



Balance Sheet *Breakdown*

Check out this **free guide** on:



Defining Each Section



Key Ratio Analysis



Identifying Red Flags

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BALANCE SHEET BREAKDOWN

Welcome!

If we haven't met before, I'm Amber, the founder of Ambitious Management, and I'm so excited that you're here!



Understanding your financial statements empowers you to make strategic business decisions.

Today, we're diving into the statement that shows an overall picture of your business: **your balance sheet**. Keep reading to learn more about each section, key ratios, and a few ways to identify red flags on your balance sheet!

Assets

An **asset** is a resource owned or controlled by a company with an expected future benefit. Your balance sheet should distinguish between **current** and **noncurrent** assets.

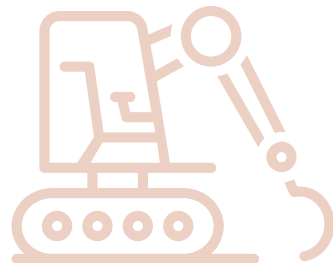
Current assets are expected to be converted into cash within the year:

- Cash & Cash Equivalents
- Accounts Receivable
- Inventory
- Prepaid Expenses



Noncurrent assets are longer term assets that are not expected to be converted into cash within a year:

- Property, Plant and Equipment
- Land
- Intangibles
- Long-Term Investments



Liabilities

A **liability** is a financial obligation a company owes to another party. As with assets, it's best practice to separate this section between **current** and **noncurrent liabilities**.

Current liabilities are short-term debts due to be settled within one year:

- Accounts Payable
- Short-Term Loans
- Accrued Expenses



Noncurrent liabilities are long term debts that are not expected to be settled within a year:

- Long-term Loans
- Leases
- Bonds
- Deferred Tax Liabilities



Equity

The **equity** portion of the balance sheet is the difference between **what the business has** (assets) and **what the business owes** (liabilities). Equity shows **what the owners of the business actually own.**

Presentation of the equity elements will **vary** based on the structure of a business.

For example, a sole proprietor's balance sheet may just show owner's contributions, owner's draws, and retained earnings. A larger corporation may show different classes of stock, additional paid-in capital, and accumulated other comprehensive income.

Please **consult with your accountant** to determine the correct presentation of the equity section on your balance sheet.

Analysis

The balance sheet shows a picture of your business at a specific point in time. Below are some of the most useful balance sheet ratios for analyzing the performance of your business.

Liquidity ratios show the ability of a company to meet its short-term obligations.

- **Current Ratio:** $\text{Current Assets} / \text{Current Liabilities}$
- **Quick Ratio:** $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

Solvency ratios show the ability of a company to meet its long-term obligations.

- **Debt-To-Equity Ratio:** $\text{Total Liabilities} / \text{Total Equity}$
- **Debt-To-Assets Ratio:** $\text{Total Liabilities} / \text{Total Assets}$

Profitability ratios show the ability of a company to generate revenue.

- **Return On Equity:** $\text{Net Income} / \text{Shareholder's Equity}$
- **Return On Assets:** $\text{Net Income} / \text{Assets}$

Red Flags

Some red flags on your balance sheet can be identified with just a quick glance:



Negative balances can indicate that a transaction was categorized incorrectly.



Cash balance not matching your bank statement could mean that not all of your transactions have been properly recorded in the correct period.

Other red flags on the performance of your business may be better identified through ratio analysis.

Pro tip: When using ratio analysis, make sure to compare your business to industry benchmarks. Ensure you have an explanation for the strategies or circumstance resulting in any ratios that are significantly different from other businesses in your industry.

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