



## Understanding Your Balance Sheet

### What Is a Balance Sheet?

A Balance Sheet shows what your business owns, what it owes, and what's left over at a specific point in time. Think of it as a financial snapshot of your business on a given date.

It answers one key question:

- What is the financial position of the business right now?**
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### What Your Balance Sheet Shows

A Balance Sheet is made up of three main sections:

#### I. Assets

Assets are what your business owns. Examples include:

- Cash in bank accounts
- Accounts receivable (money owed to you)
- Equipment or vehicles
- Security deposits or reserves (if applicable)

Assets show what resources your business has available.

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#### II. Liabilities

Liabilities are what your business owes. Examples include:

- Credit cards or loans
- Bills not yet paid
- Payroll or sales tax liabilities
- Owner advances or deposits owed

Liabilities show your financial obligations.

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### III. Equity

Equity is what's left after liabilities are subtracted from assets.

#### **Assets – Liabilities = Equity**

Equity represents the owner's stake in the business, including:

- Owner contributions
- Retained earnings
- Prior profits or losses

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#### **What to Watch Over Time**

- Cash balances increasing or decreasing
- Growing liabilities that may affect cash flow
- Changes in equity from profits or losses
- Negative balances that may signal an issue

Reviewing your Balance Sheet regularly helps you stay financially stable.

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#### **Why Your Balance Sheet Matters**

Your Balance Sheet helps you:

- Understand overall financial health
- Track what your business owns and owes
- Identify potential cash flow concerns
- Support loan applications or financial reviews

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**Tip:** Your Balance Sheet works best when reviewed alongside your Profit & Loss statement for a complete financial picture.