



23BAT605-FINANCIAL STATEMENT ANALYSIS

Balance Sheet

A Balance Sheet is a financial statement that provides a snapshot of a company's financial position at a specific moment in time. It presents the company's assets, liabilities, and equity, following the fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Components and key features of a Balance Sheet:

1. Assets:

- Represent what the company owns or controls.
- Classified into current assets (e.g., cash, receivables) and non-current assets (e.g., property, equipment).
- Current assets are expected to be converted into cash or used up within a year.

2. Liabilities:

- Represent what the company owes to external parties.
- Classified into current liabilities (e.g., payables, short-term debt) and non-current liabilities (e.g., long-term debt, deferred tax liabilities).
- Current liabilities are obligations due within a year.

3. Equity:

- Represents the residual interest of the owners in the company's assets after deducting liabilities.
- Includes common stock, retained earnings, and additional paid-in capital.
- Equity is also known as shareholders' equity or net assets.

4. Accounting Equation:

- The balance sheet adheres to the accounting equation, ensuring that the total assets equal the total of liabilities and equity.
- This equation reflects the idea that a company's assets are financed by its liabilities and equity.

5. Working Capital:

- The balance sheet provides information on a company's working capital, calculated as current assets minus current liabilities.
- Positive working capital indicates liquidity, while negative working capital may suggest potential financial strain.

6. Financial Health:

- Investors and creditors use the balance sheet to assess the financial health and stability of a company.
- Solvency ratios, like the debt-to-equity ratio, can be derived from the balance sheet for analysis.

7. Comparative Analysis:

- Comparing balance sheets over different periods helps identify trends, changes in financial structure, and potential risks or opportunities.

8. Disclosure of Accounting Policies:

- Companies typically disclose their accounting policies regarding the valuation of assets, treatment of contingencies, and other relevant details in the notes to the balance sheet.

9. Use in Decision-Making:

- Management uses the balance sheet for strategic decision-making, such as assessing the need for additional financing, planning capital expenditures, or evaluating the distribution of dividends.

10. Preparation Frequency:

- Balance sheets are prepared at the end of accounting periods, typically quarterly or annually, to provide a snapshot of the company's financial position.

11. Consistency and Compliance:

- Balance sheets must adhere to accounting standards and regulations to ensure consistency and comparability across different entities.

12. Auditor's Opinion:

- External auditors review the balance sheet as part of the financial statement audit, providing an opinion on the fairness of the presentation and adherence to accounting principles.

The Balance Sheet is a fundamental financial statement that offers insights into a company's assets, liabilities, and equity, helping stakeholders make informed decisions about the business's financial health and performance.