

Chapter 1 : Sample Balance Sheet

Balance Sheet Analysis. Now that you can answer the question what is a balance sheet. Let's look at how to read a balance sheet. Investors, creditors, and internal management use the balance sheet to evaluate how the company is growing, financing its operations, and distributing to its owners.

First effect- shown on the credit side of trading account as a separate item. Second effect- shown on the assets side of balance sheet as a current asset. If closing stock also appears in trial balance, then it would be shown only on the assets side of balance sheet and not on the trading account. No adjusting entry is required to be passed. Second effect- Shown on the assets side of balance sheet as a current asset. If prepaid expenses also appear in trial balance, then they would be shown only on the assets side of balance sheet and not on the trading account or profit and loss account. Adjustment of outstanding expenses: Second effect- shown on the liabilities side of balance sheet as a current liability. If outstanding expenses also appear in trial balance, then they would be shown only on the liabilities side of balance sheet and not on the trading account or profit and loss account. If unaccrued income also appears in trial balance, then it would be shown only on the liabilities side of balance sheet and not on the profit and loss account. Adjustment of accrued income: If accrued income also appears in trial balance, then it would be shown only on the assets side of balance sheet and not on the profit and loss account. Adjustment of bad debts: Second effect- shown on the assets side of balance sheet by way of deduction from the debtors. If bad debts also appear in trial balance, then they would be shown only on the debit side of profit and loss account as additional bad debts and added to the existing bad debts in trial balance. They would not be shown on the balance sheet. Adjustment of provision for doubtful debts: Second effect- shown on the assets side of balance sheet by way of deduction from the debtors after the deduction of bad debts, if any. Adjustment of provision for discount on debtors: Second effect- shown on the assets side of balance sheet by way of deduction from the debtors after the deduction of bad debts and provision for doubtful debts, if any. Adjustment of reserve for discount on creditors: Second item- shown on the liabilities side of balance sheet by way of deduction from the creditors. Adjustment of abnormal loss of stock caused by fire, theft, spoilage, etc: Second effect- if any amount is due from the insurance company, it is shown on the assets side of balance sheet as a current asset. Adjustment of goods in transit:

Chapter 2 : Balance Sheet Example - A Practical Example of the Balance between Profit & Expenditure

Balance Sheet Templates. Whether you are a business person or student of business, our business forms will assist you in preparing financial statements, financial ratios, break-even calculations, depreciation, standard cost variances, and much more.

While the balance sheet can be prepared at any time, it is mostly prepared at the end of the accounting period. Most of the information about assets, liabilities and owners equity items are obtained from the adjusted trial balance of the company. Sections of the balance sheet We can broadly divide a balance sheet into three sections – assets section, liabilities section and owners equity section. Each of these sections is briefly discussed below: Assets section In this section all the resources i. In balance sheet, assets having similar characteristics are grouped together. Current assets include cash and all assets that can be converted into cash or are expected to be consumed within a short period of time – usually one year. Examples of current assets include cash, cash equivalents, accounts receivables, prepaid expenses or advance payments, short-term investments and inventories. Examples of such assets include long-term investments, equipment, plant and machinery, land and buildings, and intangible assets. When balance sheet is prepared, the current assets are listed first and non-current assets are listed later. Liabilities section Liabilities are obligations to parties other than owners of the business. They are grouped as current liabilities and long-term liabilities in the balance sheet. Current liabilities are the obligations that are expected to be met within a period of one year by using current assets of the business or by the provision of goods or services. All liabilities that are not current liabilities are considered long term liabilities. In account format, the balance sheet is divided into left and right sides like a T account. If all the elements of the balance sheet are correctly listed, the total of asset side i. In report format, the balance sheet elements are presented vertically i. The example given below shows both the formats. Example Using the information from adjusted trial balance given on this page and statement of retained earnings given on this page , we can prepare the balance sheet of Business Consulting Company as follows: Usefulness of balance sheet As described at the start of this article, balance sheet is prepared to disclose the financial position of the company at a particular point in time. This information is of great importance for all concerned parties. For example, investors and creditors use it to evaluate the capital structure, liquidity and solvency position of the business. Limitations of balance sheet Many items have great financial value and may be important for the users of financial statements in making reliable decisions but are not reported in the balance sheet because they cannot be objectively measured. Examples of such items include the skill and knowledge of an IT company, a sound customer base and high reputation etc. The current fair value of various assets and liabilities may be important for some decision makers but the balance sheet does not disclose it because assets and liabilities are mostly reported at their historical costs. The value of some items is reported in the balance sheet on the basis of judgments and estimates. For example the depreciation is usually calculated on the basis of estimated life of the assets. The book value reported in the balance sheet is therefore also an estimated value. Another example is the accounts receivable that are reported at their estimated net realizable value.

