BT Infographics

Seeking balance

An illustrated guide to building balance sheets (and how they link to the income statement)

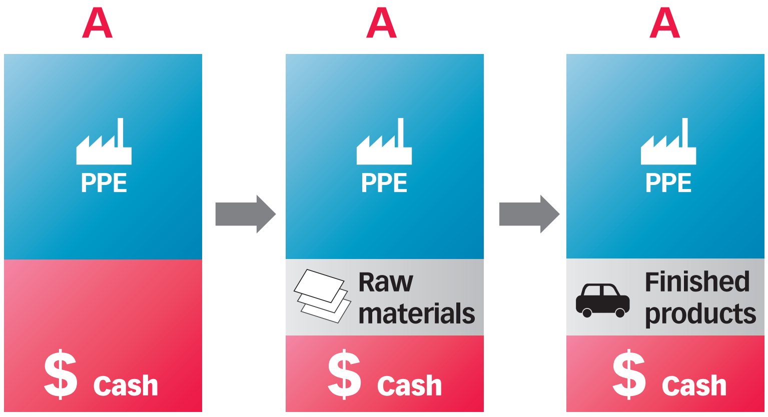
Assets = Liabilities + Equity

INCORPORATION

When a company is set up, cash is used to buy shares. Cash is now part of assets, and shareholders own the corresponding amount as equity.

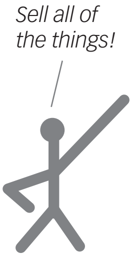
INVESTMENT

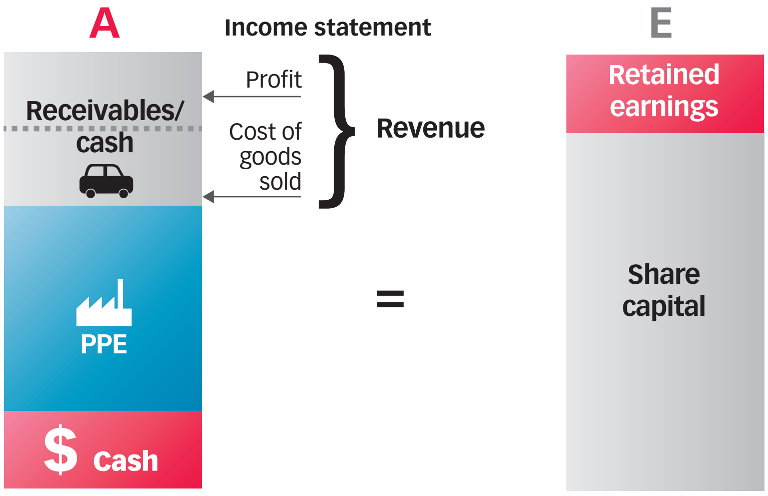
When a factory is set up, it appears under property, plant and equipment (PPE) under non-current assets. When raw materials are bought, they are itemised as inventories under current assets. When products are made, they remain classified as inventories.



SALES

Inventories are usually sold at a price that is higher than the cost needed to make them. The price inventories are sold at is called revenue. The excess over cost of goods sold is known as profit. On the balance sheet, finished products are converted to cash received or cash to be received (receivables).

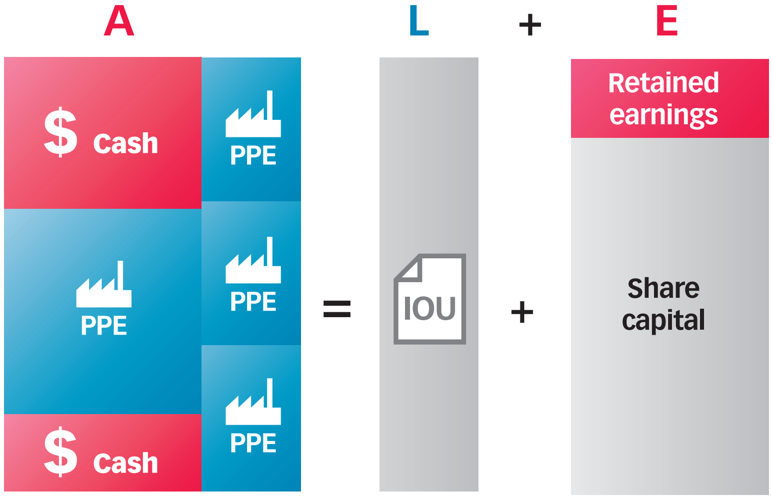




EXPANSION

A company that wants to build more factories might want to borrow money from the bank to do so.

Cash borrowed from the bank, when spent, gets converted to property, plant and equipment on the assets side, equalling what is borrowed on the liabilities side.



* *It's a meme. Go Google.*

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