

Preparing Balance Sheets

by Sophia



WHAT'S COVERED

This tutorial will cover how to prepare a balance sheet.

Our discussion breaks down as follows:

[1. Balance Sheet: A Review](#)

[2. Balance Sheet: Example](#)

1. Balance Sheet: A Review

In review, a balance sheet is a financial statement that provides information about the assets, liabilities, and equity of a business at a given time.

The balance sheet is the business's position. It captures a moment in time, rather than spanning a period, and it is the only financial statement that is prepared at a specific date.

The balance sheet details a business's resources, meaning assets, or the resources owned or available, liabilities owed to others, and the net difference on a cumulative basis, which is the equity.

The accounting equation is a fundamental premise in accounting, which states that a company's assets will be equal to the sum of its liabilities and its equity. This also happens to be the balance sheet formula; the accounting equation and the balance sheet formula are the same.



FORMULA TO KNOW

Accounting Equation/Balance Sheet Formula

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

Keep in mind, this formula will guide us as we walk through an example of preparing a balance sheet, in the next section.

2. Balance Sheet: Example

Let's get started on preparing our balance sheet. The starting point for preparing the balance sheet is the adjusted trial balance, which we can pull from the trial balance worksheet, below.

As you can see, we've already gone through the steps of preparing our trial balance, making our adjustments, and preparing the adjusted trial balance, which is what we used to build the financial statements. Note the detail of all of the ledger accounts in the adjusted trial balance.

Accounts	Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	120,000				120,000	
Accounts Receivable	10,000				10,000	
Supplies	1,000			500	500	
Prepaid Insurance	5,000			1,000	4,000	
Buildings	50,000				50,000	
Accumulated Depreciation - Buildings		10,000		1,000		11,000
Accounts Payable		5,000				5,000
Notes Payable		25,000				25,000
Retained earnings, 1/1/12		12,000				12,000
Owner's Drawing	2,000				2,000	
Sales		400,000				400,000
Interest Revenue		20,000				20,000
Cost of Goods Sold	150,000				150,000	
Salaries Expense	121,500				121,500	
Advertising Expense	10,000				10,000	
Interest Expense	2,500				2,500	
Depreciation Expense - Buildings			1,000		1,000	
Insurance Expense			1,000		1,000	
Supplies Expense			500		500	
Totals	472,000	472,000	2,500	2,500	473,000	473,000

However, in order to prepare our balance sheet, we also need to have our income statement information, because we need to know how much net income there is for the year and plug this information into our equity. Therefore, here is all the raw information that we need to prepare the balance sheet--the adjusted trial balance, as well as the income statement.

Accounts	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	120,000				120,000			
Accounts Receivable	10,000				10,000			
Supplies	1,000			500	500			
Prepaid Insurance	5,000			1,000	4,000			
Buildings	50,000				50,000			
Accumulated Depreciation - Buildings		10,000		1,000		11,000		
Accounts Payable		5,000				5,000		
Notes Payable		25,000				25,000		
Retained earnings, 1/1/12		12,000				12,000		
Owner's Drawing	2,000				2,000			
Sales		400,000				400,000		400,000
Interest Revenue		20,000				20,000		20,000
Cost of Goods Sold	150,000				150,000		150,000	
Salaries Expense	121,500				121,500		121,500	
Advertising Expense	10,000				10,000		10,000	
Interest Expense	2,500				2,500		2,500	
Depreciation Expense - Buildings			1,000		1,000		1,000	
Insurance Expense			1,000		1,000		1,000	
Supplies Expense			500		500		500	
Totals	472,000	472,000	2,500	2,500	473,000	473,000	286,500	420,000
Net Income							133,500	
Totals							420,000	420,000

Now that we've gathered the information that we need from the trial balance worksheet, let's start pulling it into our balance sheet. Remember, a balance sheet always starts with a header, which includes the business name, "Balance Sheet," and "As of" a specific date, which, in this case, is December 31, 2012.

