ALL ABOUT

BALANCE SHEET

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The introduction

The balance sheet is a vital financial statement that provides a **snapshot**  of an organization's financial position at a specific point in time.

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The introduction

It showcases the company's assets, liabilities, and shareholders' equity, offering **valuable insights into its financial health**.

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Definition

The balance sheet, also known as the statement of financial position, presents a summary of a company's **financial position** by displaying its assets, liabilities, and shareholders' equity.

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Balance Sheet Equation

Assets

= Liabilities + Shareholders' Equity

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Balance Sheet Items

The balance sheet includes various items, such as:

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Balance Sheet Items

Assets:

These are the resources owned by the company, including cash, accounts receivable, inventory, property, and equipment.

AND →

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Balance Sheet Items

Liabilities:

These are the obligations and debts owed by the company to external parties, such as loans, accounts payable, and accrued expenses.

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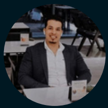

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Balance Sheet Items

Shareholders' Equity:

This represents the residual interest in the assets of the company after deducting liabilities. It includes common stock, retained earnings, and additional paid-in capital.

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Classifications of Assets

1. Current Assets
2. Fixed Assets
3. Intangible Assets

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Classifications of Liabilities

1. Current Liabilities
2. Long-Term Liabilities

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Classifications of Equity

1. Common Stock
2. Retained Earnings
3. Additional Paid-in Capital

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Balance Sheet Ratios

Balance sheet ratios help **assess the financial health** and performance of a company. Some important ratios include:

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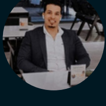

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Balance Sheet Ratios

Current Ratio:

Current Assets / Current Liabilities

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Balance Sheet Ratios

Debt-to-Equity Ratio:

Total Debt / Shareholders' Equity

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Balance Sheet Ratios

Return on Equity (ROE):

Net Income / Shareholders' Equity

And

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Balance Sheet Ratios

Asset Turnover Ratio:

Net Sales / Total Assets

And

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Balance Sheet Ratios

Working Capital Ratio:

Current Assets - Current Liabilities

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Advantages
of
the Balance Sheet

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Advantages of the Balance Sheet

1. Financial Position Assessment:

It provides a **comprehensive view** of a company's financial position and its ability to meet its obligations.

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Advantages of the Balance Sheet

2. Performance Evaluation:

It helps evaluate the company's **performance** over time by comparing the balance sheet data from different periods.

And

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Advantages of the Balance Sheet

3 Investment Decision Making:

It assists investors in assessing the **company's financial stability** and making informed investment decisions.

And

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Advantages of the Balance Sheet

4 Creditworthiness Assessment:

Lenders and creditors use the balance sheet to evaluate a company's **creditworthiness** and determine the terms of loans or credit.

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Limitations
of
the Balance Sheet

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Limitations of the Balance Sheet

1 Historical Perspective:

The balance sheet represents historical data and may **not capture the current market value** of assets or liabilities.

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Limitations of the Balance Sheet

2 Subjectivity in Valuation:

The valuation of assets and liabilities involves **judgment and estimation**, which can vary among companies.

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Limitations of the Balance Sheet

3 Limited Information on Intangible Assets:

The balance sheet may **not fully reflect** the value of intangible assets, such as brand reputation or intellectual property.

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Conclusion

Understanding the balance sheet is crucial for **analyzing a company's financial position**, making investment decisions, and assessing its overall stability.

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