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I DON'T REALLY HAVE TO UNDERSTAND THE BALANCE SHEET, DO I?
By: CATHY DOBRYNSKI, CPA, CGMA

I spend a lot of time consulting with clients and have noticed that when it comes to their internal financial statements, the common focus seems to be on the income statement. Many never even look at their balance sheet. In fact, I had one client that had me switch the normal order of their financials so that the income statement was on top and the balance sheet on the bottom.

Our clients are not alone. I ran across an article recently that discussed the impact the user's perspective has on the relative importance on any financial statement. The article stated that "auditors audit the balance sheet, so that is the document they have the greatest interest in." Investors' analysis is "largely based on cash flows, so they will have the greatest interest in the statement of cash flows." Lawyers "will want to review its balance sheet first, to see if there are enough assets to attach if the lawsuit is successful." Managers (i.e., owners) are "responsible for fine-tuning the business, so they are likely to delve most deeply into the income statement." (https://www.accountingtools.com/articles/which-financial-statement-is-the-most-important.html)

I think it's dangerous to look at any one of these statements in a vacuum as if one is more important than the other. Why? The balance sheet and income statement are so interrelated that if one is wrong, so is the other one. Even if you don't look at or understand the balance sheet, you should still review it. How? Here are some of the major items to look at every month:

- Make sure your cash accounts on the general ledger are reconciled to bank statements. If your cash account isn't reconciled, it's possible that all your deposits are not recorded – which would mean that your sales are more than what's on your income statement. Or maybe a deposit was recorded twice – which means that your sales are less than what's on your income statement.

- Make sure the accounts receivable aging report agrees with the general ledger account for receivables. If your accounts receivable account isn't reconciled, your sales could be higher or lower than what's on the income statement.

- Make sure the accounts payable aging report agrees with the general ledger account for payables. If your accounts payable account isn't reconciled, your expenses could be higher or lower than what's on the income statement.

- If you have loans or a line of credit, you should add that account to the mix – just make sure the balance agrees with the loan statement from the bank.

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- If you have any changes to your fixed assets (automobiles, furniture, equipment, major leasehold improvements), you may want to contact your CPA to make sure they were recorded correctly.

This may seem like an over-simplification of the balance sheet, but if you look at these few items and never look at the balance sheet, your income statement should be close.

If you have questions on your financial statement or any other business matter, please contact your Account Manager or Cathy Dobrynski, CPA, CGMA, at (314) 205-2510 or via email cdobrynski@connerash.com.