December. Once a business chooses its fiscal year, it cannot change it without approval from the Internal Revenue Service.

The balance sheet has three sections:

1. **Assets.** All items of worth owned by the business, such as cash, inventory, furniture, land, machinery, and so on.
   - Current assets are assets that can be sold for cash (liquidated) within one year.
   - Long-term assets are those that would take more than one year to liquidate.
2. **Liabilities.** All debts owed by the business, such as bank loans, mortgages, lines of credit, and loans from family or friends.
   - Current liabilities are those that must be paid within one year.
   - Long-term liabilities are those that are paid over a period longer than one year.
3. **Owner's Equity.** Also called capital or net worth, this is the amount that is left over after liabilities are subtracted from assets. Owner's equity is the stated value of the business to the owner.

The Financial Equation

The balance sheet is divided into two columns. On the left, or *assets,* side are listed all the business's assets. On the right, or *liabilities,* side are listed all the business's debt and equity.

Assets – Liabilities = Net Work (or Owner's Equity or Capital

- If assets are greater than liabilities, net worth is positive.
- If assets are less than liabilities, net worth is negative.

Every item in a business is financed with either debt or equity. All items that are owned are assets, but if an item was financed with debt, the loan is a liability. Liabilities are listed on the right side of the balance sheet.