



Create and Utilize a Balance Sheet

A Balance Sheet (also referenced as a Statement of Financial Position) provides information regarding the health of a business by demonstrating what a business owns and owes in a specified time period. It can support decision making pertaining to financial sustainability, growth and financial obligations.

Background

Financial Management can be a challenging and scary topic, but it doesn't have to be. Having a basic understanding about the financial performance of the business can inform decisions that impact financial sustainability, growth and meeting financial obligations. Prior to making any financial decision, it is always important for business owners and leaders to:

- consistently review and compare the business's financial reports,
- consult with a financial professional with that specific area of expertise, and
- assess all options to minimize loss or risk to the business.

Taking action

Understanding the overall financial health of the business is significant to making decisions that can promote profitability and debt reduction. A financially healthy child care business is more likely to be sustainable and provide high quality learning experiences for children which will result in better outcomes for children. Reviewing the Balance Sheet is a quick way to assess the overall financial health of a business. Your business accountant can create the Balance Sheet or you can utilize the provided template to create a simple Balance Sheet. In both cases, an understanding of key financial terms and statement data will be helpful to ensure that this document provides information that is useful and relevant to determining the health of your business to support decisions that will positively impact the business.

Next steps

- *Understand key concepts and the importance of a Balance Sheet.*
 - A Balance Sheet consists of three essential concepts (**assets, liabilities and shareholder equity**) to determine the health of a business during a specific time period (monthly, quarterly or annually).
 - **Assets** consist of any items that the business owns. In a child care business, this can

include cash, inventory, equipment and furniture; these are items that have been paid for and are not leased or borrowed. There are two types of assets to consider:

- *Current assets* (or liquid assets) include cash, accounts receivable, or items that you can easily sell for cash such as unused or unopened consumables (i.e. paper products) or gently used classroom materials (i.e. books, toys). For not-for-profits and grant-funded early education programs, cash can sometimes be separated into “restricted” and “unrestricted” categories.
 - *Fixed assets* (non liquid assets) are things of value that you can't turn into cash quickly, such as property, an office building or large equipment.
 - There are also other (intangible) assets that aren't physical but bring value to the business. They include the business's goodwill, brand name, intellectual property and patents, among other things.
 - Put all of those holdings together, and you have your list of total assets for the balance sheet.
- **Liabilities** consist of items (invoices, loans, accounts payable) that the business owes. In a child care business, this can include mortgage/rent, personnel/staff wages, outstanding invoices, equipment leases, and loans. They're typically broken down into current and long-term liabilities.
- *Current liabilities* are those due during the year. Office supplies, rent, marketing expenses, payroll, taxes, loan payments and healthcare costs are some examples of current liabilities.
 - *Long-term (non-current) liabilities* are any debts not due within a year. They can include debt obligations, deferred tax liabilities and bond payments.
- **Shareholder equity (or owner's equity)** is the amount of the business owner's investment in the business. This amount can be paid out to the owner upon request, at an agreed upon time frame or if the business is sold. It doesn't include retained earnings, or the money the business keeps to pay off debt or invest in operations.
- **The Balance Sheet will inform investors and lenders about the level of risk within your business to determine if the business is a worthy investment.** If your Balance Sheet indicates that the business is unable to meet financial obligations (i.e. liabilities and shareholders equity), it may be deemed too risky for a business loan or other funding opportunities. However, if the Balance Sheet indicates that the business is able to meet its financial obligations and is deemed viable based on the analysis of other financial reports such as the Profit and Loss Statement and Cash Flow Analysis, it may be approved for business loans or other funding opportunities.
- **The complexity of your business will determine the depth of your Balance Sheet.** Balance Sheets can become complex in consideration of the different types of assets and liabilities. Therefore recordkeeping and retention is significant to creating an

accurate statement. An accountant and automated accounting system can support the creation of the appropriate Balance Sheet to accurately reflect the financial position of your business. If your balance sheet is compiled by an outside accountant or firm, ensure that they have documentation of the accounting principles used to organize the balance sheet. Working with an accountant and utilizing an automated accounting/digital account system is strongly encouraged for the creation of your business's Balance Sheet.

