(00:00):

So let's talk, the balance sheet. Now, most of you are probably going to be like, Heather, what is a balance sheet? Why do I need to know it? What does this report mean? So again, the balance sheet. What you own, so assets, so it could be a vehicle that the business owns. It's going to be your bank accounts, the cash that you have, what you owe or liabilities and what you've invested, or your equity in the business and how much you've paid yourself. So let's go ahead and click on the balance sheet. We're going to default at the same date range. So a balance sheet gives you the information as of any given point in time. So its balance sheet reports are as of a given day. So these will fluctuate throughout the month, throughout the year, whatever date you're using, they're going to be as of XYZ date. So again, if a balance sheet does not look correct, you're going to go back to the bank feed and you're going to make sure that you've categorized all your transactions for the month.

(00:56):

All right. So in this particular instance, let's go through the setup of the report and how it looks. So again, it's going to start at the top, assets. And again, remember we did the prior module that talked about the different types of accounts and what they means. So assets, this is going to be your bank accounts, checking or savings. Accounts receivable is money that people owe you. Other current assets could be inventory or undeposited funds. So what undeposited funds are, is money that you've received from people, but you haven't deposited it yet. So say you received some paper checks in the mail and you received payment on them, but you haven't gone to the bank yet. So they would be sitting in undeposited funds because you haven't made the deposit yet. And then a fixed asset, so a fixed asset would be a building that you own or a vehicle that you own. And that would be the original cost of it.

(01:48):

So the top half of this is your assets and the business, now the bottom half of the report is your liabilities and equity. So liabilities are money you owe to other people. And equity is how much you have invested in the business, money you've put in personally or money that you've taken out to pay yourself. So accounts payable would be as if you owe anyone money. Other current liabilities would be tax payments or payments you owe to the city or state. A loan that you may have to somebody. So a short term liability would be a loan payable that you're going to pay down in 12 months. Long-term liability would be a notes payable or loan payable that you would pay well over 12 months. And then you can see that each of these portions will subtotal. As what you can see, there's parent accounts and then sub accounts. And then the bold means they're totalling. And then the equity reflects opening balance equity. And that is specific to QuickBooks alone as an accounting software.

(02:51):

All right. So here we are, again, back in the demo account. So I use Craig's Design and Landscaping to show you how the balance sheet looks. However, I want to give you guys a clearer picture of what equity accounts look like as you guys are going to use them that are going through the Number Nerd Academy. So in Craig's Design and Landscape, he's on payroll. So his balance sheet looks a little different, he doesn't take distributions.

(03:14):

So in the demo account that I'm using for the Academy, we're going to look here at the equity. So you can see opening balance equity, a zero, and it should typically always be zero because, again, it's a QuickBooks only account used when you open a new bank or credit card account. And QuickBooks takes the amount that happens when you open that account and puts that here. Now, as an accounting practice, there is going to be a tutorial that I'm going to show you guys to close and clear those accounts out. But what I want to show you is here, we have an owner contribution account, or you can call it owner investment, so again, you can play with the terminology a little bit. So owners normally invest money in their business, but then they also take money out of their business. So typically those are called owner contribution, owner investment, partner investment, and then they're called the owner draw, owner distribution, partner distribution, or you can call it owner pay. It's not right or wrong. You just want to distinguish what it is.

(04:17):

I have a lot of clients that will use owner pay or owner draw and then have sub accounts. If they are paying something specific personally, out of the business, but it really needs to be broken out level of detail. So for example, health insurance, say, it's not an expense of the business, but you want to pay, you want to show that level of detail. Or say, oops, you paid for your kid's daycare, or you paid your property taxes inadvertently out of the business, but you know it's a personal expense to yourself. So you put it to owner pay or owner draw, owner distribution. And you want to have a sub-account so that it stands out to you when you're pulling the report at the end of the year to do your taxes.

(05:00):

So in this instance, you'll see that owner contribution is a positive number. In this instance, it's just $3, and then, owner draw is $63,426.34. So this is going to be different numbers and different amounts for each of you. The idea here is I just want to show you the level of detail and how it looks. Now, you'll see, there's also two other accounts on here. So there's retained earnings and there's net income. Now, net income, we already talked about on your P&L, and that is the profit earned for the period. So if we were to go to the P&L for February 28th, you would see that net income equals a loss of $1,256.86 on this. So when you guys are looking at these, if you're looking at your balance sheet, you could go pull your P&L for the same period ending date. And that net income number will match your P&L. Exciting, huh? More than you probably wanted to know about financial statements.

