8 Balance sheets

The People's Accountant Explains
Balance Sheets

Income statements show financial information over a period of time. Balance sheets, on the other hand, show a company's financial status at a certain moment in time. Let me show you how to read them.

Balance sheets follow this equation:

Assets = Liabilities + Owner's Equity

It's that simple. Assets are what a company owns. Liabilities are what a company owes. Equity is what a company is worth.

Assets include **cash**, **inventory**, **accounts receivable**, and **fixed assets** like land and property. Liabilities include **accounts payable** and **debts**. Owner's equity is the total value of the company.

The **sum** of the assets should be equal to the sum of the liabilities plus the owner's equity.

Balance Sheet *As of July 31st, 2011*

Assets		Liabilities	
Cash (bank account)	10,000	Accounts Payable	11,000
Accounts Receivable	15,000	Debts	4,000
Inventory	5,000	Total Liabilities	15,000
Fixed Assets	50,000	**Owner's Equity**	
		Total Equity	65,000
Total Assets	80,000	Total Liabilities and Equity	80,000

Get Ready!

1 Before you read the passage, talk about these questions.

1 What information goes on a balance sheet?
2 How do companies use balance sheets?

Reading

2 Read the balance sheet and magazine article. Then, choose the correct answers.

1 What is the passage mainly about?
- A tracking accounts payable and debts
- B calculating the total value of a company
- C explaining the information on a balance sheet
- D understanding the effect liabilities have on equity

2 Which of the following is NOT an asset?
- A land
- B equity
- C inventory
- D accounts receivable

3 What is true according to the passage?
- A Equity is what a company owns.
- B Cash and inventory are fixed assets.
- C Accounts payable are considered debt.
- D Total assets equal total liabilities and equity.

Vocabulary

3 Match the words (1-5) with the definitions (A-E).

1 __ balance sheet
2 __ owner's equity
3 __ accounts receivable
4 __ asset
5 __ liability

- A what a company is worth
- B something a company owns
- C a record of money that is owed to a company for past sales
- D an amount of money that a company owes
- E a document showing assets, liabilities, and equity

Pedro Armando Tasayco Díaz
Profesor de Ingles

LIVEWORKSHEETS

4 Fill in the blanks with the correct words and phrases from the word bank.

WORD BANK

accounts payable **fixed assets**
sum **inventory** **debt**

1 The company records most purchases in _____.
2 Companies with too much _____ can't get loans.
3 _____ is getting low. Fill out a new purchase order.
4 Add those figures. Then tell me what the _____ is.
5 The company has a lot of _____, including a new warehouse.

5 Listen and read the balance sheet and article again. What is meant by the term fixed assets?

Listening

6 Listen to a conversation between two accountants. Mark the following statements as true (T) or false (F).

1 __ The man suggests taking on more debt.
2 __ The company has enough cash to pay its debt.
3 __ The woman says there is an error on the balance sheet.

7 Listen again and complete the conversation.

A 1: 1 _____ _____, but we have a problem.
A 2: What's that?
A 1: I was looking at this month's balance sheet. Our accounts payable shows that we 2 _____ $15,000.
A 2: Why is that a problem?
A 1: Well, we 3 _____ have $10,000 in the bank.
A 2: I see. We have to 4 _____ some money to pay the difference.
A 1: Isn't it a 5 _____ _____ to take on more debt?
A 2: No. Our accounts receivable shows $15,000. We can use that to 6 _____ _____ some debt next month.

Speaking

8 With a partner, act out the roles below based on Task 7. Then switch roles.

USE LANGUAGE SUCH AS:

Excuse me, but ...
I was looking at our balance sheet ...
We need to ...

Student A: You are an accountant. Talk to Student B about:

- a balance sheet
- low/high figures
- what to do about it

Student B: You are an accountant. Answer Student A's questions.

Writing

9 Use the conversation from Task 8 to fill out the balance sheet.

Balance Sheet *As of August 31st, 2011*

Assets		Liabilities	
Cash (bank account)	____	Accounts _____	_____
Accounts _____	____		25,000
Inventory	10,000	**Total Liabilities**	____
Fixed Assets	100,000	**Owner's Equity**	
		Total Equity	95,000
Total Assets	____	**Total Liabilities and Equity**	____

Pedro Armando Tasayco Díaz
Profesor de Ingles

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ACTIVITY 6 Y 7

Unit 8

Accountant 1 (F): Excuse me, but we have a problem.
Accountant 2 (M): What's that?
Accountant 1: I was looking at this month's balance sheet. Our accounts payable shows that we owe $15,000.
Accountant 2: Why is that a problem?
Accountant 1: Well, we only have $10,000 in the bank.
Accountant 2: I see. We have to borrow some money to pay the difference.
Accountant 1: Isn't it a bad idea to take on more debt?
Accountant 2: No. Our accounts receivable shows $15,000. We can use that to pay off some debt next month.

ACTIVITY 8

A: Excuse me, but we have a problem.
B: What's that?
A: I was looking at this month's balance sheet. Our accounts payable shows that we owe $15,000.
B: Why is that a problem?
A: Well, we only have $10,000 in the bank.
B: I see. We have to borrow some money to pay the difference.
A: Isn't it a bad idea to take on more debt?
B: No. Our accounts receivable shows $15,000. We can use that to pay off some debt next month.

Pedro Armando Tasayco Díaz
Profesor de Ingles

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