Chapter 3 : Balance Sheet - Definition & Examples (Assets = Liabilities + Equity)

One can clearly see that the balance sheet shows the accounting equation (or the financial position) of a business, except that this accounting equation is turned on its head and shown in a vertical format, with the assets on top and the equity and liabilities on the bottom.

The three main entities of the balance sheet are assets, liabilities and equity. These three entities give shareholders an idea as to what the company possess and owes, as well as the sum of capital provided by investors. The information provided on the statement must match the following formula: Balance Sheet Basic Format The two most common formats used in creating balance sheet are the vertical and horizontal balance sheet. The vertical balance sheet presents all the items on the left side of the page in a single column. The horizontal balance sheet presents the asset line items listed below the one column and liabilities and equity items in a another column. It is easy to compare periods when all balance sheet items are presented in a vertical manner. The asset account includes various other accounts in it, for example, cash, accounts receivable, land, etc. The liabilities and equity account consists of small accounts, for example accounts payable, accruals, retained earnings, etc. The balance sheet you create will be tailored to your regular accounting needs. It is considered that only a professional can make a balance sheet, but by following the steps below you can also create a balance sheet. The basic program you can use to create a balance sheet is Microsoft Excel. Under it, list the given name of the organization. Add the effective date of the balance sheet under the heading. Create the asset section at extreme left below the header. List all the asset items and add a total asset field just below the last item in the asset section. Create the liabilities section at extreme left below the asset section. List all the items and add a total liabilities field at the end of the section. Create the equity section at extreme left below the asset section. List all the items and add a total equity field at the end of the section. Now on the next column, write the value of each account. Name this column as the date of the last day of the accounting period. For example, it can be 31, December Set up a formula to total the value of all accounts in the asset section beside the total field at the end of this section. Similarly follow the previous step for the liabilities and equity section. Now you can add another column to enter the values of the all the accounts during the next accounting period. If all amounts are properly inserted you will see that the total asset is equal to the total of liabilities and equity of the balance sheet. More Tips about Food Menu 1: It can be puzzling, even for financial experts, since assets and liabilities fall into dissimilar categories. The most common mistake made on balance sheets applies to classifying assets and liabilities. Take into considerations all the items needed to full fill your balance sheet and properly record all your invoices. You can use excel to categorize your balance sheet items using borders and colors. If you are not a person who has only a minimum knowledge about accounting, it is recommended to download a template that suits your needs for your daily accounting. The balance sheet can be very sophisticated in some templates, try to avoid using them. Large corporations release their financial statements every year; they usually include a two year layout. It represents changes in the balance sheet for the last three years. There are various accounting principles followed in preparing a balance sheet. You must use the most acceptable format required by the stakeholders.

Chapter 4 : Income Statement | Example | Template | Format | How to Use Explanation

A balance sheet also known as the statement of financial position tells about the assets, liabilities and equity of a business at a specific point of time. It is a snapshot of a business. A balance sheet is an extended form of the accounting equation.

You can think of it like a snapshot of what the business looked like on that day in time. Unlike the income statement, the balance sheet does not report activities over a period of time. Annual income statements look at performance over the course of 12 months, where as, the statement of financial position only focuses on the financial position of one day. In this way, the balance sheet shows how the resources controlled by the business assets are financed by debt liabilities or shareholder investments equity. Investors and creditors generally look at the statement of financial position for insight as to how efficiently a company can use its resources and how effectively it can finance them. Format This statement can be reported in two different formats: The account form consists of two columns displaying assets on the left column of the report and liabilities and equity on the right column. The debit accounts are displayed on the left and credit accounts are on the right. The report form, on the other hand, only has one column. This form is more of a traditional report that is issued by companies. Assets are always present first followed by liabilities and equity. In both formats, assets are categorized into current and long-term assets. Current assets consist of resources that will be used in the current year, while long-term assets are resources lasting longer than one year. Liabilities are also separated into current and long-term categories. Asset Section Similar to the accounting equation, assets are always listed first. The asset section is organized from current to non-current and broken down into two or three subcategories. This structure helps investors and creditors see what assets the company is investing in, being sold, and remain unchanged. It also helps with financial ratio analysis. Ratios like the current ratio are used to identify how leveraged a company is based on its current resources and current obligations. The first subcategory lists the current assets in order of their liquidity.

