FINANCE AT A GLANCE

The meaning of the BALANCE SHEET

Lesson 01

The Balance Sheet is one of the two main financial statements of a company.

It summarizes how much resources a company has at any given point in time, and shows how much of these resources are owned by the business owners, and how much are owed to external parties

For example, at the very start of a company's operations, its owners acquired or purchased resources to run the business. They used their own funds as well as asked suppliers and banks to extend credit. We illustrate this as follows:

The company's resources:		**How the company got its resources:**
Cash **Inventories** **Equipment**	EQUALS	**Credit given by suppliers** **Funds borrowed from banks** **Funds from business owners**

Cash +	Inventories	+	Equipment	EQUALS	Credit given by suppliers	+	Funds borrowed from banks	+	Funds from business owners

What a company has are called its ASSETS.
The Credit given by suppliers and the Funds borrowed from banks are called its LIABILITIES.
The Funds from the business owners are called SHAREHOLDERS's EQUITY.

Thus, we get the balance sheet equation:

ASSETS = LIABILITIES + SHAREHOLDER's EQUITY

The above equation governs the Balance Sheet. How this equation is maintained at all times will be shown in future e-lessons.