- *Create a Balance Sheet*

- There are many different types of Balance Sheet templates that can be accessed through accounting software and the internet. Your accountant or accounting software may have a particular format that best reflects the nature of your business. SCORE provides a free fillable Balance Sheet template which is linked below. SCORE, the nation's largest network of volunteer, expert business mentors, is dedicated to helping small businesses get off the ground, grow and achieve their goals. SCORE is a resource partner of the U.S. Small Business Administration (SBA). Many of their programs and services are offered at no cost. Its menus of services include mentoring, webinars, on-demand courses, online resource library and various local events. SCORE provides a free fillable [Balance Sheet Template](#).
- An example of a completed balance sheet for a child care business is included below.

- *Assess your Balance Sheet*

- The balance sheet example below provides an assessment of a child care business's financial position. Once you have created your Balance Sheet, use these reflective questions to assess the financial position of your business to help you make financial decisions that are in the best interest of your business to support sustainability and growth:
 - Is your business able to meet all of its financial obligations?
 - Does your business have more liabilities than assets, if so, why?
 - What is the ultimate goal for your business?
 - Can you sell any assets within 6-12 months to pay off liabilities, if needed?
 - Does your current system of accounting, documentation and recordkeeping adequately reflect the business assets and liabilities; and, is that information easily accessible?
 - How has your balance sheet changed from the previous month, 3 months or same time period last year and what do these changes indicate in your business?
 - If your business continues to operate in this manner, where will your business be in 1-2 years?
 - What is this statement telling you about your business? Do you need assistance to better understand and synthesize this data?

Happy Academy Balance Sheet

September 30, 2022

ASSETS

Current Assets		
Cash in bank	\$	6,000.00
Petty Cash	\$	250.00
Accounts Receivable	\$	1,400.00
Contingency Reserve	\$	3,000.00
Inventories	\$	750.00
<i>Total Current Assets</i>	\$	11,400.00
Fixed Assets		
Furniture & Equipment	\$	4,000.00
<i>Total Fixed Assets</i>	\$	4,000.00
Total Assets	\$	15,400.00

LIABILITIES & SHAREHOLDER'S EQUITY

Current Liabilities		
Accounts Payable	\$	1,500.00
Payroll	\$	3,200.00
<i>Total Current Liabilities</i>	\$	4,700.00
Long Term Liabilities		
Bank Loan	\$	6,000.00
Other	\$	2,000.00
<i>Total Long Term Liabilities</i>	\$	8,000.00
Shareholder Equity		
Equity Capital	\$	700.00
Retained Earnings	\$	2,000.00
<i>Total Shareholder Equity</i>	\$	2,700.00
Total liabilities and shareholder equity	\$	15,400.00

This Balance Sheet is balanced which indicates that Happy Academy is able to meet all of its financial obligations. With the completion of this report, it is assumed that all financial information has been properly disclosed and is reflected in this statement. Adequate documentation and recordkeeping are essential to ensure that the financial statement accurately reflects the business's assets and liabilities. Using an accounting software and digitizing documentation and records will support the integrity of Happy Academy's financial reports.

Happy Academy has more current assets than current liabilities which further supports its financial stability and sustainability. In the event of a business emergency, it appears that Happy Academy has sufficient cash in the bank and inventories that can be liquidated to address unforeseen financial needs.

This is Happy Academy's first Balance Sheet, so a comparison to the previous year's financial position is not possible. Moving forward, Happy Academy can compare current balance sheets to previous balance sheets to assess the financial health and needs of the business.

In order to predict the future of this business, an assessment of the business's current Profit & Loss Statement along with this Balance Sheet will provide more information to determine its future profitability.

Based on only this Balance Sheet, it appears that Happy Academy is financially healthy. Developing a relationship with a financial advisor can help determine a business strategy to continue and improve Happy Academy's positive financial position. If Happy Academy continues its current operations in this manner, it is well positioned for sustainability and growth.

Note

- This resource does not constitute or substitute as professional financial advice; there are many criteria to consider in managing a business. With all business and financial matters, consultation with a financial professional is strongly advised.

Additional resources

- [Indiana Small Business Development Center](#)
- [One on One Business Consultation](#)
- [SCORE](#)

How to get more help

Contact the OECOSL Child Care Support Line for assistance at 1-800-299-1627.

Source(s)

Score Association. (2020, September 3) Everything You Need to Know About the Balance Sheet. SCORE. <https://www.score.org/news/everything-you-need-know-about-balance-sheet>

Score Association. (2019 March 27) Balance Sheet Template. SCORE. <https://www.score.org/resource/balance-sheet-template>