

## Preparing a Balance Sheet

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The balance sheet is a financial statement produced periodically, normally at the end of a calendar or financial year, and normally within an annual report. It showcases the company by measuring its financial health. Its production is a legal requirement in most countries. It is usually greeted enthusiastically by stockholders and investors as a measure of the worth of the company's stock, and is supplemented by other important statements: the income statement, which shows how the company's income was generated throughout the year, and the cash flow statement.

### What You Need to Know

The balance sheet balances a company's current assets (cash, accounts receivable, inventory), plus fixed assets (land, buildings, plant, vehicles at cost, less depreciation), against current liabilities (accounts payable, all debt and stockholders equity).

Assets must balance liabilities and stockholders' equity—assets must *equal* liabilities and stockholders equity.

Subtracting the value of liabilities from the value of assets indicates the value of stockholders' equity. Ideally, it should be positive. Stockholders' equity consists of capital they have invested over the years and profits (net income) or internally generated capital, which is known as retained earnings—earnings remaining after dividends have been paid, and viewed as a source of financing. It is sometimes necessary to retain all a company's earnings, and not pay a dividend at all, rather than borrow or issue more equity to finance operations. This decision obviously plays a part in how analysts will value the stock

An example of a balance sheet is:

#### ASSETS

<b>Current:</b>	
Cash	\$16,400
Securities	\$10,000
Receivables	\$9,000
Inventory & supplies	\$12,600
<b>Fixed:</b>	
Land	\$20,000
Structures	\$180,000

Equipment (less depreciation)	\$10,000
<b>TOTAL ASSETS</b>	<b>\$258,000</b>
<b>LIABILITIES</b>	
Payables	\$14,000
Taxes	\$8,000
Miscellaneous	\$6,000
<b>Bonds &amp; notes</b>	<b>\$50,000</b>
<b>TOTAL LIABILITIES</b>	<b>\$78,000</b>
SHAREHOLDERS' EQUITY (stock, par value x shares outstanding)	\$160,000
RETAINED EARNINGS	\$20,000
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$258,000</b>

The balance sheet does not reveal *everything* about a company, neither, for example, important intangibles such as the experience of individual people, nor other vital business factors such as customers or market share. Nor does the balance sheet necessarily measure the true value of some fixed assets. A six-year-old item of equipment, for example, is entered in the balance sheet at its original cost, even though the cost of replacing it could be much higher, or substantially lower (because of new technology that might be less expensive or vastly more efficient). The balance sheet needs to be studied along with the income statement and the cash flow statement, and needs to include figures for previous years to allow for comparisons.

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