



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 13

Sub: ACCOUNTANCY

Class 11

Chapter: Unit 7: Financial Statements

Date: 30/01/2021

Topic: Final Accounts

BALANCE SHEET

Meaning of Balance Sheet

A balance sheet is a list of assets and liabilities of business at some specific point of time. It shows the financial position of a business. A balance sheet shows the assets and liabilities grouped, properly classified and arranged in a specific manner.

Functions of a Balance Sheet

1. It is a summary of various assets used in the business. It provides information regarding the assets owned by the business and the debt owed to outsider and indicates the capital of the owner in the business.
2. It serves as a measure of liquidity. If necessary, different liquidity ratios can be calculated from the balance sheet.
3. It serves as a measure of solvency by providing information about the assets owned, obligation to outsiders and capital.

Uses of Balance Sheet

1. It enables us to ascertain proprietary interest of a person or business organization.
2. It enables us to calculate the actual capital employed in the business.
3. The lender can ascertain the financial position of the business.
4. It may serves as a basis for determining purchase consideration of a business.
5. Different ratios can be calculated from the balance sheet and these ratios can be utilized for better management of the business.

Limitation of Balance Sheet

1. Fixed assets are shown in the balance sheet at historical cost less depreciation up-to-date. A conventional balance sheet cannot reflect the true value of these assets.
2. Sometimes, balance sheet contains some assets which command no market value.
3. The balance sheet cannot reflect the value of certain factors such as skill and loyalty of staff.
4. The conventional balance sheet may mislead untrained readers in inflationary situation.

5. The value of a major number of current assets depends upon some estimates, so it cannot reflect true financial position of the business.

Differences between Trial Balance and Balance Sheet

Trial Balance	Balance Sheet
1. It is prepared to check the arithmetical accuracy of the books of account.	1. It is prepared to ascertain the financial position of the business
2. It is not a part of double entry book keeping system	2. It is a part of double entry book keeping system
3. It shows the balances of all ledger account.	3. It shows the balances of all ledger accounts which are not closed.
4. The heading of the two columns are debit balances and credit balances	4. The heading of the two sides are assets and liabilities.
5. The closing stock does not appear in the Trial Balance.	5. Closing stock appears in the Balance Sheet asset side.
6. It is prepared at regular interval such as monthly.	6. It is prepared at the last day of the accounting period.
7. It can be prepared before the year-end adjustments are made.	7. It cannot be prepared without making year-end adjustments.
8. The information about net profit and net loss is not provided in the Trial Balance.	8. The information about net profit and net loss is provided in the Balance Sheet.
9. It is never referred to as a Balance Sheet.	9. It is sometimes referred to as a second Trial Balance.
10. It is prepared before the preparation of Final Account.	10. It is the last stage of the preparation of Final Account.

Differences between Profit & Loss Account and Balance Sheet

Profit & Loss Account	Balance Sheet
1. It is an account.	1. It is a statement.
2. It is prepared for an accounting period..	2. It is prepared for the last day of an accounting period.
3. It records only incomes and expenses.	3. It records only assets and liabilities.
4. It shows how the profits are earned or losses are incurred.	4. It shows the financial position of the business.
5. The accounts that are transferred to the profit and loss account are closed.	5. The accounts that are transferred to the Balance Sheet are not closed.
6. The balance of this account is transferred to the Capital Account in the Balance Sheet.	6. The balances of this statement become the opening balances of the next period.

Format of Balance Sheet

Balance Sheet as at

Liabilities	Amount	Assets	Amount
Capital *****		Fixed Assets	*****
Add: Net Profit *****		Goodwill	*****
Add: Further Capital *****		Land	*****
Add: Interest on Capital *****		Building	*****
Less: Drawings *****		Plant	*****
Less: Interest on drawings *****	*****	Machinery	*****
	*****	Freehold Properties	*****
Reserves	*****	Leasehold Properties	*****
Secured Loan (Bank Loan, Loan from any financial institution by mortgaging assets)	*****	Patent Right	*****
	*****	Copy Right	*****
Current Liabilities		Investment	*****
Sundry Creditors	*****	Current Assets	
Bills Payable	*****	Closing Stock	*****
Outstanding Expenses	*****	Debtors	*****
Pre-received incomes	*****	Bills Receivable	*****
Short term loans	*****	Prepaid Expenses	*****
Bank Overdraft	*****	Accrued Incomes	*****
		Cash at Bank	*****
		Cash in Hand	*****

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