The balance sheet (part 2)

1 So let’s take a look at the Liabilities side.
2 The Liabilities side—we all saw a segment based upon liquidity,
3 in this case the Liabilities being things that we owe—right?
4 These are debts that we have—
5 debts, specifically though, to non-owners.
6 So we look at these things in terms of when is the debt coming due.
7 Okay, so Current Liabilities generally are liabilities due less than a year.
8 And so we can reasonably anticipate having to pay these things.
9 And so the first one is what we refer to as Accounts Payable.
10 Now, an account payable is the exact opposite of an account receivable—right?
11 With the receivable, we’ve sold something and we expect to be paid at some point in the future.
12 With accounts payable, we have actually purchased goods on credit, have potentially acquired—excuse me—acquired those goods, and then we have to pay the company that we purchased them from.
13 So in this case we anticipate 220,000 dollars being due at some point in time.
14 Now, they may have different due dates or maturity periods—right?
15 It may not all be due in thirty days.
16 Maybe some are thirty, some are sixty.
17 Maybe some are sooner than that.
18 Now, we know we’re going to have to pay this sum of money.
19 So it’s only fair that we at least account for it to make sure—because it’s not like it’s a surprise—we know it’s going to come up.
20 The next thing that we have to consider are our Wages Payable—now—which for this example are 300,000 dollars.
21 Now, Wages Payable include payments to your employees.
22 You can reasonably expect to have to pay your employees, usually every two weeks or every month, depending upon your payroll cycle.
23 Now, so—once again—similar to an account payable we do want to account for the expense.
24 We know that our employees are going to want to be paid, so it’s only fair that we earmark some funds and make them available for those particular payments.
25 Now, adding together your Accounts Payable with your Wages Payable, and you come to your Total Current Assets—Total Current Liabilities—I’m sorry.
26 So your Total Current Liabilities are everything that you’re going to owe one year or less.
27 And so, reasonably you can expect to have to pay 520,000 dollars just for your liabilities within the first year.
28 Now, on top of that we also consider Long-Term Liabilities, which are due over one year.
29 Now, and these commonly look like bonds—if you have any bonds that are going to become due over the course of, obviously, a year or more.
30 And also loans.
31 And so in this case we have a bank loan.
32 So we’ve taken out a particular loan for whatever reason, and that’s 380,000 dollars.
33 And so that money, obviously, is not going to be due for some time.
34 So it isn’t something that we’re going to have to pay right away.
35 But we can reasonably expect to have to pay that at some point in the future.
36 So we do account for that as a liability that will come due, of course, at some point in time.
37 Now, adding together your Total Current Liabilities along with your Long-Term Liabilities you get Total Liabilities, which is all the money that we owe to—once again—non-owners.
38 Now, after that we do have to consider Stockholder, or Owner’s, Equity.
39 And this is money that is owed to owners of the company, mainly our shareholders—people that purchased stock in our particular company and we—they have a claim on assets.
40 If you recall from before, it’s a residual claim on assets, and so the liabilities need to be met first.
41 Anything left over, if the company is forced to liquidate, gets paid to the shareholders.
42 And so we separate these in a couple of different areas.

43 The first thing we have is our Common Stock—okay?

44 Now, Common Stock is not necessarily what the price is on the open market.

45 So if you were to—you know—pull up Yahoo Finance or Google Finance, and if this was a publicly traded company, and you type in the ticker symbol for that company, and it shows a certain price per share—if you were to take that price and multiply it by the number of shares outstanding, you would not get this figure.

46 This is the figure for the money that was raised during an initial public offering and any subsequent secondary offerings.

47 So let's say, for example, that the company had, during the initial public offering, decided to sell shares of ownership for thirty dollars per share—okay—and then it obviously sold—let's say—about 10,000 or so of those shares.

48 We would get to roughly about 300,000 dollars.

49 Now, in addition, we also factor in Retained Earnings.

50 Now, Retained Earnings is profits that are reinvested.

51 And, remember, a company can do a number of different things with its profits.

52 It can pay them to investors in the form of a dividend, as a way of rewarding them for their investment, or it can keep them.

53 And there's a very rational argument suggesting that companies should keep profits, because if they pay them to investors in the form of a dividend, they're essentially saying that they have no better use of them.

54 There isn't a better possible use for those profits.

55 Now there may in fact be.

56 And so there is a school of thought that suggests that companies shouldn't pay dividends, really.

57 They should focus on reinvesting that back in the company, particularly high-growth companies, so they can fuel that growth.

58 And so in this case we have 504,000 dollars that were left over from the prior period.

59 So we've kept those.

60 That is money that we have in our possession, that we can use towards different things.

61 We've retained them.

62 Now, those two figures together—right?—your Common Stock and your Retained Earnings come to your Total Stockholder's Equity, which in this case is 804,000 dollars.

63 Now, once we add—once again—your Total Liabilities here to our Total Stockholder's Equity here, we're going to get this figure, which is our Total Liabilities and Stockholder's Equity.

64 And—once again—because of the accounting equation, these two figures will always match up.

65 If they don't, there is some type of data entry error, there's some type of problem.

66 They always add up.

67 They always have to add up, because remember that companies have two primary funding sources, either through Liabilities and through Stockholder's Equity.