



by Irene Hurst

• Director  
USF Small Business Development Center  
www.sbdc.usf.edu  
hurst@coba.usf.edu

**Q.** *This is my first business venture. What's so important about understanding financial statements?*

**A.** Financial statements are part of the information flow required to make management decisions that will determine the success or failure of a business. Reviewing and comparing your financial statements from several years will inform you of trends in your business that will help in decision making and problem solving. The balance sheet and income statement are two financial tools that you can use to determine the financial condition of your business. For the next few months, we will discuss financial statements and the importance of analyzing them on a regular basis.

A balance sheet statement provides a snapshot, or a still picture, of your business at one point in time; therefore, you always see a date associated with a balance sheet. The balance sheet tells you what the business owns, owes and the remaining owners' equity.

The balance sheet consists of the following components:

- Current Assets – what the business owns that can be used within one year to create sales, such as inventory, marketable securities, savings account, account receivables. Some items are consumed as expenses, such as prepaid insurance, taxes and any other prepaid expenses. Knowing this information is critical in evaluating a business for sale or for lending purposes.
- Fixed or Long-Term Assets – all materials, real estate (except land), equipment, tools, machinery, furniture that are used to produce what you sell are depreciable assets of the company.
- Other Assets can include intangibles like intellectual properties, goodwill, patents, mailing lists, stocks, bonds, research and development investments. If they are too high, they need to be examined very closely.
- Current Liabilities – what the business owes that has to be paid within one year or less. These liabilities include accounts payable, notes payable, bank loans, credit line and taxes.
- Long-Term Liabilities – these liabilities come due longer than one year and usually are amortized annually, such as mortgage loans, bonds and equipment loans.
- Owners' (or Stockholders') Equity is what the owners invested in the company that will be left if the business is liquidated.

As its name implies, the balance sheet must always be in balance. Total assets equal total liabilities plus stockholders' or owners' equity. ☺