

# Exploring the Balance Sheet

**Element:** One of the three sections of the accounting equation. These are used to categorize a firm's accounts.

**Account:** A tool (often a record) used to record inflows to, and outflows from, a *similar group* of items.

**Basic Asset Accounts**

- "Cash" would include ALL forms of currency.
- "Office Equipment" would include ALL forms of equipment used in an office. **NOTE:** "Equipment" refers to items that perform a task. **Acid Test:** Capable of a verb.
- "Furniture" refers to items that people perform a task upon.
- "Fixtures" refer to items that are physically mounted / attached to the building.
- "Supplies" refer to items that are consumed (used up) as they are utilized.
- "Account receivable" refers to money owed to us by customers who purchased our goods or services on credit (on account). **NOTE:** Such customers are referred to as "debtors."

**Liabilities:** (An element of the accounting equation.) Legal claims that outside parties have in the assets of our business.

- \* **Creditor:** A party to whom money is owed.
- \* **Debtor:** A party who owes money to another party.

**Three Types of Liability Accounts**

**Account Payable:** Liability associated with the purchase of a good or service on credit (on account). Money must be paid for the item at some point in the future.

**Loan:** Liability associated with the borrowing of money. The money must be paid back at some point in the future.

**Mortgage:** Liability associated with the using a third party's funds to purchase an expensive item (usually property / real estate).

**Owner's Equity:** (An element of the accounting equation.) Legal claims that the owner(s) of a business have in the assets of the business.

**Four Types of Owner's Equity Accounts**

**Capital:** Indicates the value of the owner's investment into the firm. (In the long-term, this will include the owner's investment of time, effort, and risk.)

**Drawings:** Indicates the value of the owner's withdrawal of assets from the firm over a given period of time.

**Revenue:** Indicates the value of the assets that flowed into the business as a result of the business operations. (Over a given period of time.)

**Expenses:** Indicates the value of the assets that flowed out of the business as a result of the business operations. (Over a given period of time.)

**Heading:  
who, what, when**

Riley's Jeep College Balance Sheet As at September 30, 2001			
ASSETS		LIABILITIES	
Cash	\$1,000.00	Bank Loan	\$3,000.00
Accounts Receivable	400.00	Accounts Payable	200.00
Supplies	300.00	Total Liabilities	3,200.00
Equipment	2,000.00	OWNER'S EQUITY	
		Capital	500.00
<b>Total Assets</b>	<b>\$3,700.00</b>	<b>Total Liabilities &amp; Owner's Equity</b>	<b>\$3,700.00</b>

**Body**

L. Davis Dance Academy Balance Sheet As at September 30, 2002			
<b>Assets</b>			
Cash			\$ 5,600.00
Accounts Receivable			1,800.00
Equipment			1,400.00
Fixtures			2,000.00
<b>Total Assets</b>			<b>\$ 10,800.00</b>
<b>Liabilities</b>			
Bank Loan Payable			\$ 5,000.00
Account Payable			100.00
<b>Total Liabilities</b>			<b>5,100.00</b>
<b>Owner's Equity</b>			
Pre-closing Capital Balance		\$ 3,000.00	
Add: Net Income	\$ 2,900.00		
Less: Drawings	200.00		
Increase in Capital		2,700.00	
Post-Closing Capital Balance			5,700.00
<b>Total Liabilities and Owner's Equity</b>			<b>\$ 10,800.00</b>