**Reading a Balance Sheet**

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**The Balance Sheet**

The balance sheet is a financial statement . It is a list of: all the assets ( what the business owns ) all the liabilities ( what the business owes ). The balance sheet is a financial “ snap shot ”. It lists the assets and liabilities of the business in a particular month or year . This is the basic unit you can use to view the health of the business.

**Sample Yearly Balance Sheet:**

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Compare last year with this year

The end of the financial year is usually end of March, June or Sept

**Sample Monthly Balance Sheet How is this business doing this month?:**

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**Fixed Assets:**

Fixed Assets: These are assets that the business owns perhaps for several years so they are fixed . Examples : Buildings , Machinery , Vehicles

**CURRENT ASSETS :**

CURRENT ASSETS: These assets will not stay in the business for long.

Examples : materials , debtors , money in the bank , petty cash.

CURRENT LIABILITIES : The amount of money that a business owes other people and other businesses ( creditors ). Liabilities are “current ” because the amount owed can vary from one day to the next. They must be paid back within a year .

**NET ASSETS = ASSETS (current & fixed) minus LIABILITIES (Current & fixed):**

The second section of the balance sheet looks at where the money which was used to buy the long term and short term assets came from

The start up of the business is funded by: CAPITAL & RESERVES SHARE CAPITAL – The amount of money paid by shareholders in return for a share in the business.

**PROFIT & LOSS ACCOUNT –**

Net profit from the previous financial year is transferred into the balance sheet .

RETAINED PROFIT – businesses do not give all of their profits back to shareholder For a non- profit this is called retained income .

**Summary**

NET ASSETS SHOULD EQUAL THE AMOUNT OF MONEY THAT HAS BEEN INVESTED IN THE BUSINESS.

BOTH PARTS OF THE BALANCE SHEET MUST BALANCE

Exercise : ask for last years’ Balance Sheet of your NGO, and seek to understand it