Reading Your Balance Sheet And Income Statement

DIAMOND & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Financial statements tell the story of your business. They are reports that show your business's activities and performance throughout the year.

While there are many financial statements you can draw up, this guide will go over the two most important - and most confusing - reports: **the balance sheet and the income statement.**

BALANCE SHEET

The balance sheet shows what you have and what you owe. It reports your business's assets, liabilities, and equity at one point in time. The accountant's golden rule for balance sheets: it's got to balance! The total amount of assets your business has should equal its liabilities plus its equity.

Assets = Liabilities + Equity

Assets

These are everything your business owns broken into either current or fixed asset categories. A current asset is something you'll use up quickly, usually within one year. A fixed asset is something you plan on holding onto for a long time.

Examples of current assets: cash, cash equivalents, accounts receivables, inventory, prepaid expenses, marketable securities

Examples of fixed assets: land, houses, machinery, computers, buildings, trademarks, long-term investments

Liabilities

Liabilities are what your business owes. These are also broken down by liquidity: current liabilities will be paid off within the year and long-term liabilities will be on your books longer than a year.

Examples of current liabilities: interest, salaries, dividends, accounts payables, unearned revenues

Examples of long-term liabilities: mortgages, car notes, deferred tax liability, bonds payable, long-term loans

Equity

Sometimes called "shareholders' equity", this is the net worth of your company. It's the amount of money that's left over for the owners if all assets were sold and all liabilities paid off.

- A positive amount of equity means your business can cover all its liabilities with its assets.
- A negative amount of equity means you may be struggling to meet your debts.
- Retained earnings are the monies left over after the owners have been paid. If you choose not to take a payout, you can use this reserve to reinvest in your business!

Balance Sheet

The Realest Real Estate Agency
Balance Sheet
December 31, 2022

What you own
e.g. cash, inventory, buildings, machinery

What you owe
e.g. salaries, dividends mortgages, loans

Your net worth
This is the difference between your assets and liabilities

Assets		Total
Current Assets		
Cash		$10,000
Accounts Receivable		$3,500
Prepaid Expenses		$1,500
Total Current Assets		$15,000
Fixed Assets		
Work car		$15,000
Total Fixed Assets		$15,000
Total Assets		**$30,000**
Liabilities & Owner's Equity		
Liabilities		
Current Liabilities		
Accounts Payable		$8,500
Credit Card Balance		$2,000
Total Current Liabilities		$10,500
Long-Term Liabilities		
Car Note Payable		$12,000
Total Long-Term Liabilities		$12,000
Total Liabilities		**$22,500**
Owner's Equity		
Owner's Investment		$7,500
Total Owner's Equity		**$7,500**
Total Liabilities & Owner's Equity		**$30,000**

These 2 totals should balance

Assets
=
Liabilities
+
Equity

Income Statement

This financial report tells you about your business's incomes and expenses over a given period (usually one year). It sometimes is called a "profit and loss statement" or a "P&L" and can tell you how profitable you were that year. Subtracting your total expenses from your total income will get you your net income (or loss).

Income – Expenses = Net Income

Income

This is all the money coming into your company. You may earn revenue from providing services to clients, selling products in retail, or earning interest on investments.

Expenses

This is all the money going out of your company used to pay your bills and vendors. If you are a business that sells products, you would add up any costs that went into the sale of the product on the "cost of goods sold" line. Other expenses could include employee wages, interest paid on loans, depreciation on buildings or machinery, and insurance.

Net Income

If you have a positive number after subtracting your revenues from expenses, your business will report a profit. If you have a negative net income, your business will report a loss for that period.

Income Statement

Revenue
What you made from the sale of goods or services

Business Costs
e.g. rent, utilities, wages, marketing

The bottom line
Tells you if you're operating at a loss, breaking even, or profitable

The Realest Real Estate Agency
Income Statement
December 31, 2022

Income	Total	
Sales commission revenue	$75,000	
Affiliate listing commission revenue	$25,000	
Total Income	**$100,000**	1
Expenses		
Cost of Goods Sold	$0	
Advertising	$15,000	-
Open house supplies	$2,500	
Listing photos	$2,000	
Office space lease	$15,000	
Total Expenses	**$34,500**	2
		=
Net Income	**$65,500**	3

This number can be positive or negative

Income (1) – Expenses (2) = Net Income (3)

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Still have questions?

Reach out to us about how we can help you understand your financial statements and make better decisions for your business.

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