

## 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?
  - tracking accounts payable and debts
  - calculating the total value of a company
  - explaining the information on a balance sheet
  - understanding the effect liabilities have on equity
- 2 Which of the following is NOT an asset?
  - land
  - inventory
  - equity
  - accounts receivable
- 3 What is true according to the passage?
  - Equity is what a company owns.
  - Cash and inventory are fixed assets.
  - Accounts payable are considered debt.
  - Total assets equal total liabilities and equity.

### Vocabulary

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

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

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

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 T The man suggests taking on more debt.
- 2 T The company has enough cash to pay its debt.
- 3 F 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 _____

