

Chapter 3-1

Financial Statement-

Balance Sheet

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Balance Sheet

A balance sheet provides detailed information about a company's

- Assets
- Liabilities
- Shareholders' equity.

Meaning of **Asset**, Liabilities and Shareholders' equity

Assets □ company owns that have value.

- Can either be sold or used by the company to make products or provide services that can be sold.
- Assets include physical property, such as plants, trucks, equipment and inventory.
- To include things that can't be touched but nevertheless exist and have value, such as trademarks and patents.
- Cash.

Meaning of **Asset**, Liabilities and Shareholders' equity

Assets are generally listed based on how quickly they will be converted into cash.

- Current assets are things a company expects to convert to cash within one year.
- Noncurrent assets are things a company does not expect to convert to cash within one year or longer than one year to sell. To include fixed assets. □ trucks, office furniture and other property.

Meaning of Asset, **Liabilities** and Shareholders' equity

Liabilities are amounts of money that a company owes to others.

- To include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government.
- Liabilities □ include obligations to provide goods or services to customers in the future.

Meaning of Asset, **Liabilities** and Shareholders' equity

Liabilities are generally listed based on their due dates. Liabilities are said to be either current or long-term.

1. Current liabilities are obligations a company expects to pay off within the year.

2. Long-term liabilities are obligations due more than one year away.

obligation = debt

Pay off = loans or promissory notes, do or give something to somebody in return

Meaning of Asset, Liabilities and Shareholders' equity

Shareholders' equity is sometimes called capital or net worth.

- It's the money that would be left if a company sold all of its assets and paid off all of its liabilities.
- This left over money belongs to the shareholders, or the owners, of the company.

Meaning of Asset, Liabilities and Shareholders' equity

Shareholders' equity

- Is the amount owners invested in the company's stock plus or minus the company's earnings or losses since inception.
- Sometimes companies distribute earnings, instead of retaining them. □ These distributions are called **dividends**.

Dividend = bonus

retaining = to continue to hold

Understanding Balance Sheets

- The [balance sheet](#) provides an [overview](#) of a company's assets, liabilities, and stockholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the fiscal year.
- The Balance Sheet Formula
$$\text{Assets} = (\text{Liabilities} + \text{Owner's Equity})$$

A company's assets have to equal, or "balance," the sum of its liabilities and shareholders' equity

Understanding Balance Sheets

- The [balance sheet](#) totals will be calculated already, but here's how you identify them.
- Locate total assets on the balance sheet for the period.
- Total all liabilities, which should be a separate listing on the balance sheet. It may not include [contingent liabilities](#).
- Locate total shareholder's equity and add the number to total liabilities.
- Total assets should equal the total of liabilities and total equity.

Data From the Balance Sheet

- The balance sheet identifies how assets are liabilities, such as debt, or stockholders' equity, such as retained earnings and additional paid-in capital. Assets are listed on the balance sheet in order of liquidity.
- Liabilities are listed in the order in which they will be paid. Short-term or current liabilities are expected to be paid within the year, while long-term or non-current liabilities are debts expected to be paid in over one year.

Items Included in the Balance Sheet

Below are examples of items listed on the balance sheet.

Assets, Liabilities and Shareholders' Equity

- [Cash and cash equivalents](#) are liquid assets, which may include Treasury bills and certificates of deposit.
- [Accounts receivables](#) are the amount of money owed to the company by its customers for the sale of its product and service.
- Inventory

Items Included in the Balance Sheet

Liabilities

- Debt including long-term debt
- Wages payable
- Dividends payable

Items Included in the Balance Sheet

Shareholders' Equity

- Shareholders' equity is a company's total assets minus its total liabilities. Shareholders' equity represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.
- Retained earnings are part of shareholders' equity and are the amount of net earnings that were not paid to shareholders as dividends.

Retained earnings = accumulated income

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THANK YOU

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Accounting and Tax

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