ILuvAccounting

Read a Balance Sheet

The Balance Sheet is a snapshot of what your business owns, owes, and what's left over — at one specific moment in time.

The Core Equation

Assets = Liabilities + Equity. This always balances — it's not a coincidence, it's how double-entry bookkeeping works. If it doesn't balance, something was recorded incorrectly.

The Three Sections

Section	Includes	Timing
Current Assets	Cash, Accounts Receivable, Inventory	Convert to cash within 12 months
Non-Current Assets	Equipment, Property, Long-term Investments	Held longer than 12 months
Current Liabilities	Accounts Payable, short-term debt	Due within 12 months
Long-Term Liabilities	Loans, mortgages, notes payable	Due after 12 months
Equity	Owner's Capital + Retained Earnings	What's left for the owner(s)

Two Ratios Worth Knowing

Ratio	Formula	What "Healthy" Looks Like
Current Ratio	Current Assets ÷ Current Liabilities	Above 1.5 is generally comfortable
Debt-to-Equity	Total Liabilities ÷ Total Equity	Lower means less reliance on debt

What to Look For

A healthy balance sheet usually shows: a Current Ratio comfortably above 1, Equity growing steadily over time, and debt that's manageable relative to Equity. If Current Liabilities are creeping above Current Assets, that's an early cash-crunch warning sign worth investigating.