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Balance Sheet Calculations

A balance sheet is an inevitable part of corporate monthly and annual financial reports, as this calculation represents the real state of corporate revenue. Moreover, a balance sheet allows one to forecast future expenditures and possible revenue growth so that this measurement is actively used within any financial operations or business reports.

A balance sheet is compounded with three crucial elements: assets, liabilities, and equity. All these elements represent specific financial operations done by a business entity. It should be noted that the aforementioned elements should be balanced through the balance sheet (Johnson 72). A typical balance sheet is divided into two columns where assets are placed on the right side while the left side is reserved for liabilities and equity. The last two components are called liquidity so that both options may be used ("Balance Sheet").

Assets undertake all profits, interests, and rental incomes the company gained through the observed financial period. Moreover, the equipment, goods, and services are included in the assets as well. Commonly, assets represent current assets; however, non-current assets can be included in calculations too.

Liabilities are related to the expenditures and payables which the company should cover during the selected financial period. Also, liabilities are loans which the company has, contract obligations, and rental payments the company has to pay to different parties.

Equity refers to the shareholders' interests. This part of liquidities indicates the number of profits that are reserved for investors; however, equity does not mean immediate payments, like liabilities.

Therefore, there are some interpretations of how a balance sheet can be read:

1. A balance sheet should provide a "zero check." This means the company has balanced expenditures and sufficient profits to cover costs and shareholders' interests.

2. A balance sheet may show a positive check. In this instance, it means that the company generates extra profits due to several factors, like prices, cut costs, or low rental expenditures (Johnson 75). Nonetheless, it is crucial to double-check the calculations and measurements, as some liabilities can be placed or interpreted as assets.

3. A balance sheet has a negative balance. From this perspective, the situation to a great degree depends on the type of the company and the industry where it operates. Some new entrants and startups show a negative balance for the first years, as they do not have sufficient budget to generate profits (“Balance Sheet”). On the contrary, if a mature company shows negative numbers, it indicates the financial issues or a significant amount of long-term loans, which may negatively affect future operations (Johnson 76). Such a situation is a sign for the commercial operation evaluation to omit bankruptcy.

The provided below example shows how the balance sheet should be done and calculated:

Balance Sheet	Year
[USD $ millions]	
	2017
Assets	
Current assets:	
Cash	10 000
Accounts Receivable	8 000
Prepaid expenses	4 000
Inventory	22 000
Total current assets	44 000
Property & Equipment	36 000
Goodwill	5 000
Total Assets	**85 000**
Liabilities	
Current liabilities:	
Accounts Payable	5 000
Accrued expenses	1 000
Unearned revenue	100
Total current liabilities	900
Long-term debt	30 000
Other long-term liabilities	100
Total Liabilities	**31 000**
Shareholder's Equity	
Equity Capital	40 000
Retained Earnings	14 000
Shareholder's Equity	**54 000**
Total Liabilities & Shareholder's Equity	**85 000**
Check	*0,000*

The table shows that assets and liquidities (equity + liabilities) are balanced so that there are no financial issues or concerns about the company's operations ("Balance Sheet"). If assets are higher than liquidities, the company generates profits and is attractive for investors (Johnson

76). Even though the liquidities outweigh assets, there is no need for panic as some companies, primarily in the public sector, may generate a negative income statement. Nonetheless, it is crucial to understand a balance sheet and use it to identify problematic fields so that any severe financial issues can be omitted.

Works Cited

"Balance Sheet (Assets = Liabilities + Equity)". *Corporate Finance Institute*, 2019, https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/.

Johnson, Harry G. *Macroeconomics and Monetary Theory*. 1st ed., Routledge, 2017.

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