

Preparation of Final Accounts: The Balance Sheet

The balance sheet is a crucial financial statement that provides a snapshot of a company's financial position at a specific point in time. It details the company's assets, liabilities, and equity, helping stakeholders understand what the company owns and owes, as well as the amount invested by the shareholders.

Structure of the Balance Sheet

A balance sheet is typically divided into two sections:

1. **Assets** (Left side or top)
2. **Liabilities and Equity** (Right side or bottom)

Both sides must balance, meaning the total assets should equal the total liabilities and equity.

Components of the Balance Sheet

1. Assets

Assets are resources owned by the business that are expected to bring future economic benefits. They are categorized into:

- **Current Assets:** These are assets that are expected to be converted into cash or used up within one year.
 - **Cash and Cash Equivalents:** Money available immediately, like cash in hand and bank balances.
 - **Accounts Receivable (Debtors):** Money owed to the business by customers.
 - **Inventory (Stock):** Goods available for sale.
 - **Prepaid Expenses:** Payments made in advance for goods or services to be received in the future.
 - **Short-term Investments:** Investments that can be easily liquidated within a year.
- **Non-Current (Fixed) Assets:** These are long-term resources used in the business, not intended for resale.
 - **Property, Plant, and Equipment (PPE):** Tangible assets like land, buildings, machinery, and vehicles.
 - **Intangible Assets:** Non-physical assets like patents, trademarks, goodwill.
 - **Long-term Investments:** Investments held for more than a year.
 - **Other Non-Current Assets:** Any other long-term assets not classified above.



CBSE



ICSE



NTSE



Banking &
Insurance



Central Govt.
Service



State Govt.
Services



LAW
Entrance



MBA
Entrance



Railways & Metro
Services

...many more

abhyasonline.in



2. Liabilities

Liabilities represent what the company owes to outside parties. They are categorized into:

- **Current Liabilities:** These are obligations the business is expected to settle within one year.
 - **Accounts Payable (Creditors):** Money the business owes to suppliers.
 - **Short-term Borrowings:** Loans and borrowings due within a year.
 - **Accrued Expenses:** Expenses that have been incurred but not yet paid.
 - **Unearned Revenue:** Payments received in advance for goods or services yet to be delivered.
 - **Current Portion of Long-term Debt:** Part of long-term debt due within the next 12 months.
- **Non-Current Liabilities:** These are obligations that are due after one year.
 - **Long-term Borrowings:** Loans and borrowings repayable beyond one year.
 - **Deferred Tax Liabilities:** Taxes owed but payable in future periods.
 - **Other Non-Current Liabilities:** Any other long-term obligations not classified above.

3. Equity

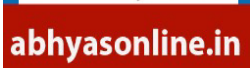
Equity represents the owners' claim after all liabilities have been settled. It includes:

- **Share Capital:** The amount invested by shareholders in exchange for shares of the company.
- **Retained Earnings:** Accumulated profits that have not been distributed as dividends.
- **Reserves and Surplus:** Portions of profits set aside for specific purposes, such as general reserve, capital reserve.
- **Other Comprehensive Income:** Items of income and expense that are not recognized in the profit and loss account, such as revaluation surplus or foreign currency translation adjustments.

Steps to Prepare the Balance Sheet

1. **Collect Data:** Gather all necessary financial data from the trial balance and other relevant sources.
2. **Classify Assets and Liabilities:** Categorize the assets and liabilities into current and non-current.

Course & Test Series



Manual Accounting - Module 26

- 3. Arrange in Order of Liquidity:** Arrange the assets in the order of liquidity (the ease with which they can be converted into cash). Similarly, arrange liabilities based on their payment priority.
- 4. Calculate Total Assets and Liabilities:** Sum up the total current and non-current assets. Do the same for liabilities and equity.
- 5. Ensure Balance:** Verify that the total assets equal the total liabilities and equity.

