Balance sheets

Income Statements

Cash flow statements

Statement Stakeholder equity

**Balance Sheet**

Financial statement that reports a companys assets, liabilities and shareholder equity at a specific point in time.

Basis for computing rates of return for investors and evaluating a companies capital structure

Snapshot of what a company owns, owes and amount invested by shareholders

Cannot give a sense of trends playing out over a longer period on its own.

Cannot be compared with those of previous periods

Investors can get a sense of a companys financial well being by using a number of ratios that can be derived from a balance sheet

Debt-to-equity ratio

Acid-test ratio

Others (need to extend)

Follows this equation

Assets = Liabilities + Shareholders’

If a company takes out a five year £4000 loan, its assets will increase by £4000, along with its liabilities

It should balance

Each category consists of smaller accounts that break down the specifics of a companys finances

Accounts vary by industry

Common components of a balance sheet

**Accounts below are listed in order of liquidity**

Divided into current assets, which can be converted to cash in one year or less, and non-current or long-term which cannot

**Current Assets**

Cash and cash equivalents, most liquid, can include treasure bills and short term cerificates of deposit as well as hard currency

Marketable securities, equity and debt securities for which there is a liquid market

Accounts receivable (AR) refer to money that is owed to the company by customers, An allowance for doubtful accounts as some may not fully pay

Inventory. Any goods available for sale, valued at the lower of the cost or market price

Prepaid expenses, represent the value that has already been paid for, such as insurance, advertising contracts or rent

**Long term assets**

Long term investments are securities that can or will not be liquidated in the next year

Fixed assets, land, machinery, equipment, buildings and other durable, generally capital-intensive assets

Intangible assets including non-physical (still valuable) assets such as intellectual property and goodwill, only listed typically if they are acquired rather than developed in house. Their value may be wildly understated (or wildly overstated).

**Liabilities**

Money that a company owes to outside parties from bills it has to pay to suppliers to interest on bonds issued to creditors to rent,utilities or salaries.

Current liabilities are due within one year and are listed in order of their due date, long term are due at any point after one year.

**Current liabilities include**

Current portion of long-term debt, the portion of a longterm debt due in the next 12 months (eg company has 10 years left on a loan to pay for warehouse, 1 year is current liability and 9 years is long term liability.

Interest payable is accumulated interest owed, typically due as part of a past-due obligation such as late remittance on property taxes.

Wages payable is salaries, wages and benefits to employees often for the most recent pay period

Customer prepayments is moey received by a customer before the service has been provided or a product delivered. Company has an obligation to provide that good or service or to return the money

Dividends payable is dividends that have been authorised but not yet issued

Earned or unearned premiums is imilar to prepayments in that accompany has received money upfront but not yet executed on their portion of the agreement and must return cash if failed to execute

Accounts payable is the most common current liability. Debt obligations on invoices processed as part of the operation of a business that are often due within 30 days of receipt.

**Long term liabilities include**

Long term debt includes any interest and principal on bonds issued

Pension fund liability refers to the money a company is required to pay into its employees retirement accounts

Deferred tax liability, amount of taxes accrued but not to pay for another year, besides timing this figure reconciles differences between requirements for financial reporting, and the way tax is assessed siuh as depreciation calculations

Some liabilities are considered off the balance sheet, meaning that they do not appear on the sheet.

**Shareholder equity**

Money attributable to the owners of a business or its shareholders. It is known as net assets as its equivalent to the total assets of a company minus its liabilities or the debt it owes to non shareholders

Retained earnings are the net earnings a company either reinvests in the business or uses to pay off its debt. The remaining amount is distributed as dividends.

Treasury stock is the stock a company has repurchased, it can be sold at a later date to raise cash or reserved to repel a hostile takeover

Additional paid in capital or capital surplus represents the amount shareholders have invested in excess of the common or preferred stock accounts which are based on per value rather than market price. Shareholder equity is not directly related to a companys market capitalisation. Latter is based on current stock price, while paid in capital is the sum of the equity that has been purchased at any price.

Balance sheets help to determine risk. Lists all that a company owns and all of its debt. A company will be able to quickly assess whether it has borrowed too much money, whether the assets it owns are not liquid enough, or whether it has cash to meet current demands

Balance sheets are also used to secure capital. A company usually must provide a balance sheet to lender in order to secure a business loan. A company must also usually provide a balance sheet to private investors when attempting to secure private equity funding.

Managers can choose to use ratios to measure liquidity, profitability, solvency and cadence (turnover) of a company using ratios. Some ratios need numbers from the balance sheet.

**Limitations of a balance sheet**

Invaluable for investors and analysts. There are some drawbacks. Its static, many ratios draw on data included in balance sheet and dynamic income statement/statement of cash flows to paint a fuller picture

Balance sheet is limited to the scope of timing. The statement captures the position of a company on a specific day.

Depreciation is dealt with differently depending on the accounting system.

A financial statement with numbers and tables

Description automatically generated

**Statements of Cashflow**