

## Preparation of Final Accounts: The Balance Sheet

The balance sheet is a crucial financial statement that provides a snapshot of a company's financial position at a specific point in time. It details the company's assets, liabilities, and equity, helping stakeholders understand what the company owns and owes, as well as the amount invested by the shareholders.

### Structure of the Balance Sheet

A balance sheet is typically divided into two sections:

1. **Assets** (right side)
2. **Liabilities and Equity** (left side)

Both sides must balance, meaning the total assets should equal the total liabilities and equity.

### Components of the Balance Sheet

#### 1. Assets

Assets are resources owned by the business that are expected to bring future economic benefits. They are categorized into:

- **Current Assets:** These are assets that are expected to be converted into cash or used up within one year.
  - **Cash and Cash Equivalents:** Money available immediately, like cash in hand and bank balances.
  - **Accounts Receivable (Debtors):** Money owed to the business by customers.
  - **Inventory (Stock):** Goods available for sale.
  - **Prepaid Expenses:** Payments made in advance for goods or services to be received in the future.
  - **Short-term Investments:** Investments that can be easily liquidated within a year.
- **Non-Current (Fixed) Assets:** These are long-term resources used in the business, not intended for resale.
  - **Property, Plant, and Equipment (PPE):** Tangible assets like land, buildings, machinery, and vehicles.
  - **Intangible Assets:** Non-physical assets like patents, trademarks, goodwill.
  - **Long-term Investments:** Investments held for more than a year.
  - **Other Non-Current Assets:** Any other long-term assets not classified above.

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## 2. Liabilities

Liabilities represent what the company owes to outside parties. They are categorized into:

- **Current Liabilities:** These are obligations the business is expected to settle within one year.
  - **Accounts Payable (Creditors):** Money the business owes to suppliers.
  - **Short-term Borrowings:** Loans and borrowings due within a year.
  - **Accrued Expenses:** Expenses that have been incurred but not yet paid.
  - **Unearned Revenue:** Payments received in advance for goods or services yet to be delivered.
  - **Current Portion of Long-term Debt:** Part of long-term debt due within the next 12 months.
- **Non-Current Liabilities:** These are obligations that are due after one year.
  - **Long-term Borrowings:** Loans and borrowings repayable beyond one year.
  - **Deferred Tax Liabilities:** Taxes owed but payable in future periods.
  - **Other Non-Current Liabilities:** Any other long-term obligations not classified above.

## 3. Equity

Equity represents the owners' claim after all liabilities have been settled. It includes:

- **Share Capital:** The amount invested by shareholders in exchange for shares of the company.
- **Retained Earnings:** Accumulated profits that have not been distributed as dividends.
- **Reserves and Surplus:** Portions of profits set aside for specific purposes, such as general reserve, capital reserve.
- **Other Comprehensive Income:** Items of income and expense that are not recognized in the profit and loss account, such as revaluation surplus or foreign currency translation adjustments.

### Steps to Prepare the Balance Sheet

1. **Collect Data:** Gather all necessary financial data from the trial balance and other relevant sources.
2. **Classify Assets and Liabilities:** Categorize the assets and liabilities into current and non-current.

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3. **Arrange in Order of Liquidity:** Arrange the assets in the order of liquidity (the ease with which they can be converted into cash). Similarly, arrange liabilities based on their payment priority.
4. **Calculate Total Assets and Liabilities:** Sum up the total current and non-current assets. Do the same for liabilities and equity.
5. **Ensure Balance:** Verify that the total assets equal the total liabilities and equity.

**Example Format of a Balance Sheet**

Name of Business			
Balance Sheet as of [Date]			
Liabilities	Amount (₹)	Assets	Amount (₹)
Capital and Liabilities		Assets	
Equity and Reserves			
Capital Account	xx	Fixed Assets:	
Add: Net Profit	xx	- Land & Building	xx
Less: Drawings	xx	- Plant & Machinery	xx
Reserve & Surplus	xx	- Furniture	xx
Non-Current Liabilities		Current Assets:	
Long-term Borrowings	xx	- Stock/Inventory	xx
Current Liabilities		- Debtors/Accounts Receivable	xx
Trade Payables	xx	- Cash & Bank Balance	xx
Short-term Provisions	xx		
<b>Total Liabilities</b>	<b>xx</b>	<b>Total Assets</b>	<b>xx</b>

