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WHAT IS A BALANCE SHEET?

A balance sheet is a financial statement that provides a snapshot of a business's financial position at a specific point in time. It provides a summary of a business's assets, liabilities, and shareholders' equity, and is often used by business owners, investors, and lenders to assess the financial health and stability of a business. Here's a simple explanation of the components of a balance sheet:

- **Assets** are what a business owns and are categorized into two main types: current assets and non-current assets. Current assets are expected to be converted into cash or used up within one year, such as cash, accounts receivable, inventory, and prepaid expenses. Non-current assets are expected to be used in the business for more than one year, such as property, plant, and equipment, investments, and intangible assets like patents and trademarks.

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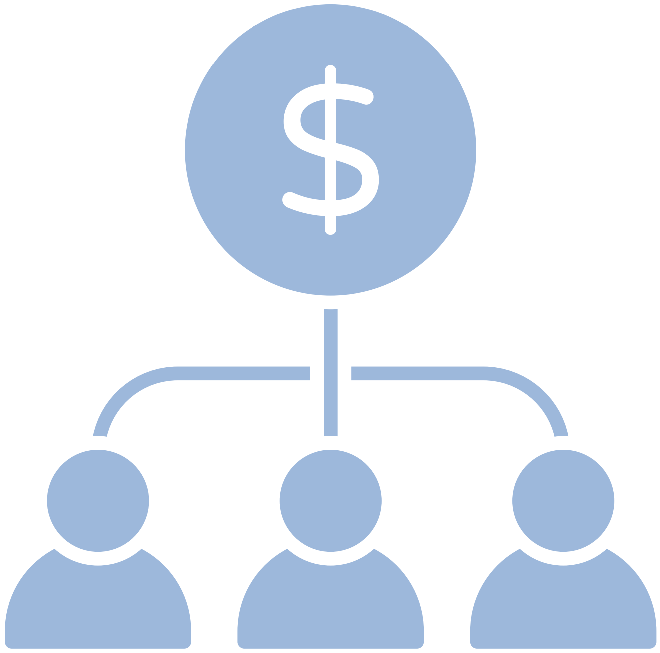
- **Liabilities** are what a business owes to external parties and are also categorized into two main types: current liabilities and non-current liabilities. Current liabilities are obligations that are expected to be settled within one year, such as accounts payable, short-term loans, and accrued expenses. Non-current liabilities are obligations that are expected to be settled over a period longer than one year, such as long-term loans, bonds, and deferred taxes.

- **Shareholders' equity**, also known as owners' equity or stockholders' equity, represents the residual interest in the assets of the business after deducting liabilities. It includes the initial investment made by the business owners, as well as any retained earnings that have been reinvested into the business. Shareholders' equity is often broken down into several components, including common stock, additional paid-in capital, retained earnings, and accumulated comprehensive income.



The balance sheet follows a fundamental accounting equation, which states that Assets = Liabilities + Shareholders' Equity. This equation ensures that a business's assets are always equal to its liabilities and shareholders' equity, providing a balance between the two sides of the balance sheet.

In summary, a balance sheet provides a snapshot of a business's financial position, showing what it owns (assets), what it owes (liabilities), and what is left over for the owners (shareholders' equity). It is an important financial statement that can help business owners assess their business's financial health, make informed decisions, and understand their business's overall financial position.

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