Wall Street Girls

The Balance Sheet

The Balance Sheet is a snapshot of a company's Assets and its Liabilities & Equity at a specific point in time. Assets are a company's resources, which directly or indirectly result in additional cash in the future (or can be sold for cash). Liabilities are a company's bills and obligations, which directly or indirectly result in less cash in the future. Equity refers to the value of the shareholders' ownership of the company.

Common Line Items

ASSETS

Cash and Cash Equivalents: Cash is no different from the cash inside your personal bank account. Cash equivalents are short-term investments that generate some interest and though less liquid than cash, can easily be converted into cash.

Accounts Receivable: When companies sell goods and services, they always record an increase in revenue but may not necessarily receive payment right away. Accounts Receivable is the IOU that the selling company takes from customers. Accounts Receivable will turn into cash once payment has been received.

Inventory: Inventory refers to the raw materials and physical supplies that the company needs to manufacture its products. It also includes the value of products waiting to be sold or in various stages of production.

Prepaid Expenses: Prepaid Expenses are costs or future expenses that have been paid by the company in advance in cash.

Property, Plant & Equipment (PP&E): PP&E are factories, buildings, land, and equipment that that the company uses to bring its products and services to the market.

Long-Term Investments: Long-Term Investments are assets that companies plan to keep for a while, usually for more than a year. These investments, which are typically stocks, bonds, and real estate, generate interest but are less liquid than Cash or Short-Term Investments.

LIABILITIES

Short-Term Debt: Borrowing that incurs interest expense and is owed back in less than a year.

Accounts Payable: Accounts Payable refers to the sum of money the company owes, usually for one-time items with specific invoices such as legal services. These cash obligations have been recorded as expenses on the Income Statement but have not been paid in cash.

Accrued Expenses: Similar to Accounts Payable but for recurring monthly items without invoices, such as employee wages and rent.

Deferred Revenue: Deferred Revenue refers to the sum of money prepaid by customers in cash for goods or services that have yet to be delivered. Deferred Revenue will be recorded as Revenue in the Income Statement once the good or service is delivered.

Long-Term Debt: Long-Term Debt is debt that must be repaid in more than a year's time.

EQUITY

Common Stock & Additional Paid-In Capital (APIC): Common Stock & APIC represents the market value of shares at the time the company issued those shares. Common Stock is the amount of company stock that has been sold to investors while Additional Paid-In Capital is simply the amount of money paid for shares of stock above the stated par value. APIC only occurs when investors purchase shares from the company directly.

Retained Earnings: Retained Earnings represents the company's after-tax profits minus any dividends issued. Companies often use Retained Earnings to pay off debt or reinvest in the business.

Treasury Stock: Treasury Stock represents the value of shares that the company has repurchased from shareholders. Like Common Stock & APIC, the value here is based on the share prices at the time the company repurchased the shares.

The Balance Sheet Equation

The Balance Sheet is governed by the fundamental accounting equation: **Assets = Liabilities + Equity**.