Capworth

Statement of Financial Position (Balance sheet)

Your balance sheet is a snapshot of your business's financial position—at a particular moment in time, how are you doing? How much cash do you have in the bank, how much do your customers owe you, and how much do you owe your vendors?

What to include in your balance sheet

- Assets: Your accounts receivable, money in the bank, inventory, etc.
- Liabilities: Your accounts payable, credit card balances, loan repayments, etc.
- Equity: For most small businesses, this is just the owner's equity, but it could include investors' shares, retained earnings, stock proceeds, etc.

It's called a balance sheet because it's an equation that needs to balance out:

Assets = Liabilities + Equity

The total of your liabilities plus your total equity always equals the total of your assets.

At the end of the accounting year, your total profit or loss adds to or subtracts from your retained earnings (a component of your equity). That makes your retained earnings your business's cumulative profit and loss since the business's inception.

However, if you are a sole proprietor or other pass-through tax entity, "retained earnings" doesn't really apply to you—your retained earnings will always equal zero, as all profits and losses are passed through to the owners and not rolled over or retained like they are in a corporation.