WOODLAND
BUSINESS SOLUTIONS

HOW TO READ A BALANCE SHEET

While the Profit & Loss statement shows how your business performed over time, the Balance Sheet shows where your business stands right now.

It’s a snapshot — not a scorecard.

Your balance sheet helps you understand what your business owns, what it owes, and what’s left once everything is accounted for. When read calmly and consistently, it becomes one of the most useful tools for making grounded decisions.

How to Read a Balance Sheet

How a Balance Sheet Is Structured

A balance sheet is made up of three main sections:

- Assets
- Liabilities
- Equity

At the bottom of the report, you'll see a total that confirms this basic equation:

Assets = Liabilities + Equity

This is why it's called a balance sheet — everything must balance.

If it doesn't, it's a sign something needs attention in the accounting.

Why Balance Sheets Matter

A balance sheet helps answer big-picture questions like:

- How much cash or liquid assets does my business have access to right now?
- Is my current level of debt sustainable?
- How financially stable is my business today?

It also helps with short-term planning:

- How much money is owed to me and likely coming in soon?
- What bills or obligations need to be paid in the near future?
- After covering those obligations, what's left to reinvest in the business?

Because of this, balance sheets are often reviewed by lenders, investors, and advisors to understand:

- overall financial risk
- whether the business is becoming stronger or more strained over time
- how profits are being reinvested or distributed

The P&L isn't the only important report — the balance sheet gives it context.

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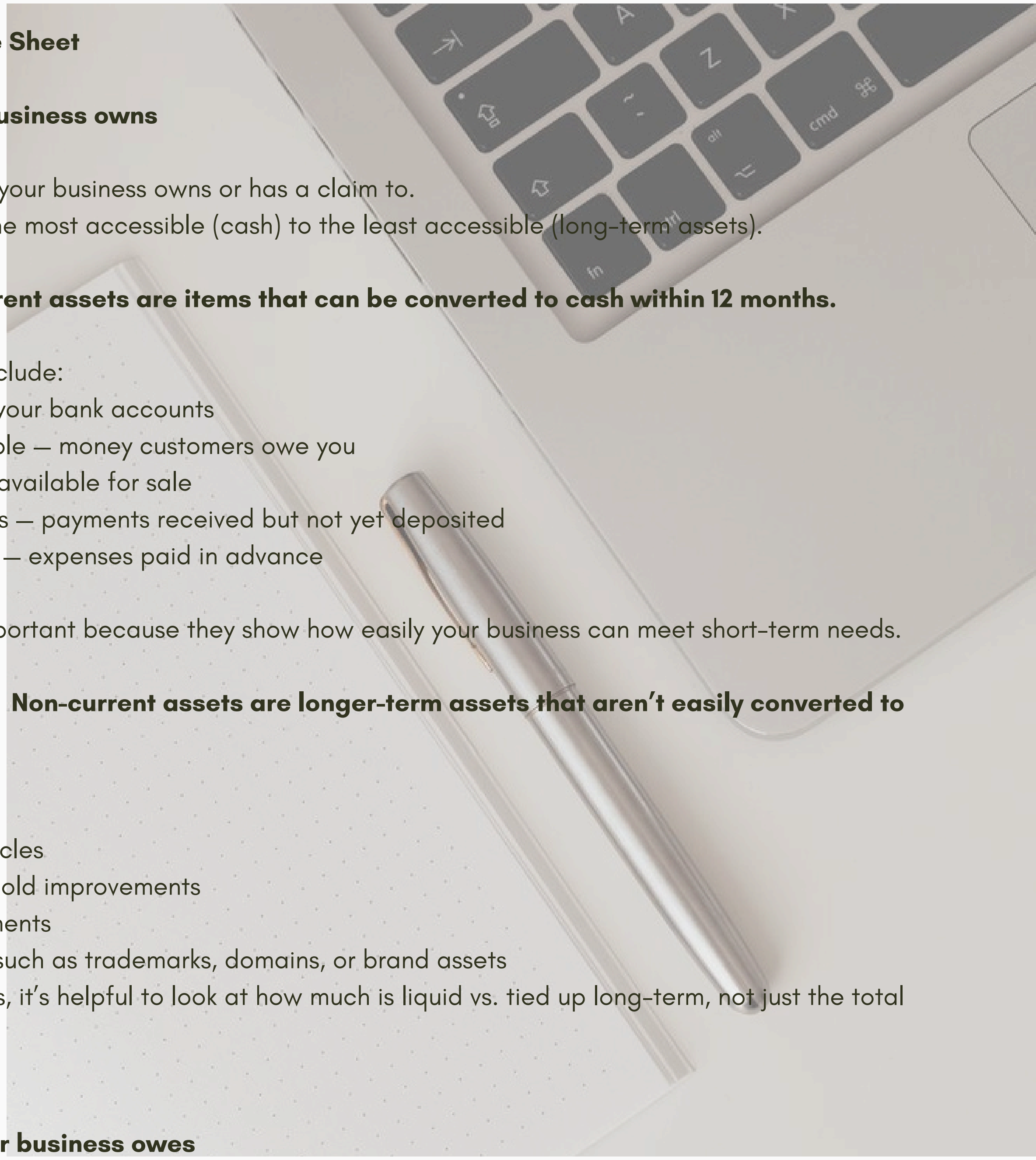

