

THE BEGINNING BALANCE SHEET

A BALANCE SHEET keeps track of what your business has and who owns it. What your business has are called its ASSETS. Any money that you owe (loans and other types of debt) is called the business's LIABILITIES. Whatever is left over after you pay off all the debts is the part of the business you actually own, and is therefore called OWNER'S EQUITY, or just simply, EQUITY. Bankers and others often refer to EQUITY as NET WORTH.

The Balance Sheet is called a balance sheet because it has two parts, and they must be equal, and therefore in balance:

$$\begin{array}{l} \textit{Part one} \\ \textbf{ASSETS} \\ \textbf{EQUITY} \end{array} = \begin{array}{l} \textit{Part two} \\ \textbf{LIABILITIES} + \textbf{OWNERS} \end{array}$$

You can think of this in terms of a home mortgage. The difference between the home's value and the balance owed on your mortgage is referred to as your equity. Let's say you own a home worth \$100,000, and you still owe \$75,000 on the mortgage. In balance sheet terms, it looks like this:

<u>ASSET</u>	=	<u>LIABILITY</u>	+ <u>OWNERS</u>
<u>EQUITY</u>			
THE HOUSE VALUE	=	THE MORTGAGE VALUE	+ EQUITY
\$100,000	=	\$75,000	+ \$25,000

The BALANCE SHEET provides a snapshot of the business at a given point in time. We're going to create a balance sheet now for your business at the beginning of its first year of business, before you've generated any sales. At that point, any cash you have in the bank is money you got from loans, or selling someone a part ownership interest in your company (that is, stock). Your assets will be taken from things listed in START-UP COSTS.

BALANCE SHEET, BEGINNING OF YEAR 1

ASSETS

CURRENT ASSETS

Cash (*Cash left over from "Sources of Start-up Funding" after you've paid all your "Start-up Costs"*) \$ _____

Inventory (*From Start-up Costs: Item 8*) \$ _____

Prepaid Expenses
(*From Start-up Costs, Item 11, "Deposits," also Item 9, "Rent", if you do not own and/or are not purchasing your business location*) \$ _____

TOTAL CURRENT ASSETS \$ _____

FIXED ASSETS

Office equipment
(*From Start-up Costs: Items 5 + 6, "Computer equipment, phones, other office equipment" + "Computer software"*) \$ _____

Other equipment
(*From Start-up Costs: Item 7, "Special equipment for your business"*) \$ _____

Real estate owned
(*Full purchase price of land and/or building that you BOUGHT for your business*) \$ _____

Improvements
(*From Start-up Costs: Item 10, "Remodeling Work"*) \$ _____

TOTAL FIXED ASSETS \$ _____

TOTAL CURRENT ASSETS + PREPAID EXPENSES + TOTAL FIXED ASSETS =

TOTAL ASSETS \$ _____

BALANCE SHEET, BEGINNING OF YEAR 1

LIABILITIES

CURRENT LIABILITIES

Notes Payable

(any loans listed: Items 4 through 9 that come due within this first year)

\$ _____

Accounts payable

(if you bought any of your inventory, equipment or supplies on short-term credit – usually payable in 30 days)

\$ _____

TOTAL CURRENT LIABILITIES

\$ _____

LONG TERM LIABILITIES

LONG TERM DEBT

(any loans or mortgages: Items 4 through 9 with a pay-back term greater than one year)

\$ _____

TOTAL CURRENT LIABILITIES + LONG TERM DEBT =

TOTAL LIABILITIES

\$ _____

OWNERS EQUITY

ORIGINAL INVESTMENT

(Amount of money the owners initially invested in the business—from p. 39: Items 1 + 2, “Investment of CASH by Business Owner #1” + “Investment of CASH by Business Owner #2”)

\$ _____

TOTAL OWNERS EQUITY

\$ _____

TOTAL LIABILITIES + OWNERS EQUITY

(MUST = TOTAL ASSETS!!!)

\$ _____

Great! Now you know what you have and who owns it at the beginning of your first year in business. The next step is to DEPRECIATE YOUR ASSETS.