

## Balance Sheet

### Chapter 2

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## Balance Sheet

All financial statements contain important financial information, but each statement includes in it different information.

- Balance sheet is also referred to as the statement of financial position. It reflects what the owners own in the business, what they owe, and how much they have invested in the business.

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## Similarity between balance sheet and photograph?

- Snapshot captures a situation only at a moment in time when the picture is taken. Many actions happen before and after the snapshot but the permanent image is the one that remains at the precise moment the picture is taken.

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Similarity between balance sheet and photograph? (cont.)

Similarly, a balance sheet is a still life of a business (a formal portrait, if you will), of the financial condition of the business at a specific point in time.

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What does this mean about the balance sheet?

- The affairs of the business are dynamic (constantly changing).
- There are events before and after the balance sheet.
- Balance sheet must always be dated.
- At any given point in time, the balance sheet must balance.

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Some features of the Balance sheet

- It reveals the liquidity of the business.
- Assets are listed in the order of liquidity on the balance sheet.
- The balance sheet is typically prepared at the end of an operating period.

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### Limitations of the balance sheet?

- Does not reflect current values of assets, so assets can be severely under-priced.
- Does not show some valuable elements of the hospitality business.
- Does not show how much the business is currently worth.

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### Balance sheet presentation formats

(see pp.42-43 of text):

- Account form
- Report form

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### Balance Sheet Elements (following USALI)

#### 1. ASSETS

Economic resources owned by the hotel/restaurant business that are expected to have future economic benefit. They include cash, things that can easily be converted into cash, and things that may not easily be converted to cash but are needed to provide products and services for which the business eventually receives cash.

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BALANCE SHEET		
Assets		
	Current Year	Prior Year
<b>CURRENT ASSETS</b>		
Cash	\$	\$
House Banks		
Demand Deposits		
Temporary Cash Investments		
Total Cash		
Short-Term Investments		
Receivables		
Accounts Receivable		
Notes Receivable		
Current Maturities of Noncurrent Receivables		
Other		
Total Receivables		
Less Allowance for Doubtful Accounts		
Net Receivables		
Inventories		
Prepaid Expenses		
Deferred Income Taxes, Current		
Other		
Total Current Assets		

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NONCURRENT RECEIVABLES, Net of Current Maturities		
INVESTMENTS		
<b>PROPERTY AND EQUIPMENT</b>		
Land		
Leaseholds and Leasehold Improvements		
Furnishings and Equipment		
Buildings		
Construction in Progress		
China, Glassware, Silver, Linen and Uniforms		
Total Property and Equipment		
Less Accumulated Depreciation and Amortization		
Net Property and Equipment		
OTHER ASSETS		
Goodwill		
Cash Surrender Value of Life Insurance		
Deferred Charges		
Deferred Income Taxes—Noncurrent		
Other		
Total Other Assets		
<b>TOTAL ASSETS</b>	\$	\$

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**Current Assets**

Assets easily converted into cash or used in operations within the normal operating cycle (typically 1 year). They are listed in the order of liquidity on the balance sheet

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**Current Assets (cont.)**

1) CASH

- 2) SHORT-TERM INVESTMENTS –  
marketable securities intended to be  
converted into cash within a year but  
not before 3 months.

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**Current Assets (cont.)**

3) RECEIVABLES

- Accounts Receivables
- Notes Receivables
- Current Maturities of Non-Current  
Receivables
- Other

**Less:** Allowance for Doubtful Accounts

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**Current Assets (cont.)**

4) INVENTORIES

- Include F&B inventory
- Guest room supplies
- Reserve stock of china, glassware,  
silver, linen, uniforms

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**Current Assets (cont.)**

5) PREPAID EXPENSES - payments for items or services that will benefit future periods. As benefits are received, the cost is reflected on the income statement.

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**Current Assets (cont.)**

6) DEFERRED INCOME TAXES – CURRENT

Represents tax effects of temporary differences in financial reporting rules and tax reporting rules.

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**Current Assets (cont.)**

7) OTHER

Other current assets not shown elsewhere but expected to be received within 1 year.

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**Non-Current Receivables**

~ **Net of current maturities**

⇒ Represents accounts and notes receivables not expected to be collected during the next 1 year.

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**Investments**

- Stocks and bonds expected to be held for longer than 1 year.
- Ownership interest in other enterprises (business, land etc.)