Accounts	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	120,000			
Accounts Receivable	10,000			
Supplies	500			
Prepaid Insurance	4,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		11,000		
Accounts Payable		5,000		
Notes Payable		25,000		
Retained earnings, 1/1/12		12,000		
Owner's Drawing	2,000			
Sales		400,000		400,000
Interest Revenue		20,000		20,000
Cost of Goods Sold	150,000		150,000	
Salaries Expense	121,500		121,500	
Advertising Expense	10,000		10,000	
Interest Expense	2,500		2,500	
Depreciation Expense - Buildings	1,000		1,000	
Insurance Expense	1,000		1,000	
Supplies Expense	500		500	
Totals	473,000	473,000	286,500	420,000
Net Income			133,500	
Totals			420,000	420,000

Acme Inc.
Balance Sheet
As of December 31, 2012

Let's refer back to our adjusted trial balance information, below. Here are all of our permanent accounts, which represent all of our assets, liabilities, and equity. These are the permanent accounts that we need to prepare the balance sheet.

Accounts	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	120,000			
Accounts Receivable	10,000			
Supplies	500			
Prepaid Insurance	4,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		11,000		
Accounts Payable		5,000		
Notes Payable		25,000		
Retained earnings, 1/1/12		12,000		
Owner's Drawing	2,000			
Sales		400,000		400,000
Interest Revenue		20,000		20,000
Cost of Goods Sold	150,000		150,000	
Salaries Expense	121,500		121,500	
Advertising Expense	10,000		10,000	
Interest Expense	2,500		2,500	
Depreciation Expense - Buildings	1,000		1,000	
Insurance Expense	1,000		1,000	
Supplies Expense	500		500	
Totals	473,000	473,000	286,500	420,000
Net Income			133,500	
Totals			420,000	420,000

Permanent
accounts

We'll start with the current assets--cash, accounts receivable, supplies, and prepaid insurance. Then, we will input the long-term assets, which, in this case, are buildings and accumulated depreciation, which total \$39,000. Adding together our current assets and long-term assets, we arrive at total assets in the amount of \$173,500.

Accounts	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	120,000			
Accounts Receivable	10,000			
Supplies	500			
Prepaid Insurance	4,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		11,000		
Accounts Payable		5,000		
Notes Payable		25,000		
Retained earnings, 1/1/12		12,000		
Owner's Drawing	2,000			
Sales		400,000		400,000
Interest Revenue		20,000		20,000
Cost of Goods Sold	150,000		150,000	
Salaries Expense	121,500		121,500	
Advertising Expense	10,000		10,000	
Interest Expense	2,500		2,500	
Depreciation Expense - Buildings	1,000		1,000	
Insurance Expense	1,000		1,000	
Supplies Expense	500		500	
Totals	473,000	473,000	286,500	420,000
Net Income			133,500	
Totals			420,000	420,000

Acme Inc. Balance Sheet As of December 31, 2012	
Current Assets:	
Cash	\$ 120,000
Accounts Receivable	10,000
Supplies	500
Prepaid Insurance	4,000
Total Current Assets	134,500
Long-term Assets:	
Buildings	50,000
Accumulated Depreciation	(11,000)
Total Long-term Assets	39,000
Total Assets	\$ 173,500

Now, recall the accounting equation/balance sheet formula: Assets equal liabilities plus equity. Therefore, the next step is to input our liabilities. Short-term liabilities are accounts payable, and long-term liabilities are notes payable, which sum to total liabilities of \$30,000.

