# Balance Sheet Statement (aka Statement of Financial Position)

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A balance sheet is an accounting report that shows what the company owns and what the company owes at the time of the report. It is a 'snapshot' of the company's financial position and is broken down into three primary sections: assets, liabilities and equity.

A company's balance sheet is set up like the basic accounting equation shown below.

> ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY
>
> A company's assets have to equal, or "balance," the sum of its liabilities and shareholders' equity.

Normally, the only items that can be recognized on a balance sheet under the cash-basis accounting method will be cash and equity. Liabilities are often not recognized. Therefore, it is unlikely that companies using the cash-basis accounting method would generate a balance sheet report. A balance sheet is typically generated under the accrual-basis accounting method and provides a detailed list of assets, liabilities and equity.

**Assets**

An asset is a resource that typically has value and provides some economic benefit in the future. This means that they can either be sold or used by the company to make products or provide services that can then be sold. Examples of assets include cash, accounts receivables, inventory, property, equipment, and investments. Assets can also include things that can't be touched but nevertheless exist and have value, such as trademarks and patents.

Assets are generally listed on a balance sheet based on how quickly they will be converted into cash and are categorized as either current assets and long-term assets.

**Current Assets:** Cash and other assets that are expected to be used or converted to cash within a year or normal operating business cycle (i.e. within 12 months). Some common examples include petty cash, checking and savings accounts, accounts receivable, inventory, and short-term investments.

- **Petty Cash:** The cash that is on hand at the place of business.
- **Checking and Savings Accounts:** The cash balances at a bank or financial institution.
- **Accounts Receivable:** Used only in accrual-based accounting, accounts receivable is money due from a customer for goods or services that have been delivered but not yet paid for by the customer.
- **Prepaid Expenses:** Used only in accrual-based accounting, prepaid expenses are advanced payments for goods or services by a business to be received in the future.

- **Inventory:** Used only in accrual-based accounting, inventory are items, goods, merchandise, and materials held by a business for producing and/or selling product into the market. The inventory value that appears on the balance sheet are based on the cost of the inventory (what the company paid), not on the market value that is provided to the customer (the price that the customer pays).
- **Short-Term Investments:** Used primarily in accrual-based accounting, short-term investments are investments that are intended to be held for less than 1 year. Examples of investments include stocks and bonds, or investments made in other companies.

**Long-Term Assets:** Assets that can expect to be used or converted to cash beyond a typical business cycle (i.e. beyond 12 months). Some common examples include capital assets, intangible assets, and long-term investments.

- **Capital Assets (aka Property, Plant, and Equipment or Fixed Assets):** Used primarily in accrual-based accounting, capital assets are a company's physical or tangible long-term assets that typically have a life of more than one year. Examples of fixed assets include buildings, machinery, land, office equipment, furniture, and vehicles. The value of these types of assets appear on the balance sheet based on the original cost (what the company paid), and not the market value (what it would be worth if sold on the open market).
  - **Depreciation:** Used primarily in accrual-based accounting, depreciation is an accounting method that allows companies to expense a portion of capital assets during the current reporting period. The accumulated total of the depreciation associated with fixed assets appears on the balance sheet as a negative amount as part of the fixed asset section.
- **Intangible Assets:** Used primarily in accrual-based accounting, intangible assets are assets that are not physical in nature. Examples include, goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights.
  - **Amortization:** Used primarily in accrual-based accounting, amortization is an accounting method that allows companies to expense a portion of intangible assets during the current reporting period. The accumulated total of the amortization associated with intangible assets appears on the balance sheet as a negative amount as part of the intangible asset section.
- **Long-Term Investments:** Used primarily in accrual-based accounting, long-term investments are investments that are intended to be held for more than 1 year. Examples of investments include stocks and bonds, or investments made in other companies.

**Liabilities**

Liabilities are debts or obligations a company owes resulting from past business transactions. This can include all kinds of obligations, like money owed for rent of building space or suppliers for materials (accounts payable), payroll a company owes to its employees (accrued payroll), taxes owed to the government (accrued taxes payable), or money borrowed from a bank to launch a new product (notes payable). Liabilities also include obligations to provide goods or services to customers in the future (deferred revenue).

Liabilities are generally listed on a balance sheet based on their due dates and are categorized as either current liabilities and long-term liabilities.

**Current Liabilities:** A company's financial obligations that are due within one year or within a normal operating business cycle (i.e. within 12 months). Examples: accounts payable, wages payable, short-term notes payable.

