SML Bookkeeping & Tax

Understanding Balance Sheets

KS-012

A plain-English guide to assets, liabilities and equity for small business owners.

TOPIC	PREPARED BY	FORMAT
Small business education	SML Bookkeeping & Tax	Knowledge Sheet

Key message

A Balance Sheet shows what the business owns, what it owes and the owner equity at a point in time. It helps explain financial position, not just trading performance.

Balance sheet - reading workflow

1 **Check date**
Confirm the report date and whether bookkeeping is complete.

2 **Review assets**
Look at bank, receivables, inventory and equipment.

3 **Review debts**
Check loans, credit cards, tax, super and supplier balances.

4 **Question changes**
Investigate large or unexpected movements.

What a Balance Sheet shows

A Balance Sheet summarises assets, liabilities and equity. Unlike a Profit and Loss Statement, it is a snapshot at a specific date rather than activity over a period.

Key areas to review

- Bank account and credit card balances.
- Accounts receivable and accounts payable.
- Loans, tax liabilities and super liabilities.
- Inventory, equipment and other assets.
- Owner drawings, loans or equity accounts.

Why it matters

- It helps identify unpaid tax, super, suppliers and loans.
- It shows whether customers owe money to the business.
- It can reveal old balances that need cleanup.
- It helps explain why profit and bank balance are different.
- It supports better business decisions and finance applications.

Common mistakes to avoid

- Ignoring old unpaid invoices or supplier bills.

- Leaving unreconciled bank accounts in reports.
- Not reviewing tax and super liabilities.
- Assuming the Balance Sheet is only for accountants.

Example

A business reports profit but has little cash. The Balance Sheet may show that customers owe large unpaid invoices, stock has increased, loans were repaid, or tax liabilities are due.

Common Questions

Is the Balance Sheet more important than the P&L;?

They answer different questions. The P&L; shows performance over time. The Balance Sheet shows financial position at a date.

Why are old balances a problem?

Old balances may indicate bookkeeping errors, unpaid amounts, duplicate entries or items needing review.

Should small businesses review the Balance Sheet?

Yes. Even a simple review can identify cash, debt and compliance issues early.

Reference Sources

Source	Used for
Xero	Balance sheet report and small business explanation.
MYOB	Financial report guidance for business owners.
CPA Australia	Professional context on financial statement interpretation.

Important note

This Knowledge Sheet provides general information only. It does not take into account the full circumstances of any business. Speak with SML Bookkeeping & Tax before making tax, payroll or compliance decisions.