

BALANCE SHEET: MEANING, FEATURES & PREPARATION

Balance Sheet

Balance sheet can be defined as the statement that shows the presentation of the summary of assets and Liabilities in a well-arranged form, so that the financial position may be clearly ascertained. The balance sheet is not part of the double-entry therefore, there is no debit or credit side.

Nature of Balance Sheet

Balance sheet is drawn up at a certain date and is not an account. It is divided into two parts showing on the left Liabilities and Capital. On the right side the current and Fixed assets.

The Balance sheet must be headed as “Balance sheet as at 31st....”

Information Disclosed by the Balance Sheet

- (i). The nature and extent of the asset.
- (ii). The Solvency or otherwise of the business
- (iii). The nature liabilities
- (iv). Information as to over or under trading.

Classification of Assets and Liabilities

1. Assets:

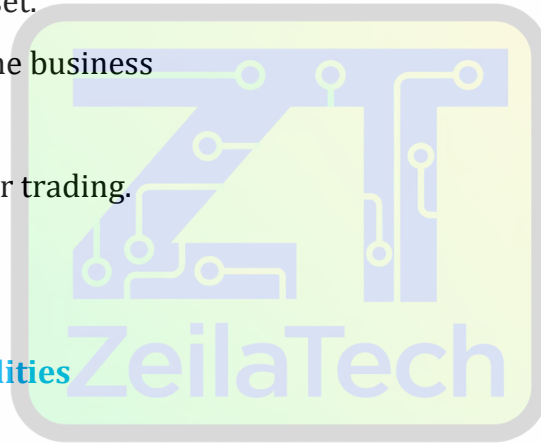
Assets may be defined as the resources, properties, or possession of a firm. They are owned by a business and are expected to be of some future benefits. e.g. Land and Building, Furniture and Fittings, Motor Van, Cash, Bank and Stock of goods, etc. Assets can be divided into current and fixed assets.

(i) **Fixed Assets:** These are assets which are permanent or liquid in nature and it creates revenue for the business. They are long-lasting assets. They are acquired for use within the organization and not for sales to the customer. e.g. Land and Building, Machinery and Plant, Furniture and Fitting, Premises, Equipment, etc.

(ii) **Current Assets:** These are assets that can last for a short period of time for the purpose of conversion in the ordinary course of business. e.g. Stock of goods, Cash in Land, Cash at Bank, Debtors, Bills receivable, Prepaid expenses, etc.

(iii) **Tangible Assets:** These are assets that can be seen or touched, have physical shape or identity and existence such as Land, Cash, Inventory. Thus Tangible Assets can be both non-Current assets and Current Assets.

(iv). **Intangible Assets:** These are assets which have no physical substance or properties but contribute to



the economic benefits of the organization. It can not be seen or touched. e.g. Goodwill, Trademark, Patent, Copyright, etc.

(v). **Liquid Assets:** These are assets which can be easily converted in cash e.g. Investments, Securities, etc.

(vi) **Fictitious Assets:** These are assets of unusual character, which resembles those of assets. They are merely debit balances which are not realizable e.g. Preliminary expenses.

(vii) **Wasting Assets:** They are assets that are used up over a period of time. They become exhausted through being worked upon. Examples: Mines, Timber, Crude oil, Tin, Gold, etc.

2. Liabilities:

Liabilities are obligations arising from past transactions. It is a claim by the outsider on the assets of the business. It is also the indebtedness of an organization to outsiders. e.g. Debenture, Loan, Overdraft and Creditors, etc. Liabilities are grouped as follows:

(i) **Long-Term Liabilities:** These are liabilities which becomes due for settlement after more than one year. They are liabilities which are payable in the future e.g. Debentures, Bond, Loan, etc.

(ii) **Current Liabilities:** These are liabilities which are payable within a short period of time usually a year. e.g. Creditors, Overdraft, Loan, Accrued Expenses.

