

The Batman Guide to Balancing Your Balance Sheet in a 3-Statement Model



“...the hero Gotham deserves, but not the one it needs right now.”

Balance Sheet Not Balancing: What to Do

We get *a lot* of panicked questions about what to do when you're building a 3-statement model, and **your Balance Sheet does not balance.**

But the first thing I always do is think of *Batman* (specifically, the end of *The Dark Knight*)...

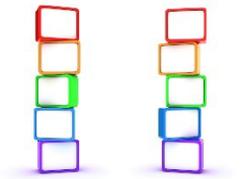
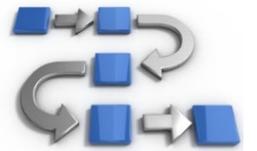
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Just like in the movie, there's an “answer you deserve” and an “answer you need.”

In an ideal case, you'll use the answer you **deserve** – but if it's 3 AM and you're out of Red Bull and coffee, you'll probably just go with the one you **need**.

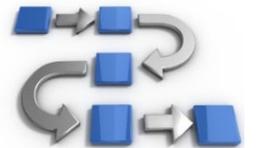
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- **Answer You Deserve:** If your BS does not balance, your model is too complex or fails to follow best practices – see our [Best Practices Tutorial](#) and fix/re-do your model
- **Answer You Need:** Follow this 4-step process...
- **Step #1:** Look at the discrepancy (Total Assets – L&E) each year and note *any patterns* (can be clues)
- **Step #2:** Review each Balance Sheet line and make sure the change is reflected on the CFS once or that it is linked to the old BS number and the matching CFS lines with proper signs



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- **And:** As you do this, **highlight in yellow** the items on both statements you've checked and confirmed
- **Step #3:** Move to the CFS if you finish the BS and haven't found the issue yet – focus on **non-zero, unhighlighted lines**, and check the historical Cash #s and Net Change in Cash lines
- **Step #4:** If you can't find the problem after all this, go back to the “Answer You Deserve” and take the time to simplify and consolidate your model → Takes time, yes, but better than searching for a needle in a haystack



Balance Sheet Not Balancing: What to Do

For the written version, images, and Excel files, go to:

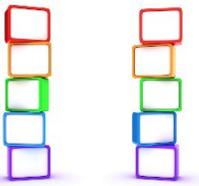
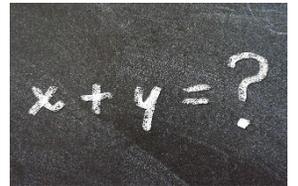
<https://breakingintowallstreet.com/kb/3-statement-models/balance-sheet-not-balancing/>

Outline for This Tutorial:

- **Step #1:** Review the Discrepancies **4:53**
- **Step #2:** Do a Line-by-Line Balance Sheet Review **7:00**
- **Step #3:** Review the “Unconfirmed” CFS Line Items **19:48**
- **Step #4:** If Nothing Here Works... **24:17**

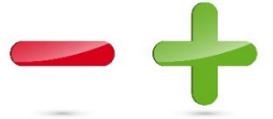
Step #1: Review the Discrepancies

- **Constant Difference Each Year:** Usually means you forgot to link an item in a single year, but it's correct or \$0 after that
- **Variable Difference But Changes by a Constant Number:** Formula is wrong, but only in one period, such as Year 1
- **Variable Difference with Variable Change:** One or more formulas is wrong all the way across
- **“Difference Column”:** We don't recommend this because most models have *multiple problems* that this simple approach won't reveal



Step #2: Do a Line-by-Line Balance Sheet Review

- **SKIP:** Any line items that stay constant every year, such as Goodwill in many models – can't be the direct causes
- **CHECK:** Is the *change* in this item reflected on the CFS with the correct sign?
- **CHECK:** If not, is this item linked to the old version and the matching CFS lines, with the correct signs?
- **Then:** Either highlight to mark as complete or fix and do so
- **“Collisions”:** Link to an *already highlighted* item → Remove!



Step #3: Review the “Unconfirmed” CFS Lines

- **FOCUS ON:** Unhighlighted, non-zero CFS lines and use the Ctrl +] shortcut to verify there are no dependents on the BS
- **Fixes:** Either link to this CFS line from the most relevant BS line or make it flow into Equity if you don't know where it goes
- **CHECK:** The Ending Cash on the historical CFS's vs. the Balance Sheet number and the Net Change in Cash calculations (*many problems here*)



Step #4: If Nothing Here Works...

- **Bite the Bullet:** Go back into “Batman Mode” and simplify/consolidate your model according to best practices; these problems often disappear or diminish when you have a proper model



Recap and Summary

- **Step #1:** Review the Discrepancies
- **Step #2:** Do a Line-by-Line Balance Sheet Review
- **Step #3:** Review the “Unconfirmed” CFS Line Items
- **Step #4:** If Nothing Here Works...

