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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:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

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 Assets		Total Equity	65,000
		Total Liabilities and Equity	80,000
Total Assets			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
 - C inventory
 - B equity
 - 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

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

Word BANK

accounts payable fixed assets
sum inventory debt

- The company records most purchases in _____.
- Companies with too much _____ can't get loans.
- _____ is getting low. Fill out a new purchase order.
- Add those figures. Then tell me what the _____ is.
- 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).

- ___ The man suggests taking on more debt.
- ___ The company has enough cash to pay its debt.
- ___ 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 Assets	_____	Total Equity	95,000
		Total Liabilities and Equity	_____

