

Accounting Foundations

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5 The Balance Sheet

A balance sheet is a list of all assets and all liabilities for a business at a given point in time.

A balance sheet is derived either from the accounts themselves, or from the trial balance. A trial balance is shown below.

Trial Balance as at 31 May		
	DR	CR
	£	£
Cash	25,570	
Capital		100,000
Bank	7,920	
Premises	60,000	
Shop Fittings	5,000	
Office Furniture	3,600	
Creditors		5,800
Debtors	8,900	
Purchases	16,000	
Sales		24,040
Rates	420	
Insurance	180	
Wages	1,840	
Electricity	280	
Stationery	130	
	129,840	129,840

And here is the corresponding balance sheet.

<i>Balance Sheet at end of May</i>			
<i>Liabilities</i>		<i>Assets</i>	
	£		£
Capital	100,000	Cash	25,570
Plus Gross Profit	8,040	Bank Balance	7,920
Less Expenses	2,850	Premises	60,000
	105,190	Shop Fittings	5,000
		Office Furniture	3,600
Creditors	5,800	Debtors	8,900
	110,990		110,990

where Gross Profit is Sales less Purchases, Expenses is Rates plus Insurance plus Wages plus ...

Another equally valid format is to first list the assets in decreasing order of size, then list the liabilities vertically beneath the liabilities. We shall stick mainly with the horizontal format.

Exercise 5.1

1 Complete the tasks listed below:

- i. Post the transactions shown below to the ledger accounts of S Sense.
- ii. Extract a trial balance from the accounts.
- iii. Prepare a Trading and Profit and Loss account for the month of August.
- iv. Prepare a balance sheet as at 31 August.

Aug 1 Started business with £20,000 in a bank current account.
Aug 2 Bought goods for sale on credit from T Leaf for £2,400, and from U Turn for £3,200.
Aug 3 Sold goods for £900 cash.
Aug 4 Paid rent £140 by cheque.
Aug 5 Bought office furniture for £4,800. Paid by cheque.
Aug 8 Bought a van for £6,200. Paid by cheque.
Aug 9 Paid U Turn the amount owing in full by cheque.
Aug 10 Paid £540 cash for van tax and insurance.
Aug 11 Bought goods for sale from V Ictorious for £3,000. Paid by cheque.
Aug 12 Sold goods to W Iskey for £5,800 on credit.
Aug 15 Paid wages £240 cash.
Aug 16 Sold goods to X Ray for £1,600 on credit. Sold goods to Y Me for £1,900 on credit.
Aug 17 Bought more office furniture. Paid £280 by cheque.
Aug 18 Settled petrol bill for the month. Paid £160 by cheque.
Aug 19 Received £3,400 cash for all remaining stock.
Aug 30 Paid T Leaf a cheque for £2,400 in settlement of their account.

2 Post the transactions shown below to the ledger accounts of Z Khar. Extract a trial balance. Prepare a trading and profit and loss account for the month of September. Prepare a balance sheet as at 30 September.

Sep 1 Started business selling carpets with £100,000 in a current bank account.
Sep 2 Purchased premises for £80,000. Paid by cheque.
Sep 3 Bought shop fittings for £7,000. Paid by cheque.
Sep 8 Purchased carpets for £5,600 on credit from B Leaf.
Sep 9 Sold carpets for £1,600 cash.
Sep 10 Bought delivery van for £8,400. Paid by cheque.
Sep 15 Sold carpets for £1,600 cash.
Sep 16 Paid rates £740 by cheque.
Sep 17 Paid wages £140 cash.
Sep 22 Sold carpets to A Very for £3,800 on credit.
Sep 25 Paid cheque for £2,800 to B Leaf..
Sep 28 Sold remaining stock of carpets to A Very for £2,200 on credit.

We have looked at balance sheets. **Next** we look at discounts and returns.

Bibliography

HARRISON W *Stage One Financial Accounting* Northwick Publishers pp 1..60