

Balance Sheets

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Balance Sheets

What is a Balance Sheet?

A balance sheet is a brief summary of a company's assets, liabilities and shareholders' equity.

All balance sheets are based on a company's financial position at a particular point in time

It is called a balance sheet as the two sides must be balanced. A company must pay for all the things it has. These are called the assets. Either you borrow money (debt) or you get money from shareholders, which then becomes the equity

A balance sheet consists of assets, liabilities and your or the owners' own capital

For example:

You have a large mansion, which is perhaps worth 5 million euros. This is an asset. You have bought the mansion by taking a loan (liabilities) of 3 million euros. The other is the value of your money you have invested, your own capital

A balance sheet must adhere to this formula:

Assets = Liabilities + equity

A balance sheet is one of the most important elements of corporate financial accounting.

These three items should give investors an idea of what the company owns and owes.

Presentation of the balance sheet can be made monthly or quarterly, depending on how the company chose to show its results.

Why use the balance sheet

A balance account helps a company to produce its strengths and weaknesses. Issues such as whether the company has the financial ability to expand, if the company can manage the regular flow of income and expenses, or whether they will take steps to take a more aggressive approach to assert their claims, is a brief explanation why companies use a balance sheet

A balance sheet along with the profit and loss account is the cornerstone necessary for any banks or investors

Assets: one of the three central elements of the balance sheet

Your assets are the things you own in your business. There are current assets (including fixed assets) or long-term assets.

A current asset is what is expected to be sold or consumed in the near future, typically within a year.

Examples of current assets are:

- Cash
- Accounts receivable
- Inventory
- Stock
- Work in progress

Examples of fixed assets are:

- Buildings
- Motor vehicles
- Computers
- Furniture
- Machinery
- Office equipment
- Land (not depreciated)

These assets often have favourable tax treatment (depreciation)

Put simply, depreciation is a reduction in the value of an asset. This is mostly due to wear, use, consumption, obsolescence or similar factors.

Liabilities: the second of the three central elements of the balance sheet

What are liabilities?

Put simply: anything a company owes to a business or to people other than its owners is considered a liability.

There are two types of liabilities:

Current liabilities

If a debt is payable within one year, it's a short-term debt.

For example:

- Money you owe to your suppliers and to your vendors
- Bills
- Short-term loans
- Interest payable
- Salaries payable
- Taxes payable
- Accounts payable

Long-term liabilities

A long-term liability is any debt that extends beyond one year.

For example:

- Mortgages payable
- Bonds payable
- Long-term notes

Shareholder equity: the last of the three central elements of the balance sheet

When the owners are shareholders, the interest can be called equity.

In accounting terms, after all liabilities are paid, **shareholder equity** is the remaining interest in assets.

Shareholder equity is a firm's total assets minus its total liabilities.

The formula is:

$$\text{Shareholder Equity} = \text{Total Assets} - \text{Total Liabilities}$$

The capital comes from two sources. The first is the money that was invested in the company along with investments made thereafter. The second comes from retrained earnings accumulated over time through its activities.

The shareholder equity may also be known as the **equity capital**. Equity capital is capital raised from owners in the company.

A balance sheet done using Microsoft Office.

Balance Sheet

[Date]
(all numbers in \$000)

ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash		Accounts payable	
Accounts receivable (less doubtful accounts)		Short-term notes	
Inventory		Current portion of long-term notes	
Temporary investment		Interest payable	
Prepaid expenses		Taxes payable	
Total Current Assets		Total Current Liabilities	
Fixed Assets		Long-term Liabilities	
Long-term investments		Mortgage	
Land		Other long-term liabilities	
Buildings (less accumulated depreciation)		Total Long-Term Liabilities	
Plant and equipment (less accumulated depreciation)		Shareholders' Equity	
Furniture and fixtures (less accumulated depreciation)		Capital stock	
Total Net Fixed Assets		Retained earnings	
		Total Shareholders' Equity	
TOTAL ASSETS		TOTAL LIABILITIES & EQUITY	