Accounts	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	120,000			
Accounts Receivable	10,000			
Supplies	500			
Prepaid Insurance	4,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		11,000		
Accounts Payable		5,000		
Notes Payable		25,000		
Retained earnings, 1/1/12		12,000		
Owner's Drawing	2,000			
Sales		400,000		400,000
Interest Revenue		20,000		20,000
Cost of Goods Sold	150,000		150,000	
Salaries Expense	121,500		121,500	
Advertising Expense	10,000		10,000	
Interest Expense	2,500		2,500	
Depreciation Expense - Buildings	1,000		1,000	
Insurance Expense	1,000		1,000	
Supplies Expense	500		500	
Totals	473,000	473,000	286,500	420,000
Net Income			133,500	
Totals			420,000	420,000

Acme Inc. Balance Sheet As of December 31, 2012	
Current Assets:	
Cash	\$ 120,000
Accounts Receivable	10,000
Supplies	500
Prepaid Insurance	4,000
Total Current Assets	134,500
Long-term Assets:	
Buildings	50,000
Accumulated Depreciation	(11,000)
Total Long-term Assets	39,000
Total Assets	\$ 173,500
Short-Term Liabilities:	
Accounts Payable	\$ 5,000
Long-Term Liabilities:	
Notes Payable	25,000
Total Liabilities	30,000

The final piece is equity, starting with retained earnings of \$12,000, pulled from the adjusted trial balance. The next equity detail comes from the income statement in the form of net income for the period, in the amount of \$133,500. We also have owner drawings, from the adjusted trial balance, of \$2,000; we need to subtract those out for our total equity.

Accounts	Adjusted Trial Balance		Income Statement	
	Dr.	Cr.	Dr.	Cr.
Cash	120,000			
Accounts Receivable	10,000			
Supplies	500			
Prepaid Insurance	4,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		11,000		
Accounts Payable		5,000		
Notes Payable		25,000		
Retained earnings, 1/1/12		12,000		
Owner's Drawing	2,000			
Sales		400,000		400,000
Interest Revenue		20,000		20,000
Cost of Goods Sold	150,000		150,000	
Salaries Expense	121,500		121,500	
Advertising Expense	10,000		10,000	
Interest Expense	2,500		2,500	
Depreciation Expense - Buildings	1,000		1,000	
Insurance Expense	1,000		1,000	
Supplies Expense	500		500	
Totals	473,000	473,000	286,500	420,000
Net Income			133,500	
Totals			420,000	420,000

ACME INC.	
Balance Sheet	
As of December 31, 2012	
Current Assets	
Cash	\$ 120,000
Accounts Receivable	10,000
Supplies	500
Prepaid Insurance	4,000
Total Current Assets	134,500
Long-term Assets	
Buildings	50,000
Accumulated Depreciation	(11,000)
Total Long-term Assets	39,000
Total Assets	\$ 173,500
Short-Term Liabilities	
Accounts Payable	\$ 5,000
Long-Term Liabilities	
Notes Payable	25,000
Total Liabilities	30,000
Equity	
Retained Earnings	12,000
Net Income	133,500
Owner Withdrawals	(2,000)
Total Equity	143,500

Finally, we need to add total liabilities and equity. As you can see, we have total assets of \$173,500, and we also have total liabilities and equity of \$173,500. They are equal. Our accounting equation balances, as does our balance sheet formula.

ACME INC.	
Balance Sheet	
As of December 31, 2012	
Current Assets:	
Cash	\$ 120,000
Accounts Receivable	10,000
Supplies	500
Prepaid Insurance	4,000
Total Current Assets	134,500
Long-term Assets:	
Buildings	50,000
Accumulated Depreciation	(11,000)
Total Long-term Assets	39,000
Total Assets	\$ 173,500
Short-Term Liabilities	
Accounts Payable	\$ 5,000
Long-Term Liabilities	
Notes Payable	25,000
Total Liabilities	30,000
Equity	
Retained Earnings	12,000
Net Income	133,500
Owner Withdrawals	(2,000)
Total Equity	143,500
Total Liabilities & Equity	\$ 173,500



SUMMARY

Today we covered a **review of the balance sheet**, which is a financial statement that provides information about the assets, liabilities, and equity of a business at a given time. We also explored a

comprehensive **example of preparing a balance sheet**, making sure that at the end, our total assets were equal to the sum of our liabilities and equity.

Source: Adapted from Sophia instructor Evan McLaughlin.