

The analysis and application of the balance sheet

[Business](#), [Accounting](#)



Financial accounting is one of the most popular major in the world. In the study of accounting, people must know and use expertly the three accounting statement, balance sheets, cash flow, and income statement. It is the most basic and useful skill in one's career of accounting. But in the four basic financial statement, the balance sheet or called statement of financial position is the only one which describe a single point in time of a business' calendar year.

" In financial accounting, a balance sheet or statement of financial position is a summary of the financial balances of a sole proprietorship, a business partnership, a corporation or other business organization, such as an LLC or an LLP. Assets, liabilities and ownership equity are listed as of a specific date, such as the end of its financial year. A balance sheet is often described as a snapshot of a company's financial condition. "(Williams, Jan R, ibid, 2008) Therefore, this essay will force on the balance sheet, it can help student understand the balance sheet better.

A standard company balance sheet has divide into three parts: assets, liabilities and ownership equity. " The main categories of assets are usually listed first, and typically in order of liquidity. "(Daniels, Mortimer , 1980) " Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities." [Williams, Jan R, 2008]"

Another way to look at the same equation is that assets equals liabilities plus owner's equity. Looking at the equation in this way shows how assets were

financed: either by borrowing money (liability) or by using the owner's money (owner's equity). Balance sheets are usually presented with assets in one section and liabilities and net worth in the other section with the two sections "balancing". A business operating entirely in cash can measure its profits by withdrawing the entire bank balance at the end of the period, plus any cash in hand.

However, many businesses are not paid immediately; they build up inventories of goods and they acquire buildings and equipment. In other words: businesses have assets and so they cannot, even if they want to, immediately turn these into cash at the end of each period. Often, these businesses owe money to suppliers and to tax authorities, and the proprietors do not withdraw all their original capital and profits at the end of each period. In other words businesses also have liabilities.”[wikipedia, balance sheet]

A balance sheet summarizes an organization or individual's assets, equity and liabilities at a specific point in time. We have two forms of balance sheet. They are the report form and the account form. Individuals and small businesses tend to have simple balance sheets. [the original, 07, 15, 2007] Larger businesses tend to have more complex balance sheets, and these are presented in the organization's annual report. [Microsoft Corporation balance sheet, June 30, 2004] Large businesses also may prepare balance sheets for segments of their businesses.[Global Financing]

A balance sheet is often presented alongside one for a different point in time (typically the previous year) for comparison. [Balance sheet comparing two year-end balance sheets] “ A personal balance sheet lists current assets
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such as cash in checking accounts and savings accounts, long-term assets such as common stock and real estate, current liabilities such as loan debt and mortgage debt due, or overdue, long-term liabilities such as mortgage and other loan debt.

Securities and real estate values are listed at market value rather than at historical cost or cost basis. Personal net worth is the difference between an individual's total assets and total liabilities. "[Personal balance sheet structure] " A small business balance sheet lists current assets such as cash, accounts receivable, and inventory, fixed assets such as land, buildings, and equipment, intangible assets such as patents, and liabilities such as accounts payable, accrued expenses, and long-term debt.

Contingent liabilities such as warranties are noted in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities. "[Small Business Administration] There are another type of balance sheet is US small business balance sheet. It is a small business balance sheet lists current assets such as cash, accounts receivable, and inventory, fixed assets such as land, buildings, and equipment, intangible assets such as patents, and liabilities such as accounts payable, accrued expenses, and long-term debt.

Contingent liabilities such as warranties are noted in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities. Guidelines for balance sheets of public business entities are given by the International Accounting Standards Board and numerous country-specific organizations/companys. " Balance sheet account names and usage depend on the organization's country and the type of <https://assignbuster.com/the-analysis-and-application-of-the-balance-sheet/>

organization. Government organizations do not generally follow standards established for individuals or businesses.

"[Personal balance] If applicable to the business, summary values for the following items should be included in the balance sheet:[16] Assets are all the things the business owns, this will include property, tools, cars, Current assets, Cash and cash equivalents, Accounts receivable, Inventories, Prepaid expenses for future services that will be used within a year, Non-current assets (Fixed assets), Investment property, such as real estate held for investment purposes, Intangible assets, Financial assets (excluding investments accounted for using the equity method, accounts receivables, and cash and cash equivalents), Investments accounted for using the equity method, Biological assets, which are living plants or animals.

Bearer biological assets are plants or animals which bear agricultural produce for harvest, such as apple trees grown to produce apples and sheep raised to produce wool. [Epstein, Barry J. ; Eva K. Jermakowicz , 2007] the liabilities include: Accounts payable, Provisions for warranties or court decisions, Financial liabilities (excluding provisions and accounts payable), such as promissory notes and corporate bonds, Liabilities and assets for current tax, Deferred tax liabilities and deferred tax assets, Unearned revenue for services paid for by customers but not yet provided. Furthermore The net assets shown by the balance sheet equals the third part of the balance sheet, which is known as the shareholders' equity.

It comprises: Issued capital and reserves attributable to equity holders of the parent company (controlling interest), Non-controlling interest in equity. Formally, shareholders' equity is part of the company's liabilities: they are <https://assignbuster.com/the-analysis-and-application-of-the-balance-sheet/>

funds "owing" to shareholders (after payment of all other liabilities); usually, however, "liabilities" is used in the more restrictive sense of liabilities excluding shareholders' equity. The balance of assets and liabilities (including shareholders' equity) is not a coincidence. Records of the values of each account in the balance sheet are maintained using a system of accounting known as double-entry bookkeeping. In this sense, shareholders' equity by construction must equal assets minus liabilities, and are a residual.

Regarding the items in equity section, the following disclosures are required:

Numbers of shares authorized, issued and fully paid, and issued but not fully paid, Par value of shares, Reconciliation of shares outstanding at the beginning and the end of the period, Description of rights, preferences, and restrictions of shares, Treasury shares, including shares held by subsidiaries and associates, Shares reserved for issuance under options and contracts, A description of the nature and purpose of each reserve within owners' equity

The last part in this essay will introduce Balance sheet substantiation. ‘

Balance Sheet Substantiation is the accounting process conducted by businesses on a regular basis to confirm that the balances held in the primary accounting system of record (e. g. SAP, Oracle, other ERP system's General Ledger) are reconciled (in balance with) with the balance and transaction records held in the same or supporting sub-systems.

Balance Sheet Substantiation includes multiple processes including reconciliation (at a transactional or at a balance level) of the account, a process of review of the reconciliation and any pertinent supporting documentation and a formal certification (sign-off) of the account in a predetermined form driven by corporate policy. Balance Sheet

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Substantiation is an important process that is typically carried out on a monthly, quarterly and year-end basis. The results help to drive the regulatory balance sheet reporting obligations of the organization. Historically, Balance Sheet Substantiation has been a wholly manual process, driven by spreadsheets, email and manual monitoring and reporting.

In recent years software solutions have been developed to bring a level of process automation, standardization and enhanced control to the Balance Sheet Substantiation or account certification process. These solutions are suitable for organizations with a high volume of accounts and/or personnel involved in the Balance Sheet Substantiation process and can be used to drive efficiencies, improve transparency and help to reduce risk. Balance Sheet Substantiation is a key control process in the SOX 404 top-down risk assessment. '[University of Victoria (Canada) balance sheet accounts] To sum up, it can be seen that the balance sheet have a lot of point, it worth to research, to think deeply. The balance sheet is the first step of your accounting career, it also is the skill which will follow you whole accounting career.