

FINANCE AT A GLANCE

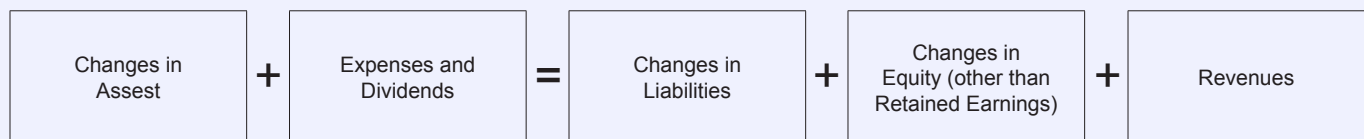
Balancing the books

Lesson 35

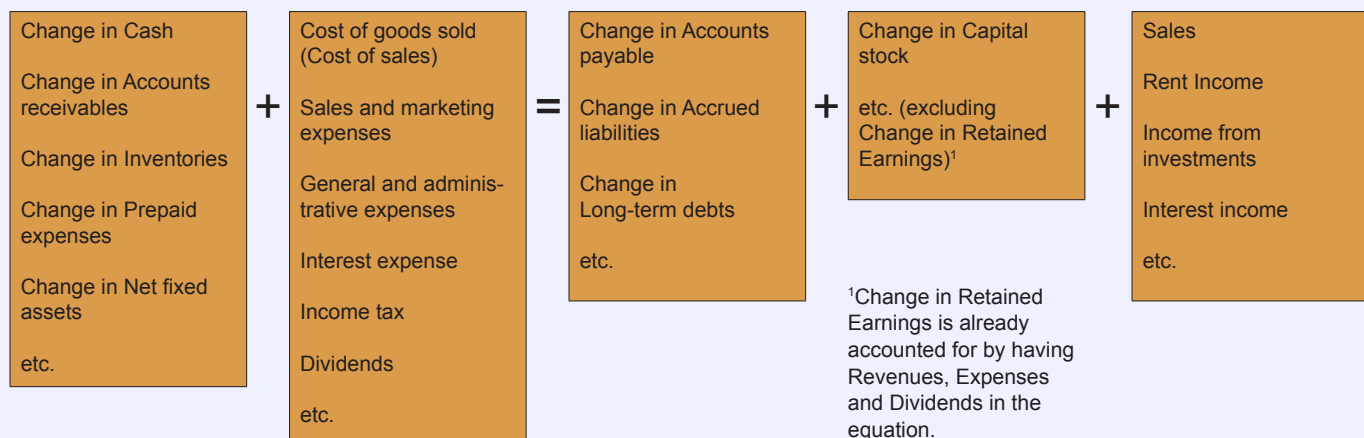
We begin this lesson by stating the **balance sheet-income statement relationship equation**:

Within a given period, the changes in assets plus the expenses and dividends is equal to the changes in liabilities plus the changes in equity (other than the retained earnings) plus the revenues.

Diagrammatically, we can show this as follows:



The previous lessons presented the composition of assets, liabilities, equity, revenues and expenses. We can all put them into the context of the above diagram, and come up with a more detailed illustration as follows:



In Lesson 34, we used the 1-year period commencing on year-end 2008 and finishing on year-end 2009. That was just for illustrative purposes. The above equation holds true for any length of period such as a quarter, a month, a week, a day, etc. As a matter of fact, the duration of a single transaction, if recorded properly, conforms with the above relationship. If every transaction conforms with the above, then the summation of all such transactions within any period will conform

with the same relationship as well. Ensuring such conformity is what we commonly hear as “balancing the books”. The examples of the next two lessons will illustrate what we mean.

Until the next lesson,

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