Reading the Balance Sheet

Assets: What your business owns

Assets are everything your business owns or has a claim to.
They are listed from the most accessible (cash) to the least accessible (long-term assets).

Current Assets: Current assets are items that can be converted to cash within 12 months.

Common examples include:

- Cash — money in your bank accounts
- Accounts receivable — money customers owe you
- Inventory — items available for sale
- Undeposited funds — payments received but not yet deposited
- Prepaid expenses — expenses paid in advance

Current assets are important because they show how easily your business can meet short-term needs.

Non-Current Assets: Non-current assets are longer-term assets that aren't easily converted to cash.

These often include:

- Equipment or vehicles
- Property or leasehold improvements
- Long-term investments
- Intangible assets such as trademarks, domains, or brand assets

When reviewing assets, it's helpful to look at how much is liquid vs. tied up long-term, not just the total number.

Liabilities: What your business owes

Liabilities represent obligations your business is responsible for paying.
Like assets, liabilities are grouped by timing.

How to Read a Balance Sheet

Current Liabilities: These are debts due within the next 12 months, such as:

- Accounts payable
- Credit cards
- Short-term loans or lines of credit
- Sales tax, payroll tax, or income tax payable

These are your most immediate obligations and deserve regular attention.

Long-Term Liabilities: Long-term liabilities are debts that extend beyond 12 months.

Examples include:

- Business loans
- Mortgages
- Long-term tax repayment plans

Understanding long-term liabilities helps with planning and ensures future obligations remain manageable.

Equity: What remains after everything is accounted for

Equity represents the business's net value.
It can be summarized as:

Equity = Assets – Liabilities

If equity is positive, the business owns more than it owes.
If equity is negative, liabilities exceed assets and need attention.

Common equity components include:

- Owner or shareholder contributions
- Owner draws or distributions
- Net income
- Retained earnings

Looking beyond the total equity line helps you understand how equity is growing — whether through profits, reinvestment, or owner contributions.

How to Read a Balance Sheet

A Final Perspective

Your balance sheet isn't meant to overwhelm or judge.

It's meant to help you see your business clearly —
what's supporting it, what's weighing it down, and where adjustments may be needed.

When paired with your Profit & Loss statement, it becomes a powerful tool for building stability, confidence, and long-term sustainability.

You don't have to do it alone.
You just need the right structure.

CREATED BY WOODLAND BUSINESS SOLUTIONS

Calm. Clarity. Confidence.