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**Property and Equipment  
(Fixed Assets)**

- 1) LAND
- 2) LEASEHOLD AND LEASEHOLD IMPROVEMENTS
- 3) FURNITURE, FIXTURES AND EQUIPMENT

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Property and Equipment  
(cont.)

- 4) BUILDINGS
- 5) CONSTRUCTION IN PROGRESS
- 6) CHINA, GLASSWARE, SILVER,  
LINEN AND UNIFORMS
- Less:** Total Accumulated Depreciation  
and Amortization

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Other Assets

- 1) GOODWILL – excess of purchase price over fair market value of net assets acquired in the purchase of a business.
- 2) CASH SURRENDER VALUE OF LIFE INSURANCE

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Other Assets

- 3) DEFERRED CHARGES
- 4) DEFERRED INCOME TAXES –  
NON-CURRENT
- 5) OTHER – other than above
  - Security deposits
  - Organization cost
  - Initial franchise fee  
(paid by franchisee)

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BALANCE SHEET		
Liabilities and Owners' Equity		
	Current Year	Prior Year
<b>CURRENT LIABILITIES</b>		
Banks	\$ _____	\$ _____
Others	_____	_____
Total Notes Payable		
Accounts Payable		
Accrued Expenses		
Advance Deposits		
Income Taxes Payable		
Deferred Income Taxes—Current		
Current Maturities of Long-Term Debt		
Other	_____	_____
Total Current Liabilities		

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<b>LONG-TERM DEBT, Net of Current Maturities</b>		
Mortgage Notes, other notes, and similar liabilities	_____	_____
Obligations Under Capital Leases	_____	_____
Total Long-Term Debt		
<b>OTHER LONG-TERM LIABILITIES</b>		
DEFERRED INCOME TAXES—Noncurrent		
<b>COMMITMENTS AND CONTINGENCIES</b>		
OWNERS' EQUITY—one of the formats found on the next page	_____	_____
TOTAL LIABILITIES AND OWNERS' EQUITY	\$ _____	\$ _____

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<b>Balance Sheet Elements (cont.)</b>	
<b>2. CURRENT LIABILITIES</b>	
1) NOTES PAYABLE	
2) ACCOUNTS PAYABLE	
3) ACCRUED EXPENSES	

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Current Liabilities (cont.)

4) ADVANCE DEPOSITS

5) TAXES PAYABLE

6) DEFERRED INCOME TAXES -  
CURRENT

7) CURRENT MATURITIES  
ON LONG-TERM DEBT

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Liabilities (cont.)

**LONG-TERM DEBT**

**OTHER LONG-TERM LIABILITIES**

**DEFERRED INCOME TAXES –  
NON-CURRENT**

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Commitments and Contingencies

- Purchase contracts
- Contingencies for pending litigation
- Management contracts
- Guarantee of indebtedness

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**CORPORATION**

Stockholders' Equity  
**Corporation Sheet**

	Current Year	Prior Year
____% Cumulative Preferred Stock, \$ ____ par value, authorized ____ shares; issued and outstanding ____ shares	\$ _____	\$ _____
Common Stock, \$ ____ par value, authorized ____ shares; issued and outstanding ____ shares		
Additional Paid-In Capital		
Retained Earnings		
Less: Treasury Stock, ____ shares of Common Stock, at cost	_____	_____
<b>Total Stockholders' Equity</b>	<b>\$ _____</b>	<b>\$ _____</b>

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**PARTNERSHIP**

Partnership

	Current Year	Prior Year
General Partners	\$ _____	\$ _____
Limited Partners	_____	_____
<b>Total Partners' Equity</b>	<b>\$ _____</b>	<b>\$ _____</b>

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**SOLE PROPRIETORSHIP**

	Current Year	Prior Year
Owner's Equity	\$ _____	\$ _____

**Owners' Equity**

**CORPORATION**

- CAPITAL STOCK - Preferred Common
- ADDITIONAL PAID-IN CAPITAL
- RETAINED EARNINGS

**Less: TREASURY STOCK**

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Owners' Equity (cont.)

**PARTNERSHIP**

Represents net equity of partners and classified as general or limited where appropriate.

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Owners' Equity (cont.)

**SOLE PROPRIETOR**

Same as above except only one individual is reported

\*\*\* Read about Footnotes and Consolidated Statements

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