a resource with economic value that a business owns with the expectation that it will provide future benefit to the business. Business assets are broken into two categories: current assets and non-current assets. The liquidity of the asset determines into which category it falls. Liquidity is the ease with which an asset can be converted to cash. Assets that will be or should be converted to cash within 12 months are considered current assets. The most common current assets include cash on hand, marketable securities, inventory, and accounts receivable. Non-current assets are assets that will not be converted to cash over the next 12 month period. Most non-current assets are considered fixed assets. Fixed assets include equipment used in the business, furniture, fixtures, and any real estate the business owns.

**Liabilities:** Liabilities are obligations that the business owes. As with assets, the liabilities are broken down into current liabilities and non-current liabilities (long-term debt). Current liabilities are obligations that are scheduled to be paid by your business over the next 12 months. The most common current liabilities include accounts payable, business lines of credit, and the portion long-term debt that will be paid over the next 12 months (current portion of long-term debt). Non-current or long-term debts are obligations that will be paid over a period longer than the next 12 months. Normally this is debt incurred to finance long-term or fixed assets for the business such as equipment.

**Equity:** In business, equity refers to value of ownership. It is referred to as owners' equity or the business' net worth. Business ownership is limited by its assets and liabilities or debts. Ownership of assets is the value of the assets less any debts with a pledge against those assets. In other words, a business' net worth is equal to its assets minus its liabilities.

With this information you can develop a Balance Sheet for your business. You can also use this to assist in growing your equity position by growing your business' net worth. The greatest contributor to the growth of your business' net worth is retained earnings. Retained earnings are the profits that are retained in your business. The most evident way to grow your business' net worth is to decrease debt. This means you will have more ownership in your business' assets, as less of the assets will be pledged to debt.

No matter what your goals are for your business, the development and understanding of your business' Balance Sheet is essential to keeping your business healthy.