Creating a balance sheet can be a challenging task for small business owners. Especially if you’re not schooled in finance and do not fully understand the ins and outs of financial statements, you may feel uncertain at first. It is so crucial that a small business CEO knows the importance of a balance sheet and uses it. I was reminded of this when working with a CEO two weeks ago with his SCORE mentor and the CEO’s question gave me my idea for this column…What is a balance sheet and how can I use it to manage my business?

I have the opportunity to see SCORE mentors across the country. This question was discussed so well recently by Hal Shelton that I want to share some of his discussion. Hal is a SCORE mentor who is passionate about helping small businesses start and grow. He has been a CFO and board member for NYSE/NASDAQ publicly traded companies and nonprofits.

**What is a balance sheet?** A balance sheet is one of the three primary financial statements used to monitor the health of your business, along with your cash flow statement and the income statement. Your balance sheet should be included as part of your business plan. Think of it as a snapshot of your company’s financial position — what you own and what you owe — at a singular point in time, like at the end of a month, quarter or year.

The things you own are called **assets**, such as cash in the bank, inventory, vehicles, equipment, buildings, and accounts receivable, which is money customers owe you for sales made but not yet paid for.

The items you owe are called **liabilities**, such as accounts payable, which are purchases you have made but not yet paid for; taxes you owe, including sales, payroll, general purpose loans; and mortgages.

The difference between what you own (assets) and what you owe (liabilities) is called **net worth** or owner’s equity. In other words, after all the bills have been paid and all obligations have been satisfied, any value remaining belongs to the owners.

**What is the benefit of having a balance sheet for your business?** At a glance, the balance sheet will give you an idea if your business has the financial resources to expand
and manage the normal swings in receiving and spending cash or if it needs immediate attention to bolster cash reserves.

In terms of operational management, the balance sheet provides insights where cash needs to be collected, inventory managed and bills paid. Here is your assignment for next week…What can the balance sheet reveal for a small business? Think about that.

In my next column, I will discuss how you can use a balance sheet to manage your business.

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