(05:55):

But it's important to know how these work and what the numbers are, to know if something's right or wrong. Or if you're accounting professional, or if you need to quickly reference how much you've paid yourself here to date. Say, you're getting a loan in your house to buy a new home or to refinance, and you need these numbers. This is how you're going to verify this information in order to make good decisions in your business.

(06:16):

So the other thing here is retained earnings. So any net income that is not paid out to shareholders' equity at the end of the reporting period becomes retained earnings, retained earnings are then carried over to the balance sheet where its reported as such under shareholders' equity.

(06:39):

I wouldn't necessarily focus so much on retained earnings. I rather want you to understand for going through this new, and investing in yourself and understanding what bookkeeping is and how to do it in the Academy. You just need to know that, that number is there and it's going to remain on your report and it's always going to be there. And the number's going to change and fluctuate from month to month and at the end of the year. And what it means and what it consists of. Most of the time your CPAs are going to be looking at it, an accounting professional, bookkeeper is going to be looking at it. And they're going to be helping you. If there's any issues or questions, they will come back and explain to you what they're looking for and why they're needing it and, or come into your QBO and help you get it and look at it.

(07:20):

I hope this helps and hope this make sense, but I think a lot of you are going to be interested to know the balance sheet reflects the payments you're paying yourself. And I have a feeling, a lot of you are going to like coming in here and looking at this every month or when we're doing some analysis or looking at the budget, how we're going to calculate these numbers and what this means. This is also a good report for you to look at, to see what your balances are. So part of the process of looking at these reports is, after you do the reconciliation each month, the reconciliation and the ending statements amount on your bank or credit card statements, should match what the balance sheet number is, on the statement ending date as well. So it's kind of a crosscheck when you do bookkeeping.

(08:06):

Now you're the one doing the bookkeeping. So you're the one, cross-checking it. But if I were coming in and I was looking and you said, "Hey, something's wrong with my numbers. I've coded the bank feed. Everything's up to date, I've reconciled my accounts. I'm looking at my reports. Something's funky." I would say, "Send me your bank and credit card statements and I would cross-reference." First to say, all right, is the bank and credit card statements match the balance sheet? If not then I know something's wrong instantaneously with those accounts. So it's kind of a bookkeeping trick hack from an accounting professional. Well, that's how you know if something's wrong or not. So some of you who already have an existing QBO file that may not have gone through all of the steps yet, are going to be like, you might look really quick and be like, oh, something's off. Yep. That's not right.

(08:50):

But also in the reconciliation window, you would know because you're not going to be zero when you're done reconciling. Anyway, lots of information. But I want you guys to understand the general premise of what the balance sheet is, what it shows you, why you need to know it, what information it has. And it does have good stuff. Now, this is also a good idea for you guys to understand that, if the business owns something, something that's expensive, so $2,500 or more. So say you buy that $4,000 Mac computer that is going to be a fixed asset of the business.

(09:26):

If you have a service-based business or a business where you're providing a service like Craig's Landscape, the odds are you probably have a couple of vehicles or a vehicle. Or you might have made a lot of money in the prior year, or you're going through the Academy and it's the fall. And you're reviewing all of the money you made since it was a significant difference from last year to this year, your CPA may say to you, "Hey, I want you to go spend some money, go buy a truck, go buy a vehicle. And let's put it in the name of the business." That's why the vehicle is going to live on your balance sheet.

(10:00):

So anything the business owns that's a sizable dollar amount, $2,500 or more is going to be an asset and it's going to be entered and live on here. So some of you might be thinking, oh wow. I got this really big printer. I have a client that makes wedding invitations. She bought a really expensive press one year, that lives on her balance sheet. So these are different things that you want to consider and think about. And if you guys have any questions, please don't hesitate to ask or wait for coworking or apply for a hot seat or ask in the Q and A. Talk to you guys later. And I hope you enjoyed learning about the balance sheet.