



5-minute Financial Review

Thanks for downloading this free guide!

In this guide, you'll follow 5 easy steps to check your financial packet for errors. The best part is that once you've followed the steps once or twice, you'll get faster at this process, and you'll spend only 5 minutes reviewing your financials for errors! This will save you and your team so much time. What's even better is that it'll eliminate questions from board members who might see the errors before you do! Don't get caught off guard- use this guide and prevent errors from making it past your team.

Step 1 - Assets = Liabilities + Equity

The top half of your balance sheet is assets and the bottom half of your balance sheet is liabilities and equity. A typical balance sheet will have totals for the top half and the bottom half independently, and these numbers should match. If they do not, your balance sheet is out of balance.

Balance Sheet	
Assets	
Bank Accounts	
Cash in Transit	
Accounts Receivable	
	Total
Liabilities	
Accounts Payable	
Pre Paid Liability	
Equity	
Retained Earnings	
Net Income/Loss	Total

Step 2 - Net Income

The last line on your balance sheet and the last line on your income statement are the net income or net loss for the period. Make sure that the two numbers match.

Balance Sheet	Income Statement
Assets Bank Accounts Cash in Transit Accounts Receivable Total	Income Sales Total
Liabilities Accounts Payable Pre Paid Liability Equity Retained Earnings Net Income/Loss Total	Expense Supplies Utilities Total = = Net Income/Loss

Step 3 – Balance the Assets

On the top half of the balance sheet, an account called Accounts Receivable is considered an asset since it is money owed to you by someone else. This line on the balance sheet should match the total for the Accounts Receivable report, which is a detailed report of the sub-ledgers for money owed. Note that this account will not show on a balance sheet if you are running your books on Cash Basis rather than Accrual.

Balance Sheet	Accounts Receivable Report
Assets Bank Accounts Cash in Transit Accounts Receivable Total	Customer Amount Owed Customer Amount Owed = = Total
Liabilities Accounts Payable Pre Paid Liability Equity Retained Earnings Net Income/Loss Total	

Step 4 – Balance the Liabilities

On the bottom half of the balance sheet, an account called Prepaid Liability is considered a liability because it is money that has been paid to you by someone, but you have not yet earned the money. In other words, you have not yet justified keeping the funds, so there is a potential for those funds to be returned. This line on the balance sheet should match the total on the Prepaid report, which is a detailed report of sub-ledgers for money paid to you.

Balance Sheet		Prepaid Customer Report	
Assets		Customer	Amount Prepaid
Bank Accounts		Customer	Amount Prepaid
Cash in Transit			
Accounts Receivable			
	Total	==	
			Total
Liabilities			
Accounts Payable			
Pre Paid Liability			
Equity			
Retained Earnings			
Net Income/Loss	Total		

On the bottom half of the balance sheet, an account called Accounts Payable is considered a liability because it is money recorded as an expense that has not yet been paid to a vendor. In other words, this account shows money owed to someone else but not yet paid. This line on the balance sheet should match the total of the AP report which is a detailed list of the items recorded as expenses but not yet paid. Note that this account will not show on a balance sheet if you are running your books on Cash Basis rather than Accrual.

Balance Sheet		Accounts Payable Report	
Assets		Vendor	Amount Owed
Bank Accounts		Vendor	Amount Owed
Cash in Transit			
Accounts Receivable			
	Total	==	
			Total
Liabilities			
Accounts Payable			
Pre Paid Liability			
Equity			
Retained Earnings			
Net Income/Loss	Total		

Step 5 - Bank Reconciliation

The bank reconciliation report shows the bank statement ending balance compared to the balance of the same account on the balance sheet.

It is common for the bank account line item on the balance sheet to be different than the balance in the physical bank account or on the bank statement, and the reconciliation report is the explanation of the difference.

The bank statement balance should match the amount found on the bank statement for the report date, and the GL amount should match the balance sheet. The difference between the two should match the total of all uncleared checks and deposits on that date.

Balance Sheet	Bank Reconciliation Report
Assets	Balance Sheet Balance
Bank Accounts	+ Uncleared Checks
Cash in Transit	- Uncleared Deposits
Accounts Receivable	
Total	= Bank Statement Balance
Liabilities	
Accounts Payable	
Pre Paid Liability	
Equity	
Retained Earnings	
Net Income/Loss	
Total	

DISCLAIMER:

Keep in mind that this guide is for identifying accounting issues that are common when using an unfamiliar accounting software. This guide can't and shouldn't be used for anything specific to an accounting setup or less common methodology. This guide is for informational purposes only and is not meant to be a substitute for professional accounting or tax advice.