

Trade Finance in Ten Podcast: Episode 3 Summary

The Balance Sheet

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1. Why Today's Topic Is Important

The Balance Sheet shows your business's financial position at a single point in time: what you own, what you owe, and what's left for you. Many owners avoid it because it looks confusing, but it's one of the most important tools for understanding your financial health, how much you can borrow, and whether your business is actually stable long-term. When you know how to read it, you can spot errors, catch problems early, and make better decisions about debt, growth, and cash. The P&L might say you're profitable, but the Balance Sheet shows if you're actually building wealth or just treading water.

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2. Key Takeaways

- The Balance Sheet is built on one equation: Assets = Liabilities + Owner's Equity
- Assets include: cash, accounts receivable, inventory, vehicles, equipment, buildings (minus accumulated depreciation)
- Liabilities include: accounts payable, credit card balances, vehicle loans, equipment financing, lines of credit
- Depreciation lowers asset values over time and should match what your CPA puts on your taxes each year
- Treat owner loans like real loans—with interest, written documentation, and proper tracking
- For multiple owners, each should have their own capital account tracking contributions; work can be handled via separate salary
- Draws reduce equity and can vary per owner, but must be tracked, and covered in your operating agreement
- The Balance Sheet is a powerful error-checking tool: if AP, AR, bank accounts, or loans don't match your other reports or statements, something needs to be corrected

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3. Action Steps to Consider

- ☐ Print your Balance Sheet and review it line by line in a quiet place
- ☐ For Assets: Compare each bank balance to your actual bank accounts; ensure bank balances are being reconciled at least monthly; check if receivables, inventory and equipment/building values and depreciation look reasonable
- ☐ For Liabilities: Verify all loans, credit cards, and payables are listed and balances match your latest statements; ensure these accounts are being reconciled regularly
- ☐ For Owner's Equity: Review contributions, draws, and retained earnings—do they tell a believable story about your business?
- ☐ Depreciation Check: Ask your CPA if the depreciation on your Balance Sheet matches your tax return. If not, they should provide year-end journal entries so your bookkeeper can align them
- ☐ Make a short list of anything that doesn't look right and bring it to your finance team, bookkeeper, accountant, or advisor to correct

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