**Solved Example**

Ques: From the following information, prepare a Balance Sheet for XYZ Ltd. as of March 31, 2023:

- Share Capital: ₹5,00,000
- Retained Earnings: ₹2,00,000
- Long-term Borrowings: ₹3,00,000
- Land and Building: ₹4,00,000

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- Plant and Machinery: ₹4,50,000
- Inventory: ₹1,50,000
- Accounts Receivable: ₹1,00,000
- Cash and Cash Equivalents: ₹50,000
- Short-term Borrowings: ₹1,00,000
- Accounts Payable: ₹50,000

**Balance Sheet of XYZ Ltd. as of March 31, 2023**

Liabilities	Amount (₹)	Assets	Amount (₹)
Shareholders' Equity			
Share Capital	5,00,000	<b>Non-Current Assets</b>	
Retained Earnings	2,00,000	- Land and Building	4,00,000
<b>Non-Current Liabilities</b>		- Plant and Machinery	4,50,000
Long-term Borrowings	3,00,000	<b>Current Assets</b>	
<b>Current Liabilities</b>		- Inventory	1,50,000
Short-term Borrowings	1,00,000	- Accounts Receivable	1,00,000
Accounts Payable	50,000	- Cash and Cash Equivalents	50,000
<b>Total Liabilities</b>	<b>11,50,000</b>	<b>Total Assets</b>	<b>11,50,000</b>

**Explanation:**

- **Liabilities + Shareholders' Equity** total: ₹5,00,000 + ₹2,00,000 + ₹3,00,000 + ₹1,00,000 + ₹50,000 = ₹11,50,000.
- **Assets** total: ₹4,00,000 + ₹4,50,000 + ₹1,50,000 + ₹1,00,000 + ₹50,000 = ₹11,50,000.

The balance sheet balances, showing total assets of ₹11,50,000 and total liabilities and equity of ₹11,50,000, confirming that the financial position is accurately represented.

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**Assignment**

Ques 1: Prepare Trading and Profit and Loss account and balance sheet on M/s Royal Traders from the following balances as on March 31, 2011.

Debit Balance (₹)	Amount (₹)	Credit Balance (₹)	Amount (₹)
Opening Stock	40,000	Sales	300,000
Purchases	180,000	Discount Received	5,000
Wages	25,000	Capital	300,000
Carriage Inwards	15,000	Creditors	55,000
Salaries	50,000		
Rent	20,000		
Discount Allowed	10,000		
Furniture	60,000		
Plant and Machinery	120,000		
Debtors	90,000		
Cash	50,000		
	<b>660,000</b>		<b>660,000</b>

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Ques 2: Prepare the Trading and Profit and Loss Account and Balance Sheet of M/s Star Traders from the following balances as on March 31, 2023:

Debit Balance (₹)	Amount (₹)	Credit Balance (₹)	Amount (₹)
Opening Stock	40,000	Sales	267,000
Purchases	160,000	Discount Received	4,000
Wages	35,000	Capital	354,000
Carriage Inwards	15,000	Creditors	80,000
Salaries	50,000		
Rent	25,000		
Bank	45,000		
Postage	5,000		
Sundry Expenses	20,000		
Furniture	60,000		
Plant and Machinery	140,000		
Debtors	80,000		
Cash	30,000		
	<b>705,000</b>		<b>705,000</b>

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Ques 3: Prepare the Trading and Profit and Loss Account and Balance Sheet of M/s Apex Traders from the following balances as on March 31, 2023:

Debit Balance (₹)	Amount (₹)	Credit Balance (₹)	Amount (₹)
Opening Stock	50,000	Sales	380,000
Purchases	180,000	Discount Received	7,000
Wages	40,000	Capital	330,000
Carriage Inwards	18,000	Creditors	90,000
Salaries	60,000		
Rent	28,000		
Bank	50,000		
Postage	6,000		
Sundry Expenses	25,000		
Furniture	70,000		
Plant and Machine	150,000		
Debtors	90,000		
Cash	40,000		
	<b>807,000</b>		<b>807,000</b>

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