3. Capital:

Capital is the original money invested in a business by the owner. It is also referred to as net worth or owner's equity. Capital is grouped as follows:

(i) **Equity Capital:** This is the amount contributed by the shareholders plus any retained earnings.

(ii) **Loan Capital:** This is the total amount of money the business borrowed from external sources e.g. Debentures and bonds.

(iii) **Working Capital:** This is the excess of current assets over the current liabilities. It is the Capital required for the day to day running of the business.

(iv) **Overtrading:** It means that the organization has no working capital to meet its obligation.

(v) **Capital Employed:** This is the excess of total assets over current Liabilities.

Characteristics & Layout of Balance Sheet

Characteristics of Balance Sheet

1. It is a statement
2. It has two sides
3. The total of one side must be equal the total of the other side.

Layout of a Balance Sheet

There are two methods of preparing balance sheet.

- (i) T. Format or Horizontal method
- (ii) Vertical Format

T. Format of a Balance Sheet

Balance Sheet as at 31st

	N	N		N	N
Capital		XX	FIXED ASSETS:		
Add: Net Profit		X	Land and Building	X	
		X	Plant and Machinery	X	
Less: Cash or goods		(X)	Premises	X	
Drawings			Equipment	X	
		XX	Motor Van	X	
LONG-TERM LIABILITIES:			Fixtures & Fittings	X	XX
% Debentures	X		Investments		X
Bond	X		Current Assets:		
CURRENT LIABILITIES:			Stock	X	
Loan	X		Debtors	X	
Creditors	X		Bank	X	
Bank Overdraft	X		Cash in hand	X	
Bills Payable	X		Bills receivable	X	
Income in advance	X	X	Payment in advance	X	XX
			Income in arrears	X	XX
		XX			XX

Illustration 1

From the following prepare the balance sheet of Johnson Nigeria Ltd as at 31st December 1998.

			N
Stock 31/12/98	1,500	Cash at Bank	800
Capital	110,000	Loans	30,000
Net Profit	7,000	Furniture	1,400
Debtors	7,000	Bank Overdrafts	2,790
Motor Van	70,000	Cash in hand	50,200
Drawings	6,310	Land and Buildings	25,500
Premises	4,100	Creditors	17,000

Solution

T. Method

JOHNSON NIGERIA LTD.

Balance Sheet as at 31st December, 1998

	N		N	N
CAPITAL	110,020	FIXED ASSETS:		
Add: Net profit	7,000	Motor Van	70,000	
	117,020	Land and Building	25,500	
Less: Drawings	(6,310)	Premises	4,100	
	110,710	Furniture & Fittings	1,400	101,000
CURRENT		CURRENT ASSETS:		
LIABILITIES:		STOCK	1,500	
Creditors	17,000	Debtors	7,000	
Loans	30,000	Cash in hand	50,200	
Bank overdrafts	2,790	Bills receivable	800	59,500
	49,790			
	160,500			160,500

Vertical Method

JOHNSON NIG. LTD.**Balance sheet as at 31st December 1998**

	N	N	N
FIXED ASSETS:			
Motor Van		70,000	
Land & Building		25,500	
Premises		4,100	
Furniture & Fittings		1,400	101,000
CURRENT ASSETS:			
Stock	50,200		
Debtors	7,000		
Cash in hand	50,200		
Bills receivable	800	59,500	
Less: CURRENT LIABILITIES:			
Creditors	17,000		
Loans	30,000		
Bank Overdrafts	(2,790)	(49,790)	9,710
			<u>110,710</u>
FINANCED BY:			
Capital		110,020	
Add: Net profit		7,000	
		177,020	
Less: Drawings		(6,310)	
			<u>110,710</u>

Note: Balance sheet is not an account but a statement hence, no debit and credit sides.

Smart Learning Tools

Evaluation Questions

1. Define Balance sheet
2. State two differences between Assets and Liabilities.
3. Prepare a Balance sheet.
4. State the Form