1•6 The Balance Sheet

After you list your assets, liabilities, and capital, you can determine the financial condition of your business. You can organize this information into a balance sheet so it can be read easily. ***A* balance sheet *is a statement of financial condition which shows the business's assets, liabilities, and capital.*** It is called a balance sheet because the total on the left is equivalent to the total on the right.

If you owned a bookstore, you would want to list all of your assets, liabilities, and capital to determine the financial condition of your bookstore. Once a month, once a quarter, or once a year you would put together a statement showing the sum of all your assets equal to your liabilities plus your capital. This statement is called a **balance sheet.**

When you prepare a balance sheet, **list your assets in the left column, your liabilities in the right column, and your capital in the right column, also.** You should list the name of your business, the title of the form, and the date at the top center of the page. When you total your assets or your liabilities, always draw a single ruled line right above the total. The total assets should be listed directly across from the total liabilities and capital. Once you have both sides balanced, you then draw a double ruled line under the total assets and under the total liabilities and capital showing that you have completed your statement.

Some businesses use a one-column format for their balance sheet instead of a two-column format. Assets are listed first, then liabilities, and then capital. The same accounting equation is used adding total liabilities and capital together to equal total assets.

EXAMPLE 1

Bill's Bookstore
Balance Sheet
September 30, 20–

Assets		**Liabilities**	
Cash	$2,000	Busy Bee Readers	$1,200
Book Inventory	50,000	S and J Publishing Company	5,000
Bookshelves	1,000	Bookworm Publishing Company	2,800
		Total Liabilities	$9,000
		Capital	
		Bill Taylor, Capital	$44,000
Total Assets	$53,000	Total Liabilities and Capital	$53,000

a. To find *total assets,* add all of the assets together.

b. To find *total liabilities* add all of the liabilities together.

c. Subtract total liabilities from total assets to find *capital.*

$53,000	Total assets
– 9,000	Total liabilities
$44,000	Capital

d. *Total liabilities and capital* is found by adding the total liabilities to the capital.

Homework

Balance the balance sheets. Find total assets, total liabilities, capital, and total liabilities and capital.

1.

Ken's Shoe Store
Balance Sheet
January 31, 20–

Assets		**Liabilities**	
Cash	$1,986	Three Little Elves Shoemaker	$273
Merchandise Inventory	62,580	Jake's Boot Company	1,582
Store Furniture	1,263	Total Liabilities	?
		Capital	
		Ken Carson, Capital	?
Total Assets	?	Total Liabilities and Capital	?

2.

Reader's Music Store
Balance Sheet
September 16, 20–

Assets		**Liabilities**	
Cash	$2,600	First State Bank	$54,600
Sheet Music Inventory	563	Harmony Music Center	60
Instrument Merchandise	58,212	Instruments Unlimited	15,898
Building and Land	89,650		
		Total Liabilities	?
		Capital	
		Doug Reader, Capital	?
Total Assets	?	Total Liabilities and Capital	?

3.

Hall's Farm Equipment
Balance Sheet
March 28, 20–

Assets			**Liabilities**		
Cash	$8,067	60	Truck and Tractor Company	$48,060	13
Merchandise Inventory	263,218	99	First Farmer's Bank	$55,891	25
Accounts Receivable	55,360	15	Total Liabilities	?	
			Capital		
			Vera Hall, Capital	?	
Total Assets	?		Total Liabilities and Capital	?	

4.

Sid's Model Train Shop
Balance Sheet
April 16, 20–

Assets			**Liabilities**		
Cash	$507	16	Wholesale Models	$630	89
Merchandise Inventory	16,032	29	Fred's Credit Union	44,582	36
Building and Land	72,843	20	Brass Engines, Inc.	1,200	19
			Total Liabilities	?	
			Capital		
			Sid Guthrie, Capital	?	
Total Assets	?		Total Liabilities and Capital	?	

