B. Com. Semester-II
Subject: Financial Accounting-II
Unit-1, Structure of Balance Sheet

Definition:

A Balance Sheet is a statement of the financial position of a firm at a given date. The given date is the date at which the final accounts are prepared. Transactions are first recorded m journal. Entries in the journal are posted to ledgers.

Ledger accounts are balanced and the balances are recorded in a Trial Balance, Trial Balance consists of all Accounts-Personal, Real and Nominal. From the Trial Balance, nominal accounts are transferred to Trading or Profit and Loss Account and the remaining balances are taken to Balance Sheet.

Balance Sheet is a summary of whole of the accounting record. This is because the nominal accounts are transferred to Revenue Accounts, and Revenue account is closed by shifting the balance to the Balance Sheet. Balance Sheet is also known as a statement of Assets and Liabilities.

Balance Sheet is the last and the most important link in the chain of Final Accounts and Statements. It describes the financial position of a business in a systematic standard form. It is a mirror of a business.

When the assets exceed the liabilities, one can conclude that the business is sound and solvent. The function of the Balance Sheet is to show the true picture of the business on a particular date.

Functions of a Balance Sheet:

1. A Balance Sheet exhibits the true financial position of a firm at a particular date.

2. Financial position can be ascertained clearly with the help of Balance Sheet.

3. It provides valuable information to the management for taking better decision through ratio analysis.

4. Balance Sheet helps in knowing past and present position of an enterprise. It may be called the horoscope of the concern.

5. It is a mirror of a business.

Limitations of Balance Sheet:

It is prepared on a historical cost basis. Changes in prices are not considered.
Balance Sheet has some fictitious assets, which have no market value. Such items are unnecessarily inflate the total value of assets.

3. Historical Cost of Balance Sheet does not convey fruitful information.

4. Different assets are valued according to different rules.

5. It cannot reflect the ability or skill of staff.

6. It is measured in terms of money or money’s worth. That is, only those assets are recorded in it which can be expressed in money.

7. In inflationary trend, if the readers are not expert may mislead

Objectives of Balance Sheet

The main objectives of preparing balance sheet can be described as follows:

1. To Reveal the Financial Position

The main purpose of preparing balance sheet is to know the short term and long-term financial position of the firm.

2. To Show the Picture of Assets and Liabilities

Balance is prepared to know the value of assets and liabilities of the company at the end of the year.

3. Information about Debtors and Creditors

Balance sheet provides true picture of trade debtors and creditors for the specific period.

4. To Reveal Liquidity Position

Balance sheet shows the liquidity position of the firm.

5. To Show Solvency Position

Balance sheet helps to know the solvency position of the business.

6. To Calculate Ratios

Accounting ratios are calculated on the basis of data provided by balance sheet. It helps the management to know the strength and weakness of the business.

7. To Provide Financial Information

Balance sheet provides true and reliable financial information to the management, government, shareholders, lenders etc.