The Balance Sheet

Business & Management

The accounting equation, and what sits on each side.

Assets = Liabilities + Equity.

$$A = L + E$$

Buy £10k equipment with cash — **Assets unchanged in total**

Cash down, equipment up.

Borrow £10k — **Assets +10k, liabilities +10k**

Both sides grow.

Make £10k profit — **Assets +10k, equity +10k**

Retained earnings.

THE COMMON MISTAKE

× Reading equity as cash available

✓ Equity is a residual claim, not a balance

Equity is what would remain if every asset were sold at book value and every liability paid. It is not money in an account.

> **Current means within a year. Current assets minus current liabilities is working capital.**