Make a balance sheet for each word problem. Do the work on a sheet of notebook paper.

5. The Fun Time Toyshop had these assets as of October 13, 20–: toy merchandise, $158,000; store furniture, $1,260; accounts receivable, $630; storefront sign, $895. The owner owed Dollhouses Incorporated $2,500 and Adventure Toymakers $16,730.

6 Flowers By Merilyn expanded its business. The assets as of November 30, 20– were as follows: silk flower inventory, $53,615; fresh flower inventory, $12,280; flower arranging equipment and tools, $872; land and building, $62,800; cash, $750. Merilyn owed Garden Flower Distributors $60; Dueck Construction $12,698 for enlarging her store, and Ribbons and Lace Suppliers $87.

7. The Woodhouse Ranch had these assets as of January 1, 20–: buildings and land, $1,350,688; cattle, $855,750; ranch equipment, $41,180; and cash, $4,360. Mr. Woodhouse owes the Rancher's Bank $244,032 and Lauf's Cattle Farm $14,680.

8 The Palace Hotel had these assets as of May 31, 20–: linen inventory, $1,502.50; furniture inventory, $68,072.45; building and land, $220,500.99; accounts receivable, $1,816.20. The hotel also had these liabilities: Phil's Lawn and Garden, $1,300.12; Linen Supply House, $683.16; The City and Country Bank, $143,219.86; Maids of America, $366.38.

Solve each word problem.

9. Geoffrey Chandler owns a small lawn and garden business. His assets include 4 rakes worth $8.49 each, 2 hoes worth $9.27 each, 3 shovels worth $16.38 each, a lawn mower worth $289.79; a pick-up truck worth $7,999.30, and $31.88 in accounts receivable. He owes the department store $246.29 and Ted's Dealership $5,999.30. What is Geoffrey Chandler's capital?

10. Cayla Westen cleans houses on a part-time basis. If her assets of a vacuum cleaner, a broom, a mop, a pail, and other miscellaneous cleaning aids total $391.18 and her liabilities total $98.21, what is her capital?

11. Vivian's Doll Repair Shop had these assets on December 31, 20–: cash, $743; accounts receivable, $628; tools, $86; shop equipment, $1,207; building, $74,049. What was the total of Vivian's liabilities and capital on that date?

12. Terry Schmidt opened a veterinary clinic for farm animals as well as house pets in a farming community. His assets as of June 15, 20– included: cash, $1,683; clinic building, $184,583; barn, $220,850; medical equipment, $18,466; three examining tables at $640 each; four office chairs at $129 each; four desks at $835 each; 6 filing cabinets at $99 each. He owes the County Bank $100,160 and Western Medical Suppliers $1,286. Make a balance sheet for Terry Schmidt's veterinary clinic.

13. Ken and Carrie Coleman have an art studio. If their assets total $64,720 and their capital is $31,119, how much do they owe in liabilities?

14. Rose Garcia owns a small café. She owes $56,900 to the bank for her building, $1,283 to Restaurant Suppliers, and $562 to Menus by Max. She has $28,883 in capital. What are her total assets?

Balance sheets must be done frequently because a business's financial position is always changing. Just as your checkbook register must be adjusted for each check written or deposit made, the balance sheet must be adjusted for every financial transaction that takes place.

EXAMPLE 2

Tracie Wilson opened a small shop. During the first month, she had the following transactions in her business. Tell what adjustments should be made to the balance sheet.

A. Tracie invested $10,000 cash in the business.

Increase the assets and the capital each by $10,000. The cash is an asset (something owned by the business), and it is owner's equity (another name for capital). Because both the right and left side is increased by the same amount, everything remains in balance.

B. Tracie paid $500 in cash for a desk.

Decrease and increase the assets. She has $500 less in cash, but she has a new desk worth $500.

C. Tracie borrowed $1,000 in cash for merchandise.

Increase the assets by $1,000 and increase the liability by $1,000.