

U.S. Securities and Exchange Commission Office of the Advocate for Small Business Capital Formation

# What is a balance sheet?

A balance sheet is one of the primary <u>financial statements</u> an entity prepares. It reflects the company's financial condition at a specific point in time – for instance as of June 30. The balance sheet includes the following financial components of an entity's business:

- Assets: what the entity owns
- Liabilities: what the entity owes
- Equity: the difference between assets and liabilities, or residual interest

#### **Did You Know?**

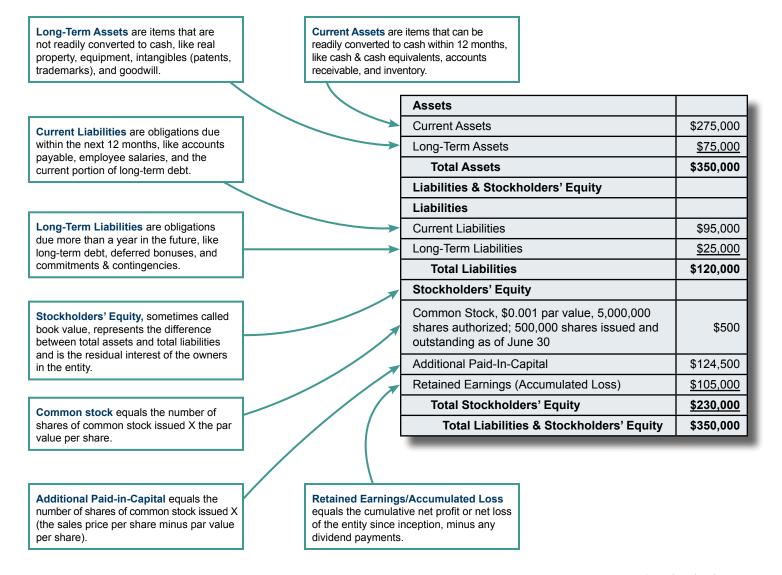
The balance sheet gets its name because an entity's total assets must equal the total of its liabilities and equity, so it balances.

Some call this concept the fundamental accounting equation:

Assets = Liabilities + Equity



## Anatomy of a balance sheet



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## What is a balance sheet? (continued)

### What else do I need to know about the balance sheet?



#### What are accounts receivable?

Accounts receivable are the amounts that customers owe the entity for their purchases of its goods or services on credit.



#### What is the difference between a tangible and an intangible asset?

A tangible asset has a physical form, like cash, a building, a piece of land, or a piece of equipment. An intangible asset does not have a physical form, like a trademark, a copyright, a patent, or goodwill.



#### What is goodwill, and why is it an asset?

The type of goodwill that is an intangible asset results from the purchase of another business and represents the excess amount paid for that business above the fair market value of its net assets. In essence, goodwill is the amount of the purchase attributed to the "reputation" of the business acquired.



#### What are accounts payable?

Accounts payable are the amounts the entity owes to its vendors for its purchase of goods or services on credit.



#### Why does equity have different names?

Equity goes by different names depending on the structure of the business. It is called stockholders' equity or shareholders' equity in a corporation, partnership interest in a partnership, or membership interest in a limited liability company.



# What is the difference between authorized shares, issued shares, and issued and outstanding shares?

Authorized shares are the number of shares the entity is permitted to issue under its organizational documents and represents the total number of shares the entity can sell. Issued shares are those shares that the entity has issued or sold to its shareholders. Issued and outstanding shares are those shares that the entity has issued or sold to its shareholders and that are still owned by its shareholders.



#### What is treasury stock?

An entity may repurchase shares from its shareholders and bring them back into its "treasury." These shares are called treasury stock. Treasury stock can be retired or repurposed.

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