

# Site Under Construction

## Accounting - Basic Accounting

### Balance Sheets

[Home](#)

[Return to  
Basic Accounting](#)

**BusinessTown.com**<sup>®</sup>

---

### Balance Sheets

A balance sheet is a snapshot of a business' financial condition at a specific moment in time, usually at the close of an accounting period. A balance sheet comprises assets, liabilities, and owners' or stockholders' equity. Assets and liabilities are divided into short- and long-term obligations including cash accounts such as checking, money market, or government securities. At any given time, assets must equal liabilities plus owners' equity. An asset is anything the business owns that has monetary value. Liabilities are the claims of creditors against the assets of the business.

### What is a balance sheet used for?

A balance sheet helps a small business owner quickly get a handle on the financial strength and capabilities of the business. Is the business in a position to expand? Can the business easily handle the normal financial ebbs and flows of revenues and expenses? Or should the business take immediate steps to bolster cash reserves?

Balance sheets can identify and analyze trends, particularly in the area of receivables and payables. Is the receivables cycle lengthening? Can receivables be collected more aggressively? Is some debt uncollectable? Has the business been slowing down payables to forestall an inevitable cash shortage?

Balance sheets, along with income statements, are the most basic elements in providing financial reporting to potential lenders such as banks, investors, and vendors who are considering how much credit to grant the firm.

### 1. Assets

Assets are subdivided into current and long-term assets to reflect the ease of liquidating each asset. Cash, for obvious reasons, is considered the most liquid of all assets. Long-term assets, such as real estate or machinery, are less likely to sell overnight or have the capability of being quickly converted into a current asset such as cash.

### 2. Current assets

Current assets are any assets that can be easily converted into cash within one calendar year. Examples of current assets would be checking or money market accounts, accounts receivable, and notes receivable that are due within one year's time.

- **Cash**

Money available immediately, such as in checking accounts, is the most liquid of all short-term assets.

- **Accounts receivables**

This is money owed to the business for purchases made by customers, suppliers, and other vendors.

- **Notes receivables**

### Site Index

[Home Page](#)

[Accounting](#)

[Advertising](#)

[Associations](#)

[Books](#)

[Business Directories](#)

[Business Opportunities](#)

[Business Planning](#)

[Careers](#)

[Consulting](#)

[Entrepreneur](#)

[Finance](#)

[Letters & Forms](#)

[Getting Started](#)

[Hiring & Firing](#)

[Home Business](#)

[Internet \*\*New!\*\*](#)

[Legal](#)

[Managing a Business](#)

[Managing People](#)

[Marketing](#)

[Office](#)

[Presentations](#)

[Sales](#)

[Selling a Business](#)

[Taxes](#)

[Time Management](#)

[Travel & Maps](#)

[TurnAround \*\*New!\*\*](#)

[Valuing a Business](#)

Notes receivables that are due within one year are current assets. Notes that cannot be collected on within one year should be considered long-term assets.

### 3. Fixed assets

Fixed assets include land, buildings, machinery, and vehicles that are used in connection with the business.

- **Land**

Land is considered a fixed asset but, unlike other fixed assets, is not depreciated, because land is considered an asset that never wears out.

- **Buildings**

Buildings are categorized as fixed assets and are depreciated over time.

- **Office equipment**

This includes office equipment such as copiers, fax machines, printers, and computers used in your business.

- **Machinery**

This figure represents machines and equipment used in your plant to produce your product. Examples of machinery might include lathes, conveyor belts, or a printing press.

- **Vehicles**

This would include any vehicles used in your business.

- **Total fixed assets**

This is the total dollar value of all fixed assets in your business, less any accumulated depreciation.

### 4. Total assets

This figure represents the total dollar value of both the short-term and long-term assets of your business.

### 5. Liabilities and owners' equity

This includes all debts and obligations owed by the business to outside creditors, vendors, or banks that are payable within one year, plus the owners' equity. Often, this side of the balance sheet is simply referred to as "Liabilities."

- **Accounts payable**

This is comprised of all short-term obligations owed by your business to creditors, suppliers, and other vendors. Accounts payable can include supplies and materials acquired on credit.

- **Notes payable**

This represents money owed on a short-term collection cycle of one year or less. It may include bank notes, mortgage obligations, or vehicle payments.

- **Accrued payroll and withholding**

This includes any earned wages or withholdings that are owed to or for employees but have not yet been paid.

- **Total current liabilities**

This is the sum total of all current liabilities owed to creditors that must be paid within a one-year time frame.

- **Long-term liabilities**

These are any debts or obligations owed by the business that are due more than one year out from the current date.

- **Mortgage note payable**

This is the balance of a mortgage that extends out beyond the current year. For example, you may have paid off three years of a fifteen-year mortgage note, of which the remaining eleven years, not counting the current year, are considered long-term.

- **Owners' equity**

Sometimes this is referred to as stockholders' equity. Owners' equity is made up of the initial investment in the business as well as any retained earnings that are reinvested in the business.

- **Common stock**

This is stock issued as part of the initial or later-stage investment in the business.

- **Retained earnings**

These are earnings reinvested in the business after the deduction of any distributions to shareholders, such as dividend payments.

## 6. Total liabilities and owners' equity

This comprises all debts and monies that are owed to outside creditors, vendors, or banks and the remaining monies that are owed to shareholders, including retained earnings reinvested in the business.

\* **Source** [Streetwise Small Business Start-Up](#)

---

[Basic Accounting](#)

[Projections](#)

[Credit & Collections](#)

[Purchasing/Cost Control](#)

---

**Copyright ©2001-2003** BusinessTown.com, LLC. [Disclaimer](#)

[Contact us](#) for technical support or provide us feedback.

BusinessTown.com LLC - [Privacy Statement](#)

BusinessTown.com is a registered trademark of BusinessTown.com, LLC.