Example Format of a Balance Sheet

Balance Sheet as of [Date]			
Particulars	Amount (₹)	Particulars	Amount (₹)
Assets		Equity and Liabilities	
Non-Current Assets		Equity	
- Property, Plant, Equipment	3,00,000	- Share Capital	2,00,000
- Intangible Assets	50,000	- Retained Earnings	1,00,000
- Long-term Investments	70,000	Total Equity	3,00,000
Total Non-Current Assets	4,20,000		
Current Assets		Non-Current Liabilities	
- Inventory	1,00,000	- Long-term Borrowings	1,50,000
- Accounts Receivable	80,000		
- Cash and Cash Equivalents	1,20,000	Total Non-Current Liabilities	1,50,000
Total Current Assets	3,00,000	Current Liabilities	
Total Assets	7,20,000	- Accounts Payable	1,00,000
		- Short-term Borrowings	70,000
		- Accrued Expenses	50,000
		Total Current Liabilities	2,20,000
		Total Liabilities and Equity	7,20,000

Solved Example

Ques: From the following information, prepare a Balance Sheet for XYZ Ltd. as of March 31, 2023:

- Share Capital: ₹5,00,000



**Course
&
Test Series**

 **CBSE**

 **ICSE**

 **NTSE**

 **Banking &
Insurance**

 **Central Govt.
Service**

 **State Govt.
Services**

 **LAW
Entrance**

 **MBA
Entrance**

 **Railways & Metro
Services**

...many more

abhyasonline.in

Manual Accounting - Module 26

- Retained Earnings: ₹2,00,000
- Long-term Borrowings: ₹3,00,000
- Land and Building: ₹4,00,000
- Plant and Machinery: ₹3,00,000
- Inventory: ₹1,50,000
- Accounts Receivable: ₹1,00,000
- Cash and Cash Equivalents: ₹50,000
- Short-term Borrowings: ₹1,00,000
- Accounts Payable: ₹50,000

Balance Sheet of XYZ Ltd. as of March 31, 2023

Particulars	Amount (₹)	Particulars	Amount (₹)
Assets		Equity and Liabilities	
Non-Current Assets		Equity	
- Land and Building	4,00,000	- Share Capital	5,00,000
- Plant and Machinery	3,00,000	- Retained Earnings	2,00,000
Total Non-Current Assets	7,00,000	Total Equity	7,00,000
Current Assets		Non-Current Liabilities	
- Inventory	1,50,000	- Long-term Borrowings	3,00,000
- Accounts Receivable	1,00,000	Total Non-Current Liabilities	3,00,000
- Cash and Cash Equivalents	50,000	Current Liabilities	
Total Current Assets	3,00,000	- Short-term Borrowings	1,00,000
		- Accounts Payable	50,000
		Total Current Liabilities	1,50,000
Total Assets	10,00,000	Total Liabilities and Equity	10,00,000

Explanation:

1. Assets Section:

- Non-Current Assets are listed first: Land and Building (₹4,00,000) and Plant and Machinery (₹3,00,000).
- Current Assets include Inventory (₹1,50,000), Accounts Receivable (₹1,00,000), and Cash and Cash Equivalents (₹50,000).

2. Equity and Liabilities Section:

- Equity consists of Share Capital (₹5,00,000) and Retained Earnings (₹2,00,000).

**Course
&
Test Series**

 **CBSE**

 **ICSE**

 **NTSE**

 **Banking &
Insurance**

 **Central Govt.
Service**

 **State Govt.
Services**

 **LAW
Entrance**

 **MBA
Entrance**

 **Railways & Metro
Services**

...many more

abhyasonline.in

Manual Accounting - Module 26

- Non-Current Liabilities include Long-term Borrowings (₹3,00,000).
- Current Liabilities comprise Short-term Borrowings (₹1,00,000) and Accounts Payable (₹50,000).

The balance sheet balances, showing total assets of ₹10,00,000 and total liabilities and equity of ₹10,00,000, confirming that the financial position is accurately represented.

Assignment

Ques 1: Prepare Trading and Profit and Loss account and balance sheet on M/s Royal Traders from the following balances as on March 31, 2011.

Debit Balances	Amt. (Rs.)	Credit Balances	Amt. (Rs.)
Stock	20,000	Sales	2,45,000
Cash	5,000	Creditors	10,000
Bank	10,000	Bills Payable	4,000
Carriage on Purchase	1,500	Capital	2,00,000
Purchase	1,90,000		
Drawings	9,000		
Wages	55,000		
Machinery	1,00,000		
Debtors	27,000		
Postage	300		
Sundry Expenses	1,700		
Rent	4,500		
Furniture	35,000		
Closing Stock Rs. 8,000.			

