

# The Balance Sheet

## Balance Sheet

- A *formal way* of presenting *financial position* for a person, business, or other organization at a *specific point in time*.
- A balance sheet is set up in the form of the fundamental accounting equation:  $A = L + OE$ . The assets appear on the left side, and the liabilities and the owner's equity appear on the right side.
- A three line heading is used, which includes:]
  - WHO? – the name of the individual or business
  - WHAT? – the name of the financial statement
  - WHEN? – the date on which the financial position is determined.
- The assets are generally listed in the order of their *liquidity*.
- The liabilities are generally listed in the order in which they are normally paid.
- The two final totals, one on each side of the balance sheet, are recorded on the same line and underlined with a double line.

## Steps in Preparing a Balance Sheet

**Step 1.** Statement Headings

**Step 2.** Assets

- do not total yet

**Step 3.** Liabilities

- Supplier's names in alphabetical order

**Step 4.** Owner's Equity

**Step 5.** Final Totals

- Place a single line above both totals and a double line below.

**Step 6.** Dollar signs

- On first entry in each column and any totals.