If an item was purchased with the owner's own money, it was financed with equity. Equity is listed on the right side of the balance sheet. Depreciation hits both sides of the balance sheet—it is subtracted from the value of an asset on the left side of the balance sheet and from the value of the owner's equity on the right side.

Say your Hometown Restaurant owns its tables and chairs and has $10,000 in cash, but you took out a $5,000 loan to buy a new stove. The tables and chairs are worth $3,000 and will need to be replaced in five years, so you are deducting $600 yearly for depreciation. But the $5,000 stove will need to be replaced in ten years, so you need to set aside yearly depreciation of $500 toward a new stove. The total depreciation expense of $1,100 ($600 + $500) is subtracted from the value of the assets on the left side of the balance sheet. Depreciation is also subtracted from the owner's equity on the right side of the balance sheet, because it represents a decline in the worth of the assets due to wear and tear.

Hometown Restaurant—Balance Sheet, January 1999

Assets		**Liabilities**	
Cash	$ 10,000	Loan (for Stove)	$ 5,000
Tables and Chairs	3,000	Owner's Equity	11,900
Stove	5,000	($10,000 cash	
Subtotal	$ 18,000	+3,000 tables and chairs	
Less Depreciation	1,100	-$1,100 depreciation)	
Total Assets	**$16,900**	**Total Liabilities**	**$16,900**

The Financial Equation:
Total Assets = Total Liabilities + Owner's Equity

Notice how total assets equals total liabilities on the balance sheet? *On any balance sheet, both sides must show the same total.* If your balance sheet total on the asset side doesn't equal the total on the liability side, you've goofed somewhere.

FINANCIAL ANALYSIS

When you get to Chapter 19, "Financing Strategies That Work for Young Entrepreneurs," you'll learn that the balance sheet is an especially good