

## Chapter 1 - The Balance Sheet

### Unit 1 - Financial Position

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Accounting is often called the language of business

**ASSETS** - items of value owned by a person or business (things owned)

**LIABILITIES** - debts or amount owned to others by a  
business or person

**PERSONAL EQUITY (OWNER'S EQUITY)** - IS A TERM  
WHICH REPRESENTS A PERSON'S NET  
WORTH Assets minus liabilities equals net  
worth (**EQUITY**) (claim against the asset)

### Accounting Equation

Assets = Liabilities + Owner's Equity or  $A=L+OE$

The purpose of Accounting is to provide financial information  
for decision making.

**Accounts Receivables** (asset) also known as **DEBTORS**

**Accounts Payable** (liabilities) also known as **CREDITORS**

### The Balance Sheet Equation: Applications

$$(a) \quad \underline{\$ 10\,000} = \$ 4\,000 + \$ \overset{6\,000}{?}$$

$$(b) \quad 25\,000 = 7\,000 + \overset{18\,000}{?}$$

$$(c) \quad 30\,000 = \overset{20\,000}{?} + \underline{10\,000}$$

$$(d) \quad 18\,000 = \overset{6\,000}{?} + 12\,000$$

$$(e) \quad 100\,000 = 40\,000 + \overset{60\,000}{?}$$

$$\text{Remember! } A = L + OE$$

**BUSINESS ENTITY CONCEPT -**

Each business should be kept separate from the owner's personal finances  
Each business should be considered as a separate unit or entity

Let's make a balance sheet together

The title of a balance sheet is always      Who?

What?

When?

Assets-    Cash, Accounts Receivable, Office Supplies  
Liabilities- Accounts Payable, Bank Loan, Mortgage Payable

**Order of Items on the Balance Sheet**

Assets- listed in the order of liquidity

Order in which they would likely be converted to cash

Liabilities- listed according to payment due date, from most recent to longest. This is known as the **maturity date rule**

**COST PRINCIPLE -**

When assets are obtained, they are recorded at the actual cost to the business. This figure is never changed even though the owner might think that the value of the assets has decreased

**Common Recording Practices**

Make reference to them pg. 12 and 13

## **The People who use balance sheets**

**Owner** -indicates his or her claim on the assets

**Creditors**-Companies extending credit/lending money are interested in liquid assets. Able to make payments

**Investors**-your financial position will indicate whether they invest or not

**Government**-need information for policy decision making, statistical reports and taxation

EXERCISE 13(d) page 26

WHO — HILL'S SPORTS CLUB  
 WHAT — BALANCE SHEET  
 WHEN — JULY 1, 2017

ORDER OF LIQUIDITY

| ASSETS              |        | LIABILITIES        |        |
|---------------------|--------|--------------------|--------|
| CASH                | 5000   | ACCOUNTS PAYABLE   | 4000   |
| ACCOUNTS RECEIVABLE | 6000   | BANK LOAN          | 6500   |
| OFFICE SUPPLIES     | 500    | MORTGAGE PAYABLE   | 8000   |
| LAND                | 25000  | TOTAL LIABILITIES  | 14900  |
| BUILDING            | 110000 | OWNER'S EQUITY     |        |
| TRAINING EQUIPMENT  | 94500  | K. DUBORD, CAPITAL | 62000  |
| TOTAL ASSETS        | 241000 | TOTAL LIABILITIES  |        |
|                     |        | \$ OWNER'S EQUITY  | 241000 |

DO NOT TOTAL UNTIL OTHER SIDE IS TOTALLED

FINAL TOTALS MUST BE ON SAME LINE