- **Accounts Payable:** Used only in accrual-based accounting, accounts payable is money due by the company to a vendor for goods or services that have been delivered but not yet paid for by the company.
- **Accrued Expenses:** Used only in accrual-based accounting, an accrued expense is an expense that is recognized on the income statement in the accounting period in which it is incurred, but has yet to be paid. Examples include wages earned but not paid, payroll taxes due but not paid, sales taxes due but not paid, and interest due on debt but not paid.
- **Deferred Revenue:** Used only in accrual-based accounting, a company defers revenue if a customer pays in advance for a good or service that is to be delivered at some future date. With accrual-based accounting, revenue is only recognized as earned when money is received from a buyer **and** the goods or services are delivered to the buyer.
- **Current Portion of Long-Term Debt:** The current portion of long-term debt is the amount of unpaid principal from long-term debt that is due to be paid within a company's normal operating cycle (typically less than 12 months).

**Long-Term Liabilities:** A company's financial obligations that are due more than a year or normal operating business cycle (i.e. beyond 12 months). Examples: long-term notes payable and capital leases.

- **Long-Term Portion of Debt:** Long-term debt are financial obligations that are due more than one year in the future. The amount that appears in the long-term liabilities section of the balance sheet is net of the current portion that appears in the current liabilities section. The total of the current portion and the long-term portion of debt should equal the total debt outstanding.
- **Capital Leases:** A capital lease is a contract entitling a renter to the temporary use of an asset and has the economic characteristics of asset ownership for accounting purposes.

**Equity**

Equity is essentially the business owners' rights to the company's assets. It's the money that would be left if a company sold all of its assets and paid off all of its liabilities. This "leftover money" belongs to the owners of the company. It can be calculated by subtracting total liabilities from total assets.

The types of equity accounts that appear on a balance sheet will depend on the type of business structure (sole proprietorship, partnership, or corporation). Common examples of equity accounts for sole proprietorships and partnership include owner's contribution and retained earnings or reserves. Common examples of equity accounts for corporations include common stock, preferred stock, treasury stock, and retained earnings. Sometimes companies distribute earnings, instead of retaining them. These distributions are called owner's distribution for sole proprietorships and partnerships, and dividends for corporations.

- **Owner's Contribution:** Personal funds contributed to a business. Primarily used when organized as a sole proprietorship or partnership.
- **Shareholder Stock:** Funds contributed to a corporation by an investor in exchange for ownership (shares) of the company. The stock can be in the form of common stock, preferred stock, or treasury stock.
- **Retained Earnings/Reserves:** The profits (or losses) that a company has recognized since the inception of the business entity, less any distributions paid to owners (sole proprietorships or partnerships) or dividends paid to shareholders (corporations).

**XYZ Clothing Company, LLC**
**Balance Sheet - Accrual Basis Accounting**
**Sole Proprietorship**
**Year Ending December 31, 20XX**

| | | |
|---|---|---|
| | **Assets** | |
| **Current Assets** | | |
| Checking Account | $ | 16,000 |
| Accounts Receivable | $ | 15,000 |
| Prepaid Expenses | $ | 7,000 |
| Inventory | $ | 90,000 |
| **Total Current Assets** | **$** | **128,000** |
| **Property, Plant & Equipment** | | |
| Land | $ | 30,000 |
| Building | $ | 300,000 |
| Equipment | $ | 200,000 |
| Furnishings | $ | 22,000 |
| Accumulated Depreciation | $ | (200,000) |
| **Total PP&E** | **$** | **352,000** |
| **Other Long-Term Assets** | | |
| Investments | $ | 20,000 |
| Life Insurance Cash Value | $ | 30,000 |
| **Total Other Long-Term Assets** | **$** | **50,000** |
| **Total Assets** | **$** | **530,000** |
| | **Liabilities & Equity** | |
| **Current Liabilities** | | |
| Accounts Payable | $ | 25,000 |
| Payroll Tax Payable | $ | 3,000 |
| Credit Card Payable | $ | 1,000 |
| Bank Line of Credit | $ | 35,000 |
| Current Portion of Debt | $ | 5,000 |
| **Total Current Liabilities** | **$** | **69,000** |
| **Long-Term Liabilities** | | |
| Long-Term Portion of Debt | $ | 125,000 |
| **Total Long-Term Liabilities** | **$** | **125,000** |
| **Owner's Equity** | | |
| Owner's Contribution | $ | 11,000 |
| Retained Earnings | $ | 325,000 |
| **Total Owner's Equity** | **$** | **336,000** |
| **Total Liabilities and Equity** | **$** | **530,000** |