



**Financial Literacy 360 Degree  
endeavour for Learners**

[Clrn-shr.com](http://Clrn-shr.com)

## MODULE : 5

This module explains the subject matter in user friendly language with a practical approach. Each module is a mix of theory, practical scenarios and videos. A set of questions and activities will help learners to test their understanding of the subject matter.

After completion of each module, you are advised to submit your feedback and suggestions as it will help us to improve and increase the potential learning ratio.

# MODULE: 5

## Table of Contents

- Define Balance Sheet
- Characteristics of Balance Sheet
- Balance Sheet Components
- Assets
- Liabilities
- Owner's Equity
- **Balance Sheet Template**

## Define Balance Sheet


It is a report that presents financial position of a company/business as on a particular date and indicates the financial resources owned and owed by a business. It is also known as statement of financial position.

According to the Farlex Financial Dictionary, A balance sheet is a record of what a company has and how it has come to have it. Essentially it is a statement of a company's assets, liabilities and stockholder equity at a given period of time, such as the end of a quarter or year.



## Characteristics of Balance Sheet

Understanding of balance sheet is most important for a person running business or for managers. It helps to take appropriate strategic decisions for business growth. There are three main characteristics of balance sheet-

- 
- It shows the available financial tools to a company to remain profitable.
  - It is a statement that relates to specific point in time .
  - It can be present in either report or in accounting format.

(source : *Financial Skills* - Team FME-free-management-ebooks.com)

## Balance Sheet Components

Balance sheet, comprises of three main components-

- Assets
- Liabilities
- Owner's Equity



## Assets:

Assets are objects, which carry financial value to a company. The valuation of an asset can be measured subjectively or objectively both. For example property, machines, inventory etc. Basically, assets can be divided into four categories for the accounting purpose-

### Tangible Assets

It is an asset that have a physical existence. For example things like cash, stocks, bonds, building, machine etc.

### Intangible Assets

It is an asset that does not have a physical existence. For example- things like copyrights, patents, intellectual property, or goodwill. Intangible asset is the opposite of tangible asset.

### Current Assets

It is either a cash or resource that is expected to be converted into cash and consumed usually in the operating year. For example - cash, stock of inventory etc.

### Fixed Assets

It is a long term asset that a company has purchased and use for the production of goods and services. It cannot be easily converted into cash. For example - property, machine etc.

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$



## **Liabilities:**

It refers to the financial resources owed by a company. In other words, liability is an obligation by a company to any stakeholder that is internal or external. Liabilities are categorized into following-

### **Current Liabilities**

These are obligations to be paid within a short period of time, usually within the operating cycle. It is also known as short term liabilities. For example – outstanding expenses, bills payable etc.

### **Fixed Liabilities**

These are long term obligations and are not payable within the operating cycle. These are used to buy fixed assets. For example- long term loans, bonds payable etc.

### **Contingent Liabilities**

These liabilities are potential liabilities. These are dependent upon some future event that may occur or may not. Hence it may or may not become actual liabilities. For example- product warranty claim, guarantee of loans etc.

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

## Owner's Equity:

It represents the value of the owner's investment in the company. In other words, It is the money, that owner has invested. It is categorized into following -

### Preferred Stock

It is a type of stock that typically pays fixed dividends. The value of share price is less volatile than the common stock.

### Common Stock

Investments funded by the stockholders are defined as common stock. It is considered as a security that represents ownership in the company.

### Additional paid-in Capital

It is a capital received from the investor for stock. The par value is quite low. It is also known as contributed capital.

### Retained Earnings

It is referred to the share of a net income of a company which is retained for shareholders as dividends.

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

## Balance Sheet Template

There are number of ways to document the balance sheet of a company. Users can use online ready tools, for example- Microsoft office Balance-Sheet Template. These templates are free to download and one can make necessary changes as per their requirements. Some of the links for template are given below:

- ✓ <https://msexceltemplates.org/balance-sheet-template-for-ms-excel/>
- ✓ <https://templates.office.com/en-gb/Balance-sheet-TM03934533>



## An Example - Balance Sheet of cafeteria

BALANCE SHEET					
TOM's CAFETERIA (March 2020)					
Assets	INR	\$	Liabilities	INR	\$
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash on hand	50000	659.5	Account payable	35000	461.65
Cash in bank	100000	1319	Rent/Lease	75000	989.25
Inventory	22500	296.78	Utilities	34000	448.46
Prepaid Insurance	20000	263.8	Sales Tax	7500	98.92
Account Receivables	20000	283.8	Income Tax	12000	158.28
			Payroll	100000	1319
			Employee Fund	15000	197.85
<b>Total</b>	<b>212500</b>	<b>2822.88</b>	<b>Total</b>	<b>278500</b>	<b>3673.41</b>
<b>Fixed Assets</b>			<b>Fixed Liabilities</b>		
Shop/Café house	0	0	Long Term Loans	100000	1319
Interiors (Furniture/furnishing)	85000	1121.15	Others (if any)	0	0
Kitchen Equipments	45000	593.55			
Other Assets	9000	118.71			
<b>Total</b>	<b>139000</b>	<b>1833.41</b>	<b>Total</b>	<b>100000</b>	<b>1319</b>
<b>Total Assets</b>	<b>351500</b>	<b>4656.29</b>	<b>Total Liabilities</b>	<b>378500</b>	<b>4992.41</b>
<b>Net Worth of Cafeteria =</b>	<b>Total Asstes - Total Liabilities</b>				
	<b>INR</b>	<b>\$</b>			
<b>Net Worth of Cafeteria =</b>	<b>-27000</b>	<b>-336.12</b>			
(Note: INR converted into USD based on currency exchange rate - 1 INR = 0.013 USD)					