Chapter 5 : Balance Sheet Example and Format

This format is one in which the balance sheet presentation format is a single column of numbers, beginning with asset line items, followed by liability line items, and ending with shareholders' equity line items.

This calculation shows investors and creditors the overall profitability of the company as well as how efficiently the company is at generating profits from total revenues. The income and expense accounts can also be subdivided to calculate gross profit and the income or loss from operations. These two calculations are best shown on a multi-step income statement. Gross profit is calculated by subtracting cost of goods sold from net sales. Operating income is calculated by subtracting operating expenses from the gross profit. Unlike the balance sheet, the income statement calculates net income or loss over a range of time. For example annual statements use revenues and expenses over a month period, while quarterly statements focus on revenues and expenses incurred during a 3-month period. Thus, interim financial statements are prepared for management to check the status of operations during the year. Management also typically prepares departmental statements that break down revenue and expense numbers by business segment. In the end, the main purpose of all profit and loss statements is to communicate the profitability and business activities of the company with end users. Each one of these end users has their own use for this information. Who Uses an Income Statement? There are two different groups of people who use this financial statement: Internal users like company management and the board of directors use this statement to analyze the business as a whole and make decisions on how it is run. For example, they use performance numbers to gauge whether they should open new branch, close a department, or increase production of a product. External users like investors and creditors, on the other hand, are people outside of the company who have no source of financial information about the company except published reports. Investors want to know how profitable a company is and whether it will grow and become more profitable in the future. They are mainly concerned with whether or not investing their money in the company will yield them a positive return. Competitors are also external users of financial statements.

Income Statement Format There are two income statement formats that are generally prepared. Cost of goods sold, operating and non-operating expenses are separated out and used to calculate gross profit, operating income, and net income. In both income statement formats, revenues are always presented before expenses. Expenses can be listed alphabetically or by total dollar amount. Either presentation is acceptable.

Single Step Income Statement As you can see, this example income statement is a single-step statement because it only lists expenses in one main category. Although this statement might not be extremely useful for investors looking for detailed information, it does accurately calculate the net income for the year.

Common Income Statement Questions What is considered an expense on the income statement? Expenses are outlays of resources for goods or services. These costs include wages, depreciation, and interest expense among others. They are reported on several sections of the income statement. Cost of goods sold expenses are reported in the gross profit reporting section while the operating expenses are reported in the operations section. Other expenses are reported further down the statement in the other gains and losses section.

How do you calculate the income statement? The income statement is used to calculate the net income of a business. This is a simple equation that shows the profitability of a company. If revenue is higher than expenses, the company is profitable. If revenue is lower than expenses, the company is unprofitable.

What is a multi step income statement? A multi-step statement splits the business activities into operating and non-operating categories. The operating section includes sales, cost of goods sold, and all selling and admin expenses. The non-operating section includes other income or expenses like interest or insurance proceeds.

How do you make an income statement? Creating an income statement is fairly easy. Simply follow these steps: At the bottom of the statement, compute the net income for the company.

Chapter 6 : Balance Sheet | Format | Example

The balance sheet is the full report of the accounting equation $Assets = Liabilities + Equity$ The balance sheet contains

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the name of the company, the title of the statement "balance sheet" and time-period.

Chapter 7 : Trading profit and loss account and balance sheet - Finance and Accounting simplified

The balance sheet (a.k.a. Statement of Financial Position or Statement of Financial Condition) is a formalized representation of this relationship that analyzes in detail the assets, liabilities.

Chapter 8 : Balance Sheet | Example | Template | Format | Analysis Explanation

A balance sheet or statement of financial position is the summary of the balances of an organization (or individual) at a particular point in time. Main sections 'Financial Snapshot'.

Chapter 9 : Balance Sheet Template

The balance sheet is one of the three fundamental financial statements. These statements are key to both financial modeling and accounting. The balance sheet displays the company's total assets, and how these assets are financed, through either debt or equity.