BALANCE SHEET

The balance sheet provides information on what the company owns (its assets), what it owes (its liabilities) and the value of the business to its stockholders (the shareholders' equity) as of a specific date. It's called a balance sheet because the two sides balance out. This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).
Assets are economic resources that are expected to produce economic benefits for their owner

Liabilities are obligations the company has to outside parties. Liabilities represent others' rights to the company's money or services. Examples include bank loans, debts to suppliers and debts to employees.

Shareholders' equity is the value of a business to its owners after all of its obligations have been met. This net worth belongs to the owners. Shareholders' equity generally reflects the amount of capital the owners have invested, plus any profits generated that were subsequently reinvested in the company.

The balance sheet must follow the following formula:

Total Assets = Total Liabilities + Shareholders\' Equity

Each of the three segments of the balance sheet will have many accounts within it that document the value of each segment. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates the differences between varying types of businesses.

A balance sheet looks like this:

Example Company
Balance Sheet
December 31, 2014

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	229,000
Total intangible assets	305,000	Less: Treasury stock	(50,000)
		Total stockholders' equity	289,000
Other assets	3,000		
Total assets	$ 770,000	Total liabilities & stockholders' equity	$ 770,000

Here are the entries you'll find on a balance sheet and what each one means. **Total Assets** Total assets on the balance sheet are composed of the following:

Current Assets - These are assets that may be converted into cash, sold or consumed within a year or less. These usually include:

- **Cash** - This is what the company has in cash in the bank. Cash is reported at its market value at the reporting date in the respective currency in which the financials are prepared. Different cash denominations are converted at the market conversion rate.

- **Marketable securities (short-term investments)** - These can be both equity and/or debt securities for which a ready market exists. Furthermore, management expects to sell these investments within one year's time. These short-term investments are reported at their market value.
- **Accounts receivable** - This represents the money that is owed to the company for the goods and services it has provided to customers on credit. Every business has customers that will not pay for the products or services the company has provided. Management must estimate which customers are unlikely to pay and create an account called allowance for doubtful accounts. Variations in this account will impact the reported sales on the income statement. Accounts receivable reported on the balance sheet are net of their realizable value (reduced by allowance for doubtful accounts).
- **Notes receivable** - This account is similar in nature to accounts receivable but it is supported by more formal agreements such as a "promissory notes" (usually a short-term loan that carries interest). Furthermore, the maturity of notes receivable is generally longer than accounts receivable but less than a year. Notes receivable is reported at its net realizable value (the amount that will be collected).
- **Inventory** - This represents raw materials and items that are available for sale or are in the process of being made ready for sale. These items can be valued individually by several different means, including at cost or current market value, and collectively by FIFO (first in, first out), LIFO (last in, first out) or average-cost method. Inventory is valued at the lower of the cost or market price to preclude overstating earnings and assets.
- **Prepaid expenses** - These are payments that have been made for services that the company expects to receive in the near future. Typical prepaid expenses include rent, insurance premiums and taxes. These expenses are valued at their original (or historical) cost.

Long-Term assets - These are assets that **may not** be converted into cash, sold or consumed within a year or less. The heading "Long-Term Assets" is usually not displayed on a company's consolidated balance sheet. However, all items that are not included in current assets are considered long-term assets. These are:

- **Investments** - These are investments that management does not expect to sell within the year. These investments can include bonds, common stock, long-term notes, investments in tangible fixed assets not currently used in operations (such as land held for speculation) and investments set aside in special funds, such as sinking funds, pension funds and plan-expansion funds. These long-term investments are reported at their historical cost or market value on the balance sheet.
- **Fixed assets** - These are durable physical properties used in operations that have a useful life longer than one year. This includes:

    - Machinery and equipment - This category represents the total machinery, equipment and furniture used in the company's operations. These assets are reported at their historical cost less accumulated depreciation.
    - Buildings or Plants - These are buildings that the company uses for its operations. These assets are depreciated and are reported at historical cost less accumulated depreciation.

  - Land - The land owned by the company on which the company's buildings or plants are sitting on.
- **Other assets** - This is a special classification for unusual items that cannot be included in one of the other asset categories. Examples include deferred charges (long-term prepaid expenses), non-current receivables and advances to subsidiaries.
- **Intangible assets** - These are assets that lack physical substances but provide economic rights and advantages: patents, franchises, copyrights, goodwill, trademarks and organization costs. These assets have a high degree of uncertainty in regard to whether future benefits will be realized. They are reported at historical cost net of accumulated depreciation.

Total Liabilities
Liabilities have the same classifications as assets: current and long term.

Current liabilities - These are debts that are due to be paid within one year or the operating cycle, whichever is longer. Such obligations will typically involve the use of current assets, the creation of another current liability or the providing of some service.

Usually included in this section are:

- **Bank indebtedness** - This amount is owed to the bank in the short term, such as a bank line of credit.
- **Accounts payable** - This amount is owed to suppliers for products and services that are delivered but not paid for.
- **Wages payable (salaries), rent, tax and utilities** - This amount is payable to employees, landlords, government and others.
- **Accrued liabilities** (accrued expenses) - These liabilities arise because an expense occurs in a period prior to the related cash payment. This accounting term is usually used as an all-encompassing term that includes customer prepayments, dividends payables and wages payables, among others.
- **Notes payable (short-term loans)** - This is an amount that the company owes to a creditor, and it usually carries an interest expense.
- **Unearned revenues (customer prepayments)** - These are payments received by customers for products and services the company has not delivered or for which the company has not yet started to incur any cost for delivery.
- **Dividends payable** - This occurs as a company declares a dividend but has not yet paid it out to its owners.
- **Current portion of long-term debt** - The currently maturing portion of the long-term debt is classified as a current liability. Theoretically, any related premium or discount should also be reclassified as a current liability.
- **Current portion of capital-lease obligation -** This is the portion of a long-term capital lease that is due within the next year.

Long-term Liabilities - These are obligations that are reasonably expected to be liquidated at some date beyond one year or one operating cycle. Long-term obligations are reported as the present value of all future cash payments. Usually included are:

- **Notes payables** - This is an amount the company owes to a creditor, which usually carries an interest expense.
- **Long-term debt (bonds payable)** - This is long-term debt net of current portion.
- **Deferred income tax liability** - Deferred tax liabilities are taxes due in the future (future cash outflow for taxes payable) on income that has already been recognized for the books. If a company's tax expense is greater than its tax payable, then the company has created a future tax liability (the inverse would be accounted for as a deferred tax asset).
- **Pension fund liability** - This is a company's obligation to pay its past and current employees' post-retirement benefits; they are expected to materialize when the employees take their retirement for structures like a defined-benefit plan. This amount is valued by actuaries and represents the estimated present value of future pension expense, compared to the current value of the pension fund. The pension fund liability represents the additional amount the company will have to contribute to the current pension fund to meet future obligations.
- **Long-term capital-lease obligation** - This is a written agreement under which a property owner allows a tenant to use and rent the property for a specified period of time. Long-term capital-lease obligations are net of current portion.