FOLLOW THE MONEY - CREATING A BALANCE SHEET OR STATEMENT OF FINANCIAL ACTIVITIES

A balance sheet or statement of financial position is a snapshot of an entity's financial condition at a specific moment in time. A balance sheet comprises assets, liabilities and net assets (equity). At any given time, assets must equal liabilities plus net assets (equity).

FORMAT

The balance sheet may be a single column of current data or can use a comparative format to provide data for both the current period and the prior period.

ASSETS

An asset is anything an entity owns that has monetary value. Assets are divided into short-term (current assets) and long-term (fixed assets and long-term investments). Total assets are the total of all short-term and long-term assets.

Current assets

Cash: cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand, petty cash, deposits in the bank, checking accounts and regular savings accounts.

Short-term investments: also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year.
Accounts receivable: the amounts due from customers in payment for merchandise or services.
Inventory: includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
Prepaid expenses: goods, benefits or services a business pays for in advance of actual use. Examples are office supplies, insurance, etc.
Distinguish between *unrestricted* (can be used at any time for anything) cash and *restricted* (must be used for specific purpose as designated by grant maker or funder) cash.

Long-term or non-current assets

Long-term investments: holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds, endowments and savings accounts earmarked for special purposes (use appropriate category description as opposed to stocks, bonds, etc.).

Fixed assets: resources a business owns or acquires for use in operations and not intended for resale. Included are land, buildings, equipment and furniture. Assets should reflect any depreciation and amortization from the original costs of acquiring the assets.

LIABILITIES

Liabilities are all debts and obligations owed by the business to outside creditors, vendors or banks. They are accounted for as short-term (current) and long-term liabilities.

Current liabilities

Includes all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include the following:

Accounts payable: amounts owed to suppliers for goods and services purchased in connection with business operations.
Notes payable: the balance of principal due to pay off short-term debt for borrowed funds.
Interest payable: any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.

Taxes payable: amounts estimated by an accountant to have been incurred during the accounting period.
Payroll accrual: salaries and wages currently owed.
Prepaid income: any income received that obligate the entity to do specified things not yet accomplished (example: ticket revenue received for an event that has not yet happened or a grant received for a specific project not yet completed or initiated).

Long-term or non-current liabilities
Any notes payables due over a period exceeding 12 months or one cycle of operation, includes contract and mortgage payments.

EQUITY
Also known as net assets, it is the total amount of money your organization has saved/retained from prior year operating fund balances. In the nonprofit sector, equity is also called retained earnings or fund balances. Effectively, it is the difference between total assets and total liabilities. If necessary classify *unrestricted* net assets among amounts (1) available for operations; (2) designated for specific purposes by the board; and (3) invested in property, plant and equipment and therefore unavailable for spending.

Total liabilities and net assets
Total liabilities and net assets (equity) must always equal total assets.