**The Balance Sheet Script**

Slide 1: In this video, I want to talk a little about the Balance Sheet and review several different ways in which the statement can be presented.

Slide 2: The Balance Sheet is also known as the Statement of Financial Position and, while the Income Statement and Cash Flow Statement cover a period of time (month, quarter, year), the Balance sheet is “as of” a specific point in time – the end of a month, quarter or year. For this reason, some refer to it as a “snapshot” of the company.

The Accounting Equation is based on the Accounting Equation (that was covered in the Step 1 video from the Accounting Cycle series).

Slide 3: Slide 12: The Accounting Equation states that Assets = Liabilities + Owners’ Equity. Assets are resources owned or controlled by the company and are expected to provide a future economic benefit. A few examples of Assets are Cash, Accounts Receivable, Supplies, Prepaid Insurance, Equipment and so on. Liabilities are claims on those assets or obligations arising out of current or past transactions. Some examples of Liabilities are Accounts payable, Unearned Revenue, Notes Payable and Bank Loans (I always remember that I am liable to repay the bank…). Owners’ Equity is comprised of owner investments in the business, less any distributions from the business, plus any Net Income retained by the business since inception. Accounts affecting Owners’ Equity are Common Stock, Dividends and Retained Earnings.

Slide 4: One way to present Balance Sheet information is in the Unclassified Balance Sheet. With this format, only Total Assets, Total Liabilities and Total Equity are presented. This would be acceptable in smaller businesses where not many accounts are used.

Slide 5: With the Classified Balance Sheet, we break Assets into two classes: Current Assets and Non-Current Assets. Current Assets are those assets we expect to use up or convert to cash within a period of one year or less. Non-current assets are used up over a period of longer than one year and include Property, Plant & Equipment (PP&E) and Intangible Assets (in our example here, Intangibles are omitted for simplicity’s sake).

Similarly, Liabilities are broken into two classes: Current Liabilities and Long Term Debt. Current Liabilities are those liabilities expected to be satisfied within the next 12 months or less, while Long Term Debt is to be satisfied or paid off over a period longer than 12 months, such as bank loans and bonds. Similarly, Owners’ Equity is broken into Paid In Capital (Investment / Common Stock) and Retained Earnings...

Slide 6: We can also prepare the Balance Sheet in two different forms; here we see what is known as the Report Form. The easiest way to think of the Report From is to think about Portrait Orientation when printing documents. I’ve used, in this case, a classified balance sheet presented in the Report Form.

Slide 7: Here, we use the Account Form of the Balance Sheet. Similarly, we can think of this form as being like a Landscape Orientation when printing documents. I have also chosen to use the classified balance sheet in this presentation. As with the Income Statements, whichever way is used depends on management preference and the preference of the users.

Slide 8: I hope this has helped you to understand a bit more about the Balance Sheet. Please feel free to review the presentations created covering the various ways we can prepare the Income Statement and how we prepare the Cash Flow Statement.

I’ve also created videos covering the Accounting Cycle and how the statement data is prepared.