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BALANCE SHEET

The balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It consists of three main sections: assets, liabilities, and equity. Here's a brief description of each section:

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BALANCE SHEET EQUATION

The balance sheet equation is:
$$\text{Assets} = \text{Liabilities} + \text{Equity}.$$

This equation must always balance, ensuring that a company's resources (assets) are financed by either borrowing (liabilities) or by the owners' investments (equity).

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ASSETS

Current Assets: These are assets that are expected to be converted into cash or used within one year or one operating cycle of the business, whichever is longer. Examples include cash (i.e. bank accounts), accounts receivable, and inventory.

Long-term Assets: These are assets that are not expected to be converted into cash or used within one year. They represent resources with a useful life extending beyond the current accounting period. Examples include property, plant, equipment, long-term investments, and intangible assets like patents and trademarks.

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LIABILITIES

Current Liabilities: These are obligations that are due to be settled within one year or one operating cycle of the business, whichever is longer. Examples include accounts payable, credit card debt, short-term loans, accrued expenses, and current portion of long-term debt.

Long-term Liabilities: These are obligations that are not due to be settled within one year. Examples include long-term loans, bonds payable, deferred tax liabilities, and lease obligations.

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EQUITY

Equity represents the residual interest in the assets of the entity after deducting liabilities. It reflects the ownership interest of shareholders in a company. The main components of equity typically include:

- Common Stock: The par value of shares issued to shareholders.
- Additional Paid-in Capital: The amount received from shareholders in excess of the par value of the shares.
- Retained Earnings: The cumulative net earnings retained by the company after dividends have been paid out to shareholders. This includes profits or losses accumulated over the years.

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