

Financial Accounting
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Lecture – 58
5.8 Tutorial – Preparation of Balance Sheet

In this tutorial video, we are going to learn to prepare the Balance Sheet and the nitty gritty of the items in the balance sheet.

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Prepare Balance Sheet

XYZ Ltd ✓

• Capital	47000 ✓	• Investments	3000 ✓
• Office building	55000 ✓	• Cash	200 ✓
• Furniture	2500 ✓	• Bank	500 ✓
✓ Bills receivables	7000 ✓	• Net Profit	38900 ✓
✓ Bills payables	2500 ✓	• Closing Stock	7000 ✓
✓ Debtors	20000 ✓		
✓ Creditors	15800 ✓		
✓ Machinery	4500 ✓		
✓ <u>Loan to ABC Ltd 5000</u>			

↓
Unsorted
↓
Assets
↓
CA

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We have a list of items. These are typically assets and liabilities in a business, and we are going to pick each item and post them in the balance sheet. So, we have capital, office furniture. Most of these items you have seen before in the previous videos. The only new thing is loan to ABC limited. Let us say the company you are dealing with is XYZ limited. This company is giving a loan to another company. So, this becomes an investment for XYZ limited; that is the one new thing that you have, and all the rest of the things are the same as what we have seen before.

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Balance Sheet

Liabilities	Amount	Assets	Amount
Equity		Non Current Assets	
Share Capital	47,000	Office Building	55,000
Reserve & Surplus	38,900	Furniture	2,500
Non Current Liabilities		Machinery	4,500
		Loan to ABC	5,000
		Investment	3,000
		Current Assets	
Current Liability		Bills Receivable	7,000
Bills Payable	2,500	Debtors	20,000
Creditors	15,800	Cash	200
		Bank	500
		Stock	700
	104,700		104,700

Let us move forward, I have the format of the balance sheet with me; I am just going to write the headings, noncurrent assets and current assets. I have equity capital, noncurrent liabilities and current liabilities. If you draw this format in the beginning it is good. But sometimes you have more items and you do not have enough space so, you may want to be careful about that.

Capital is 47,000: we bring share capital here, 47,000; office building is 55,000, this goes to noncurrent assets, office building 55,000. Here, furniture 2,500; bills receivable are current assets 7,000, bills receivables 7,000, and bills payable, the opposite of that is current liability 2,500. So, 2,500 are your bills payable. Debtors are 20,000, current assets. So, debtors under current assets 20,000; creditors are current liability 15,800,. Then you have machinery 4,500, this is a non-current asset, machinery 4,500. Then you have a loan that you gave to ABC limited 5,000; this is an investment, so loan to ABC 5,000. Now, depending upon the duration of the loan, if it is 1 year or less, then you can show it as a current asset. But we are assuming here that this is a long-term loan which has been given to another company. There is an investment 3,000. Again, unless specified we typically assume this is a long-term investment. So, investment is 3,000. Cash and bank are 200 and 500 respectively. 200 is cash balance, and 500 is bank balance. Net profit during the year is 38,900. So, I am going to write 38,900 here and say reserves and surplus, reserves and surplus. Again, in the textbooks, people may add these two and then show the final amount here; but that is typically the partnership business or other sole trading business. In company form, the accumulated profit from all the previous years is shown in a head called reserves and surpluses. And finally, you have closing stock; closing

stock is the unsold stock, unsold stock is an asset, current asset, and you expect to convert this into cash in the next one year. So, closing stock is 7,000 and you show this here, this is stock. Done, that is it.

You have brought all the items to the balance sheet. So, all you need to do now is to total the two side and see if they are equal. When you do the total, you will see that the total comes out to be 104,700 on both sides. That is how you prepare a balance sheet.

To summarize, in this tutorial we looked at a bunch of items- assets and liabilities- and we prepared a balance sheet. The idea is to reinforce the learning that you had about the balance sheet before. And we are using the account format: you have assets on one side, liabilities on one side. The way the companies disclose, actually publish their final accounts, can be in statement format where assets can be written at the top and followed by liabilities. Again, various things can be clubbed; typically, you see all the noncurrent assets written in one line and then you have a note where you can go to see more details about those assets, what has been the depreciation charged and so on. The idea was that you get a sense of how to bring items from either a trial balance or a list of items and prepare the balance sheet. Alright, let us stop here. I will see you in the next video.