1. How to Read a Balance Sheet (and Make Your Own) - YouTube

<https://www.youtube.com/watch?v=Yv1W683IaVc>

Transcript:

hey there aiden here from bench accounting today we're going to talk about balance sheets balance sheets help you see the big picture things like the value of your business how much you owe others and how much is left over for you the business owner a balance sheet is a must-have if you ever want to speak with investors secure a loan or sell your business in short you definitely need to know your way around a balance sheet in this video we'll walk you through exactly what a balance sheet is what it looks like and how to create

your own we'll even give you a template for your own so you can start plugging your numbers in so let's get started a balance sheet is a financial statement it's one of the big three financial statements along with the income statement and cash flow statement a balance sheet gives a snapshot of your financials at a particular moment summarizing every transaction and journal entry since your company launched a balance sheet is divided into three sections assets what your business owns liabilities what it owes others and owner's equity

which is the owner's claim to the business because it summarizes so much financial information the balance sheet is sometimes called the statement of financial position companies usually prepare one at the end of a reporting period such as the month quarter or year there are three main reasons you'd want to create a balance sheet for your business number one investors and lenders require them people who give your business money want to know exactly what they're getting into the balance sheet is the best way for

them to see the big financial picture so if you want to raise any capital you'll need a balance sheet number two it shows you the layer underneath income and expenses how much money you earn and spend isn't all there is to your business do you have any loans have you ever bought any equipment do you have a patent do you have a bunch of unpaid invoices you may be making way more than you spend each month and that's a great way to start having a healthy business but without understanding all the assets

and liabilities that lie underneath that monthly revenue you won't really know how much your business is worth number three it shows you just how valuable your business is maybe your business isn't bringing in as much net income as you hoped it would and you're discouraged at your financial prospects sometimes that doesn't tell the whole picture the balance sheet can remind you of all the assets you've invested in in the past and how much those are worth to you maybe you're struggling with revenue but

you have no debt and some solid long-term assets you can sell off so you can start a new business on a better foot the balance sheet gives you that big picture awareness of how valuable your business really is it's called a balance sheet because the asset section will always balance with the liabilities and owner's equity sections that's the balance sheet formula assets equals liabilities plus equity if your assets do not equal liabilities plus equity then you've done something wrong let's take a look at an example to see how

that works this is disney's balance sheet for the year 2018. well a very simplified version of it a lot of things have been left out there are three main sections we've got assets and liabilities and equity you can see here that the total liabilities plus equity is the same as the assets in other words they balance now what can you actually learn from a balance sheet let's pretend we're the ceo of disney reviewing our balance sheet at the end of the year our accountant hands us our balance sheet and this is what we see

the first thing we see is that disney has too much current liabilities how do we know that because their current liabilities are much higher than current assets current liabilities are any debt you're going to have to pay back within the next 12 months and current assets are cash and assets you plan to turn into cash in the next 12 months as it stands right now disney has a problem they don't have enough current assets to cover their current liabilities accountants call this idea the quick ratio it means ideally you want to have

one-to-one ratio of current assets to current liabilities now i'm sure disney is going to be just fine they can probably restructure this debt and they're probably going to earn more than enough revenue to cover this debt in the form of movie sales music sales disneyland ticket sales etc their cash flow statement would provide more detail on the cash flow side of things the second thing we can learn at a glance from this balance sheet is that disney has 38 trillion dollars in goodwill and tangible assets which is the single

most valuable thing on the balance sheet goodwill and intangible assets are essentially the value of the disney brand the only problem with that is the disney brand doesn't pay the bills if you want to sell the disney brand who would have enough money to buy it and how long would it take the disney brand can be converted into tangible value but it takes some work for example since disney is a hit with young families they can start a mickey mouse diaper product line and cash in on that intangible value by selling diapers to people who already

trust the disney brand now for the fun part how do you create your own balance sheet you can download our free balance sheet template created by our expert in-house bookkeepers here at bench by clicking on the link in the video description below you'll be able to follow along with what we're doing here to make your own balance sheet this is a simple version of a balance sheet you can use to plug in your own numbers let's say you're creating a balance sheet for the month of january and we start with cash at the top of the

balance sheet and work our way down on january 31st we would total all our cash accounts like our checking account paypal account and any others to see how much cash we have total on january 31st then we'd put that amount in the cash box next we want to see how much money we are owed by others do we have an outstanding invoice let's say a client owes us four thousand four hundred dollars for a big event our cafe catered for them last week they're supposed to pay us in the next two weeks so we put that as an

asset under accounts receivable next inventory our cafe has a total of six thousand one hundred and fifty dollars in unsold inventory which means we paid 6150 for everything our cafe hasn't sold yet including the stuff and storage that you're planning on selling in the next few months next fixed assets we have a cash register and a macbook things we're not planning on selling anytime soon but are still valuable we now have a total for our assets so we plug that in moving on to liabilities three thousand

four hundred dollars on our business credit card money we have to pay back in the next few weeks for short-term loans we have nine thousand four hundred twenty-two dollars and seventy-seven cents we need to pay back to the bank within the next 12 months sometimes you'll have long-term debt here but our cafe doesn't have that finally accounts payable we'll enter the amount that we still owe our vendors the last section is equity member drawing is how much money the owners pulled out of the business for their own

personal use member contribution is how much money the owners put into the business retained earnings is the total income retained by the business that can be reinvested back into the business or distributed to shareholders now we put it all together if we've done the balance sheet correctly the assets should equal the liabilities plus equity looks like it balances right so our balance sheet is done again you can download this balance sheet template by clicking the link in the description below if you followed along with everything so

far you're well on your way to mastering the balance sheet and if you'd rather have someone else prepare your balance sheets for you check out bench we're america's largest bookkeeping service and we would love to do your books and balance sheets for you we'll do your bookkeeping each month and prepare a monthly balance sheet and income statement for you go to bench.

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