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Balance Sheet

Summary: Balance Sheet

In this lesson, we learnt about the statement that matters most for investors, the Balance Sheet.

- It is a statement of **what a company OWNS and what a company OWES** <u>at any given point in time</u>
- Balance sheet has two sides

Asset side =
Non-Current Assets +
Current Assets

Liabilities side =
Share Capital +
Non-Current Liabilities +
Current Liabilities

  - **Liabilities** – This shows what the company OWES others:
    - <u>Share capital</u> which includes
      - Share Capital: money invested by Equity shareholders at face value of the issued shares;
      - Reserves: various reserves one of which could be the Premium Reserve that has the difference between Face value & Issued value of the shares
      - Surplus: accumulated profits (and losses) since inception that have been left behind with the company (i.e. not given as dividends to shareholders)
      - Share capital + Reserves & Surplus = Net worth. If net worth is negative because of continued losses, shareholders would need to invest more money or declare bankruptcy.
    - <u>Non-Current Liabilities</u>: long term obligations beyond a year, e.g. loans to be re-paid in future, provisions for making retirement benefit payments (pensions) to employees, etc.
    - <u>Current liabilities</u>
      - Short Term Borrowings to be repaid within a short period;

- Trade Payables are those moneys that are owed to suppliers and vendors (have already been shown as an expense in P&L but not yet paid), and need to be paid within a reasonable short-term

- **Assets** – This shows what Company OWNS:
  - Non-Current Assets
    - Assets with long term value and can be monetized for generating revenues over the long term, e.g. Fixed Assets like plant & machinery
    - The balance sheet primarily reflects the current (net) value of the asset, i.e. asset cost reduced by the accumulated depreciation to date
  - Current Assets
    - Inventories of finished goods or raw materials, that have to be converted to revenues;
    - Trade Receivables, revenues recorded in the P&L, but not yet received, i.e. not converted to cash
    - Cash and other such equivalents like bank balances, short-term investments or advances to vendors

The two sides of the balance sheet balance, not because it is a coincidence, but because it is designed so.

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