

Understanding the Balance Sheet

There are 3 components:

(in order of top to bottom of the report)

- 1 **Assets**
- 2 **Liabilities**
- 3 **Equity**



The accounting equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$



1 Assets: Things we own

Examples

- Checking
- Savings
- PayPal account
- Inventory
- Accounts receivable

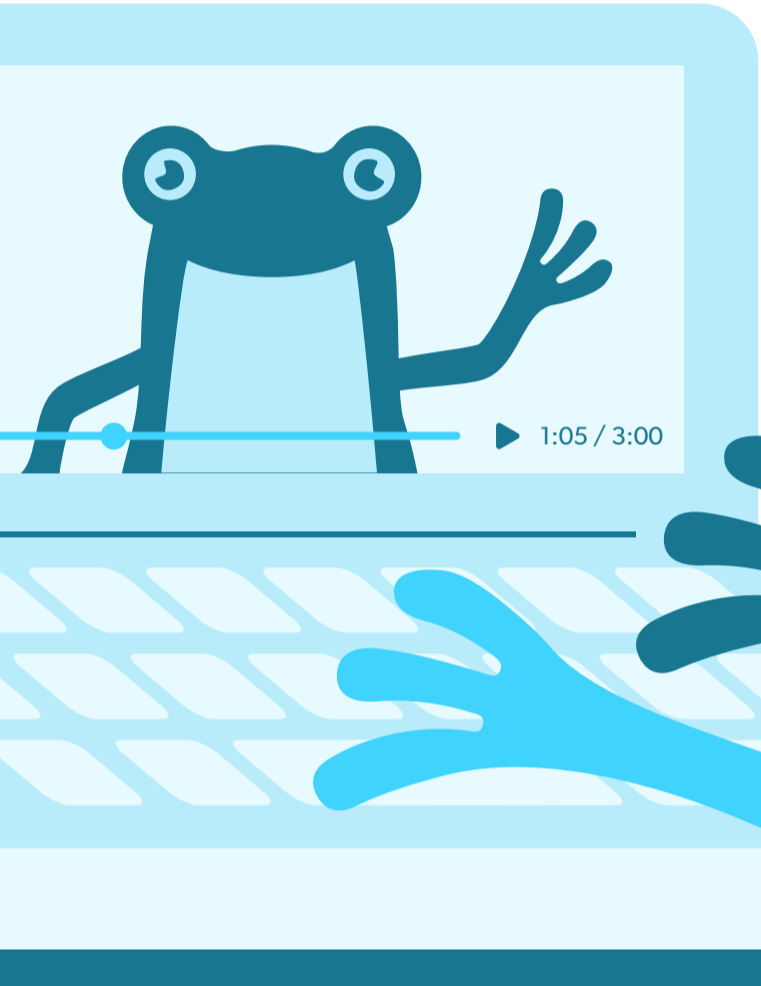


2 Liabilities: Money we owe

Examples

- Credit card
- Loans
- Payroll tax
- Sales tax

Sale happens with tax



If you buy a course that cost \$110...



\$110 collected

Goes into the bank, which is on the balance sheet



\$100 is income

This is on the profit and loss report



\$10 is sales tax

This is on the balance sheet

3 Equity: The difference between assets and liabilities

Examples

- Retained earnings
- Owner investment
- Owner withdrawals

Retained earnings is the sum of all net income and net loss (up to the previous year)

	2022	2023	2024
Retained earnings	-	91.25	1,642.46
Net Income	91.25	1,551.21	-

They add up

In this example, there are no retained earnings in 2022 because that's the first year (there was no Net Income in the previous year, 2021)

How to read the Balance Sheet

AS OF MAY X - 20XX		TOTAL
ASSETS		
Current assets		
Bank Accounts		
Checking	1,201.00	
Savings	800.00	
Total Bank Accounts	\$2,001.00	
Accounts Receivable		
Accounts Receivable (A/R)	5,281.52	
Total Accounts Receivable	\$5,281.52	
Other Current Assets		
Inventory Asset	596.25	
Undeposited Funds	2,062.52	
Total Other Current Assets	\$2,658.77	
Total Current Assets	\$9,941.29	
Fixed Assets		
Truck	13,495.00	
Total Fixed Assets	\$13,495.00	
TOTAL ASSETS	\$23,436.29	
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
Accounts Payable (A/P)	1,602.67	
Total Accounts Payable	\$1,602.67	
Credit Cards		
Mastercard	157.72	
Total Credit Cards	\$157.72	
Other Current Liabilities		
Arizona Dept. of Revenue Payable	0.00	
Board of Equalization Payable	370.94	
Loan Payable	4,000.00	
Total Other Current Liabilities	\$4,370.94	
Long Term Liabilities		
Notes Payable	25,000.00	
Total Long-Term Liabilities	\$25,000.00	
Total Liabilities	\$31,131.33	
Equity		
Opening Balance Equity	-9,337.50	
Retained Earnings	91.25	
Net Income	1,551.21	
Total Equity	\$-7,695.04	
TOTAL LIABILITIES AND EQUITY	\$23,436.29	

The accounting equation is true, the total **Assets** are equal to the **Liabilities** plus the **Equity**

