

Balance sheet

A balance sheet is a quick picture of the financial condition of a business at a specific period in time. The activities of a business fall into two separate groups that are reported by an accountant. They are profit-making activities, which includes sales and expenses. This can also be referred to as operating activities. There are also financing and investing activities that include securing money from debt and equity sources of capital, returning capital to these sources, making distributions from profit to the owners, making investments in assets and eventually disposing of the assets.

Profit making activities are reported in the income statement; financing and investing activities are found in the statement of cash flows. In other words, two different financial statements are prepared for the two different types of transactions. The statement of cash flows also reports the cash increase or decrease from profit during the year as opposed to the amount of profit that is reported in the income statement.

The balance sheet is different from the income and cash flow statements which report, as it says, income of cash and outgoing cash. The balance sheet represents the balances, or amounts, or a company's assets, liabilities and owners' equity at an instant in time. The word balance has different meanings at different times. As it's used in the term balance sheet, it refers to the balance of the two opposite sides of a business, total assets on one side and total liabilities on the other. However, the balance of an account, such as the asset, liability, revenue and expense accounts, refers to the amount in the account after recording increases and decreases in the account, just like the balance in your checking account. Accountants can prepare a balance sheet any time that a manager requests it. But they're generally prepared at the end of each month, quarter and year. It's always prepared at the close of business on the last day of the profit period.