Balance Sheet

Introduction

The term balance sheet refers to a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time. Balance sheets provide the basis for computing rates of return for investors and evaluating a company's capital structure (i.e. amount of equity and debt in the company) In short, the balance sheet is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders. Balance sheets can be used with other important financial statements to conduct fundamental analysis or calculate financial ratios like Total Equity/Total Capital. The balance sheet is one of the three core financial statements that are used to evaluate a business. The other ones are P&L and cash flow statements.

Definition

Balance sheet provides a snapshot of a company's finances

1. What it owns (Assets like Plant, Machinery, Patents etc)
2. What it owes (Liabilities like account payables, bank loans etc.)
3. And amount invested in the business (Equity)
   As of the date of publication.

When to Use it

The Balance Sheet is used to understand the company's financial status at any specific point in time by multiple stakeholders or potential stakeholders (management, shareholders, lenders, creditors). The Balance Sheet of any organization generally provides details about debt funding availed by the Organization, Use of debt and equity, Asset Creation, Current asset/current liability status, cash available, fund availability to support future growth, etc. Based on this information and collecting data from Balance Sheets over the years, an investor can decide whether to invest in the business or not.

Details

The Balance Sheet has 3 Major Sections: Assets, Liabilities and Equity. The basic equation that drives the balance sheet is that
Assets = Liabilities + Equity

Assets

Accounts within this segment are listed from top to bottom in order of their liquidity. This is the ease with which they can be converted into cash. They are divided into current assets, which can be converted to cash in one year or less; and non-current or long-term assets, which cannot. Current Assets are cash, marketable securities, accounts receivables, inventory, and any pre-paid expenses. Long Term assets are fixed assets like land, plant, machinery and some intangible assets like intellectual property and goodwill.

Liabilities

A liability is any money that a company owes to outside parties, from bills it must pay to suppliers - to interest on bonds issued to creditors to rent, utilities and salaries. Current liabilities are due within one year and are listed in order of their due date. Long-term liabilities, on the other hand, are due at any point after one year. Current liabilities accounts might include:

- Current portion of long-term debt
- Bank indebtedness
- Interest payable
- Wages payable
- Customer prepayments
- Dividends payable and others
- Earned and unearned premiums
- Accounts payable

Long term liabilities are long term loans or bonds issued by a company that have a repayment horizon of one year or more.

Equity

Shareholder equity is the money attributable to the owners of a business or its shareholders. It is also known as net assets since it is equivalent to the total assets of a company minus its liabilities or the debt it owes to non-shareholders.

Example:

Here is an example of how the balance sheet is made.

As we can see that the assets come on one side (left) whereas liabilities and equity are on the other (right). The total assets as mentioned in the bottom of the balance sheet (770,000) is equal to the total of liabilities plus shareholders' equity (770,000). In simple terms it means that any for asset you buy, you have to either fund it through a liability (e.g. bank loan or ask the supplier to provide goods on credit which in-turn generates accounts payable) or through investing you own capital i.e. shareholders equity.

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	$ 2,100	Notes payable	$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
		Notes payable	20,000
Property, plant & equipment		Bonds payable	400,000
Land	5,500	Total long-term liabilities	420,000
Land improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS' EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	305,000	Accum other comprehensive income	9,000
		Less: Treasury stock	(50,000)
Other assets	3,000	Total stockholders' equity	289,000
Total assets	$ 770,000	Total liabilities & stockholders' equity	$ 770,000