

Subject : Business Studies
Topic : Balance Sheet
Class : JSS 3 A&B
Week : Week 7

Learning Objectives:

1. Define the term balance sheet
2. Classification of balance sheet items
3. Mention the importance of balance sheet

What Is a Balance Sheet?

A balance sheet is a financial statement that reports a company's assets, liabilities, and Capital. The balance sheet is one of the three core financial statements that are used to evaluate a business.

ASSETS: these are items acquired for use in the business rather than for resale to customers.

They are divided into two, current assets and fixed assets.

Current assets: they are called floating or circulating assets because they are less permanent in nature, examples are Cash in hand, stock, debtors and bank balances.

Fixed assets are permanent in nature which are used in business production, examples are land, machinery, equipment, buildings, and other durable, generally capital-intensive assets.

Intangible assets include non-physical (but still valuable) assets such as intellectual property and goodwill.

A liability is any money that a company owes to outside parties, from bills it has to 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.

Capital is the amount the owner has invested in the business. Profit made belongs to the owner and increases capital. Net profit which is the total balance after all expenses are removed is added to capital in balance sheet.

Importance of a Balance Sheet

Regardless of the size of a company or industry in which it operates, there are many benefits of a balance sheet,

1. Balance sheets determine risk. This financial statement lists everything a company owns and all of its debt.
2. Balance sheets are also used to secure capital. A company usually must provide a balance sheet to a lender in order to secure a business loan.
3. Managers can opt to use financial ratios to measure the liquidity, profitability, solvency, and turnover of a company.
4. Balance sheets can lure and retain talent. Employees usually prefer knowing their jobs are secure and that the company they are working for is in good health.
5. The balance sheet is an essential tool used by executives, investors, analysts, and regulators to understand the current financial health of a business.
6. The balance sheet can help users answer questions such as whether the company has a positive net worth, whether it has enough cash and short-term assets to cover its obligations, and whether the company is highly indebted relative to its peers.

Balance Sheet Formula?

A balance sheet is calculated by balancing a company's assets with its liabilities and equity or capital. The formula is: total assets = total liabilities + total equity or capital.