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FastTrac® GrowthVenture™

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Sample Balance Sheet

The accounting equation is an accounting rule that provides the foundation for the Balance Sheet. It states that the value of a company's assets must equal the value of the rights of the creditors (liabilities) plus the rights of the owners (equity). Therefore, even though they are considered company assets, both owners and outsiders may have rights to those assets.

The Accounting Equation

A = L + E

Assets Liabilities Equity

The accounting equation is used as a basis to report all of the account categories on one report—the Balance Sheet. Notice how Assets equal Liabilities plus Equity.

Balance Sheet	**Sample %**
Assets	
Cash	20%
Inventory	80%
Total Assets	100%
Liabilities	
Accounts Payable	25%
Notes Payable	15%
Total Liabilities	40%
Equity	
Equity Investments	35%
Retained Earnings	25%
Total Equity	60%
Total Liabilities and Equity	100%

At any point in time, a Balance Sheet can be produced to report the value in the following account categories:

Assets – Assets can be described as things in your business with value, such as cash, equipment, inventory, and investments. In the same way you might own your car or house, these items are owned by the business. The business may not have the sole rights to these assets, however, just as you may share the rights to your car or house with the bank that lent you money.

On the Balance Sheet, assets are divided into Current Assets and Non-Current Assets. Current Assets include cash or assets that can or will be turned into cash within one year. Examples include Cash, Accounts Receivable, and Inventory. All assets that are not expected to be converted into cash within one year are considered Non-Current Assets. These accounts include Fixed Assets, such as Land, Facilities, Equipment, and Vehicles. Other Non-Current Assets include Long-Term Notes Receivable and Intangible Assets such as Goodwill, Patents, and Copyrights.

Liabilities – Liabilities describe others' rights to the value in the business, such as banks that have loaned the business money and vendors who have allowed the business extended payments. This amount can be compared to the amount of money you still owe on your house or car, which are personal liabilities. You will see Liabilities divided into Current Liabilities and Non-Current Liabilities. Current Liabilities include those liabilities you expect to pay within the next year, such as Accounts Payable. Since lines of credit typically have a renewal provision included in the loan agreement, they are also usually classified as current. Long-Term Liabilities include Notes Payable, such as loans from banks or other financial institutions with payment terms over several years.

Equity – Owner's Equity is the difference between Assets and Liabilities. It shows the owner's rights to the value of the company. Depending on the structure of the company, this number could reflect what you as the sole proprietor own in the company or what you and the other stockholders or shareholders own if your company has multiple owners.

One equity account that seems to stump many business owners is called Retained Earnings. This account represents the amount of cumulative earnings or Net Income that has not been paid out to owners in dividends or owner's draw. The amount in Retained Earnings, however, may not always be equal to the amount of cash the business has on hand. This discrepancy occurs because you may re-invest the earnings of the business in new equipment or even a new building. You may also make a strategic decision to increase the operations of the business and, therefore, need to purchase more inventory. The Retained Earnings account may also show a negative number if the business has not been profitable or the business owners have taken out more money than the business has generated in income.

The Backyard Solutions Balance Sheet demonstrates a common format used by many businesses. Although there are always variations, most Balance Sheets will appear very similar to this one. Use this example to review the accounts on a detailed Balance Sheet.

Account Descriptions

Cash & Equivalents is the amount of cash the company has in the bank at this time.

Accounts Receivable is the amount of money owed to the company from its customers.

Inventory is the amount of merchandise or finished goods the company has on hand ready to sell to customers.

Security Deposits includes money paid as a deposit for services, such as utilities and rent. These payments are considered assets because they have value.

Other Current Assets is a category to accumulate any other assets that could be turned into cash within a year and do not fit into any other category.

Property, Plant, & Equipment includes all tangible assets in the business that have ongoing value.

Accumulated Depreciation includes the total of each year's allocation of the purchase price of an asset.

Other Non-Current Assets is a category to accumulate any other assets that will not be turned into cash within a year and do not fit into any other category.

Accounts Payable includes the money the company owes for expenses incurred on credit, generally due in 30 to 60 days.

Line of Credit is for short-term financing, usually granted by a bank up to a predetermined limit.

Other Current Liabilities is a category to accumulate any other liabilities that will be paid within the year and do not fit into any other category.

Loans includes the amount of money the company has borrowed and owes to banks or others.

Mortgages includes amounts owed on loans for real property, usually reserved for real estate loans.

Other Non-Current Liabilities is a category to accumulate any other liabilities that will not be paid within a year and do not fit into any other category.

Equity Investments is the amount of capital the owners have invested into the business.

Retained Earnings reflects the owner's stake in the company. It is the Net Profit that is re-invested or kept in the company.

Owner's & Investor's Draws includes amounts withdrawn by owners or investors in a sole proprietorship.

Backyard Solutions
Year-End Balance Sheet (Projected)

	2005
Assets	
Current Assets	
Cash & Equivalents	$110,320
Net Accounts Receivable	15,291
Inventory	5,352
Security Deposits	-
Other Current Assets	-
Total Current Assets	**130,963**
Fixed Assets	
Property, Plant, & Equipment	72,000
Less: Accumulated Depreciation	(14,095)
Other Non-Current Assets	-
Total Non-Current Assets	**57,905**
Total Assets	**$188,868**
Liabilities	
Current Liabilities	
Accounts Payable	$ -
Line of Credit	-
Other Current Liabilities	8,428
Total Current Liabilities	**8,428**
Long-Term Liabilities	
Loans	37,735
Mortgages	-
Other Non-Current Liabilities	-
Total Non-Current Liabilities	**37,735**
Total Liabilities	**46,163**
Equity	
Equity Investments	85,000
Retained Earnings	57,705
Less: Owner's & Investor's Draws	-
Total Equity	142,705
Total Liabilities and Equity	**$188,868**

Because this company is only one year old, the Retained Earnings account reflects the same amount as the company's first year's Net Income.