

Ask SCORE

By Willy Campbell

Read Between the Lines of Your Balance Sheet

For new entrepreneurs a Balance Sheet may appear at first to be a complex and confusing collection of numbers. However, this financial statement contains valuable information for assessing the health of your company and making decisions on which direction to take.

A Balance Sheet is essentially a snapshot of your company at a single moment in time. The Balance Sheet shows how the capital within your business is distributed over the various accounts. For example, a surplus of assets over liabilities indicates profitability.

If the statement shows more liabilities than assets, however, your company is at a loss position – not necessarily cause for alarm depending on the longer trend; but clearly a red flag has appeared. A business may have a month with high expenses and a net loss that may be more than offset by five months of profitability. On the other hand three consecutive losing months should prompt the owner to make serious decisions about how to overcome the negative cash position.

Compare balance sheets over a period of time for the big picture of your assets and liabilities. By comparing these on an item-by-item basis, you can spot trends that will affect your firm's overall health.

For example, larger quantities of merchandise on hand from one period to another reflect a decision to buy ahead because of continuing inflation. Receivables may show a continuing upward trend when collection of outstanding accounts exceeds 30 days. Debts may run higher when the firm expands or makes capital improvements. Or there may be other reasons for these trends – the key is to spot them, then to understand them and then to make informed decisions.

A companion to the Balance Sheet is the Profit & Loss (P&L) statement, also called an Operating Statement. This statement presents data over a specific period of time, usually monthly. The statement shows sales volume, the cost of the sales, operating costs and the amount of profit or loss.

Comparing the monthly or quarterly P&L statements can be revealing. Was there a lower gross profit (sales minus cost of sales) for several quarters? Did price cuts decrease per sale profitability? Was a higher proportion of sales spent on operating costs such as personnel, rent, insurance, FEDEX? Are overhead costs increasing regularly? Making these comparisons, catching the trends and taking appropriate and informed action are essential to the well being of a small business.

Do not rely on your accountant for advice and guidance in understanding your Balance Sheet (and your other financial statements). As the decision-maker for your company, you need a clear understanding of how to read, interpret and act on financial information. For

assistance contact the Sandhills Chapter of SCORE “Counselors to America’s Small Business”. In addition, plan to attend SCORE’s free seminar on “Accounting For You & Me” on 31 May at Sandhills Community College presented in coordination with the college’s Small Business Center. You can find more information on this seminar at the web site noted below.

SCORE is a nationwide nonprofit association of expert business counselors who provide free and confidential business counseling to small business owners. The Sandhills Chapter is very active in counseling, mentoring and presenting free business seminars. It is currently expanding these activities and is seeking motivated volunteers. You can reach the Chapter via the web at www.sandhillsscore.org or at 910-692-3926.

Remember – send your business questions to me at www.contact@sandhillsscore.org and don’t forget to provide a way to contact you. I may not be able to answer all of them in this column but every one will receive a personal answer from one of our Sandhills SCORE counselors!