Ques 2: Prepare Trading and Profit and Loss account. and balance sheet on M/s Royal Traders from the following balances as on March 31, 2011.

**Course
&
Test Series**

 **CBSE**

 **ICSE**

 **NTSE**

 **Banking &
Insurance**

 **Central Govt.
Service**

 **State Govt.
Services**

 **LAW
Entrance**

 **MBA
Entrance**

 **Railways & Metro
Services**

...many more

abhyasonline.in

Manual Accounting - Module 26

Debit Balances	Amt. (Rs.)	Credit Balances	Amt. (Rs.)
Stock	20,000	Sales	2,45,000
Cash	5,000	Creditors	10,000
Bank	10,000	Bills Payable	4,000
Carriage on Purchase	1,500	Capital	2,00,000
Purchase	1,90,000		
Drawings	9,000		
Wages	55,000		
Machinery	1,00,000		
Debtors	27,000		
Postage	300		
Sundry Expenses	1,700		
Rent	4,500		
Furniture	35,000		

Closing Stock Rs. 8,000.

Ques 3: Prepare Trading and Profit and Loss account and Balance Sheet as on march 31, 2011

Account Title	Amt. (Rs.)	Account Title	Amt. (Rs.)
Machinery	27,000	Capital	60,000
Sundry Debtors	21,600	Bills Payable	2,800
Drawings	2,700	Sundry Creditors	1,400
Purchase	58,500	Sales	73,500
Wages	15,000		
Sundry Expenses	600		
Rent and Taxes	1,350		
Carriage Inwards	450		
Bank	4,500		
Opening Stock	6,000		

Closing stock, as on March 31, 2011 ₹ 22,400

**Course
&
Test Series**

Manual Accounting - Module 26

Ques 4: From the following trial balance of Gopal Nath and Sons, prepare Trading and Profit and Loss Account for the year ending 31st December 2012 and a Balance Sheet as at that date:

 **CBSE**

 **ICSE**

 **NTSE**

 **Banking & Insurance**

 **Central Govt. Service**

 **State Govt. Services**

 **LAW Entrance**

 **MBA Entrance**

 **Railways & Metro Services**

...many more
abhyasonline.in

Particulars	₹	Particulars	₹
Opening Stock	4,000	Bills Payable	1,200
Purchases	12,000	Purchase return	300
Carriage	1,170	Sundry creditors	2,700
Wages	1,000	Sales	20,000
Sales return	200	Capital	30,000
Drawings	1,500	Commission received	120
Office expenses	250		
Salaries	1,600		
Discount	300		
Repairs	1,200		
Advertisements	500		
Sundry debtors	6,000		
Plant & Machinery	12,000		
Building	10,000		
Cash in hand	600		
Cash at bank	2,000		
	54,320		54,320

The value of stock in hand on 31st December 2012 was ₹ 6,000.

**Course
&
Test Series**

Manual Accounting - Module 26

Ques 5: From the following Balances of M/s Pawan Sales on 31/3/2012, prepare a Trading and Profit & Loss Account and a Balance Sheet as on that date.

Particulars	Amount (₹)	Particulars	Amount (₹)
Drawings	8,000	Sales	2,58,000
Capital	48,000	Return Inwards	2,000
Sundry Creditors	80,000	Return Outwards	2,200
Sundry Debtors	1,26,000	Office Salaries	18,000
Bills Receivable	10,000	Manufacturing Wages	8,000
Opening stock	90,000	Commission	9,000
Fixtures and Fittings	13,000	Trade Expenses	5,000
Cash in hand	2,000	Rent	4,400
Machinery	24,800	Discount received	8,000
Bank Overdraft	10,000	Bills Payable	14,000
Purchases	1,00,000		

The closing stock on 31.3.2012 was ₹ 1,04,000

-  **CBSE**
-  **ICSE**
-  **NTSE**
-  **Banking & Insurance**
-  **Central Govt. Service**
-  **State Govt. Services**
-  **LAW Entrance**
-  **MBA Entrance**
-  **Railways & Metro Services**
- ...many more**
- abhyasonline.in**