**Since the liabilities are more than assets, the net-worth of the cafeteria is negative. Above example gives a snapshot of business position.**

## Balance Sheet of a Company

A balance sheet of a company helps to know the summary of assets, liabilities and equity. Let's take a view of the balance sheet of a company for the reporting period-Mar 2018 and Mar 2019:

Company Name - Motherson Sumi System Ltd. (MSSL-It is an auto-ancillary company)

<b>CONSOLIDATED</b>		
<b>Equities and Liabilities</b>	<b>Mar-19</b>	<b>Mar-18</b>
Share Capital	315.8	210.5
Reserves & Surplus	10,646.90	9,673.60
Current Liabilities	18,890.60	15,334.20
Other Liabilities	13,476.90	12,279.40
Total Liabilities	43,330.20	37,497.70
<b>Assets</b>		
Fixed Assets	17,277.70	15,032.90
Current Assets	19,949.60	17,100.10
Other Assets	6,102.90	5,364.70
Total Assets	43,330.20	37,497.70
Other Info		
Contingent Liabilities	1,065.70	209.6

(Source: moneycontrol.com)

<b>STANDALONE</b>		
<b>Equities and Liabilities</b>	<b>Mar-19</b>	<b>Mar-18</b>
Share Capital	315.8	210.5
Reserves & Surplus	6,122.40	5,969.70
Current Liabilities	1,403.30	1,459.00
Other Liabilities	1,201.70	1,170.40
Total Liabilities	9,043.20	8,809.60
<b>Assets</b>		
Fixed Assets	1,886.60	1,639.20
Current Assets	2,412.10	2,340.00
Other Assets	4,744.50	4,830.40
Total Assets	9,043.20	8,809.60
<b>Other Info</b>		
Contingent Liabilities	125.5	25.3

(Source: moneycontrol.com)

As per the above two snapshots- one is consolidated balance sheet and other is standalone balance sheet.

**Consolidated balance sheet** is a combined report of the financial components of an individual company alongwith its associated subsidiary. Individual company is defined as a parent company. As per the company website, Motherson Sumi (MSSL)

has 29 subsidiaries (direct and indirect). In the consolidated balance sheet, no distinction is mentioned as to which asset or liability belongs to which subsidiary. Precisely, it is a snapshot of entire group.

**Standalone balance sheet** is a financial analysis of a single or an individual company without considering its subsidiaries. Hence it does not reflect the financial outcome of the entire group. Here, all subsidiary, transactions and balances are reported as investment in subsidiary.

As an investor, we need to take a look into consolidated balance sheet.



## **Conclusion**

Balance sheet should always be in sync with income statement. It is used for ratio analysis that guides to understand the financial dimensions of a company such as operating risk, liquidity, financial risks etc. (Ratio analysis will be discussed in the next module.)

Crn & Shr



## Evaluate your learning

1. Write a short note on balance sheet.
2. Explain the components of balance sheet.
3. Differentiate between consolidated and standalone balance sheet.
4. Categorize the following images as per the given table:



<b>Assets</b>	<b>Liabilities</b>	<b>Owner's Equity</b>

5. Make a balance sheet for your startup.  
State the net-worth of your startup.

6. Give three examples for each of the following:

- Fixed assets
- Current assets
- Current liabilities
- Contingent liabilities
- Fixed liabilities
- Tangible assets
- Intangible assets

## Scenario

A family of four members has decided to start a business of organic farming. Each one of the family member has given his contribution of INR 150000 to start a business.

Entire contribution was initially sufficient for the business. Other than the cash contribution, four of them also gave – furniture-costing 20000, land-costing 600000, farming tools-costing 65000 and a ISUZU car.

Activities to be carried out by the promoters are (Amount in INR) -

- Regulatory registration/license cost – 95000 (one time- at the start of business)
- Wages of helpers -  $5 \times 12000$  (Per month)
- Seeds – 5000 (For one time crop)
- Transportation cost – one trip costs 250

Crop cycle period is of four months. Therefore these activities are for one crop cycle period.

- a. Analyze the scenario and categorize the components.
- b. Prepare a balance sheet for one crop cycle and provide the estimated net-worth of the business.



**Sources referred:**

Finance for Non-finance Managers- by Johan Marx-  
Sage Pastel Accounting. Fundamentals of Financial  
Accounting by Patricia Libby, Fred Phillips, Robert  
Libby. Financial Engineering by John F Marshall and  
Vipul K Bansal. investopedia.com,  
balancesheetexample.com  
businessaccountingbasics.com

Clrn & Shr

Find Learning Modules and Articles  
in various languages - English,  
Chinese, Japanese, German, French  
and Spanish.

Visit at : [www.cln-shr.com](http://www.cln-shr.com)

or

Email : [clnandshr@gmail.com](mailto:clnandshr@gmail.com)

**Lrn&Shr**