INTERPRETING YOUR BALANCE SHEET

ASSETS

DEBIT Balance	**=**	**positive amount**
CREDIT Balance	**=**	**negative amount**

Cash

Always review the status of your cash. A cash deficit should rarely occur. Cash represents the liquidity of your fund and its ability to pay its expenses. It is very important to make sure your cash remains positive.

Petty Cash

Periodically review the level of your petty cash fund. Remember that petty cash is quite vulnerable to loss through fraud or error. Can you reduce the size of the fund without affecting efficiency?

Receivables

When you review your receivables balance, make sure your receivables are realistically valued. If you have anything more than a negligible amount in receivables, you should have an allowance for uncollectibles. It should have a credit balance, offsetting the debits to receivables. If you do not have an allowance for uncollectibles, your receivables are probably not worth what your balance sheet shows. Receivables should show a realistic expectation of future cash.

If your receivables balance is growing it could mean the following:

- Your business is growing in size. Check if the other numbers, such as supplies expense, are growing also.
- Receivables are increasing in relation to your other assets. Perhaps your customer types are changing. Be careful not to let receivables get out of proportion. You can't pay vendors or staff with receivables!
- Your customers are paying more slowly and your receivables are staying on the books longer than before. You might need to speed up collection or you might need to extend credit less readily.

If your receivables balance is getting smaller, it could mean the following:

- Business is falling off. You have fewer customers and thus fewer people asking to be invoiced. Check your customer base. Has your customer mix changed? Is your product or service still needed?

- The amount of business you are doing is staying the same. But more customers are paying in cash.

- You are collecting your receivables quickly. This is good!

Inventory

Inventory consists of items that you will sell, or the raw materials for making those items. Because you are going to sell it, it represents future cash for your organization. Inventory items are very vulnerable to "shrinkage" – meaning deterioration, becoming outdated, and theft. You should have a tracking method and periodically you should physically count the inventory items. The value of your inventory should appear on your balance sheet and you should be able to document that the value shown on the balance sheet is correct.

Prepaid Items

Prepaid items such as maintenance agreements are important assets because they represent something you have already paid for. You need to check that you are receiving the appropriate value. For example, if you have a maintenance agreement as an asset on your balance sheet, you should check if you really are receiving the service you paid for.

Amounts in prepaid expense balances are generally transferred to expense over the term of the related maintenance agreement, insurance policy, etc. There should be zero balances in the prepaid accounts once the agreements have expired.

LIABILITIES

CREDIT Balance - shows there is a liability
DEBIT Balance - shows a liability is negative (often meaning it has been overpaid)

Sales Tax

If you sell items that are subject to state sales tax, the sales tax should be paid monthly. The Office of Financial Services processes the payments and remits sales tax to the state of Ohio, based on the amounts you tell them are owed. You should review the balance sheet each month to make sure the payment is being made. Otherwise you might be misled into thinking that all the cash on the balance sheet is yours to use, whereas in reality some of it belongs to the state.

Salaries Payable

In the OSU General Ledger, Salaries Payable or "Accrued Salaries Payable" occur only at year-end and only for bi-weekly Classified Civil Service employees and Nine-month Faculty (faculty who work three of the four quarters of the year, but are paid over 12 months). Since Nine-month Faculty

are usually paid from general funds only bi-weekly employees are discussed here.

At the end of the fiscal year, bi-weekly classified employees have almost always worked a portion of a pay period. The university owes these employees money for their work, but of course payment does not occur at the end of the year. Instead it occurs at the next appropriate paycheck run. Nevertheless the fact that the money is owed must be recorded in the university's books as a liability.

Although this liability is only a "paper entry" and is reversed at the beginning of the next fiscal year, you should verify that the amount recorded as a liability to your fund is the appropriate amount.

Deferred Revenue

Deferred revenue represents prepayments received from your customers. Since you owe your customers the goods or services that you will provide in the future, you cannot claim to fully "own" the cash that they have paid you. The liability "deferred revenue" shows a record of the cash you have received but for which you have not yet provided the corresponding goods or services.

When you provide the goods or services to the customer, amounts in deferred revenue should be transferred to revenues. There should be zero dollars in deferred revenue once all the goods or services have been provided.

You should track your deferred revenue for the following reasons:

- To see how much of your cash is potentially refundable to others.
- To ensure that all balances are "current" (represent only amounts for goods or services not yet provided to customers).

EQUITY

CREDIT Balance - shows positive equity
DEBIT Balance - shows negative equity

Equity

The equity, net worth or fund balance of your fund represents the assets the fund owns, less any liabilities owed to others.

Equity also represents the cumulative effect of all revenues, expenses and transfers posted to the fund since its inception.

It is an important measure of the value of your fund. Equity should always be positive.

Equity "with" Encumbrances

Because the cash on your balance sheet does not take into account any encumbrances, your equity (assets minus liabilities) dos not take them into account either. Consequently, the balance sheet gives you an additional figure labeled "equity with encumbrances," meaning "equity with encumbrances subtracted." When this figure is positive it shows a credit balance, following the same pattern as equity.

The balance sheet gives you this view of your equity so that you can see what equity would be if all the cash that is currently committed were already spent. As you review this figure, bear in mind the following:

- Some commitments are firmer than others. For example, a salary commitment for a Classified Civil Service employee will certainly be used, unless the person leaves or reduces work hours. On the other hand, if you have a blanket purchase order, you might have established it for a maximum amount, planning to spend that amount only if absolutely necessary. The first encumbrance is "firm," the second less so. Consequently, you must know your operation well in order to interpret "equity with encumbrances."

- Depending on the type of fund, monies are received at different points during the year. For example, Endowment Income and Expense funds receive the major portion of their funding in July. Earnings funds, on the other hand, usually receive revenues at regular intervals during the year. Thus an Endowment Income and Expense fund that has negative "equity with encumbrances" in the early part of the fiscal year is probably of concern, whereas an Earnings fund can begin the year with negative "equity with encumbrances" because it will earn money during the year to offset the commitments.