**What can be analysed from a Balance Sheet?**

* *The general financial state of the business at a specific point in time*
* *The amount of capital retained in the business*
* *The productivity, growth and solvency of the business*
* *The pace at which the assets can be converted to capital*

**Advantages of reporting the balance sheet**

* **Business snapshot:**

Balance Sheet provides an accurate picture of the business status. While the profit and loss statement provides the profit made in a transaction, balance sheet gives the details of the bills the business owes to the vendors. Every balance sheet is unique; while a business may experience a high profit account, it can simultaneously have a poor balance sheet if the total net asset value is low and vice versa. Balance sheet determines the financial strength of a business and helps in future financial planning.

* **Provides information for apt decision making:**

Balance-Sheet provides the investors and potential lenders with the information needed to take decisions while lending money or resources. It reflects the company’s ability to collect and pay debts on time. On the basis of this, one can form an opinion of the company’s risk and return prospects.

* **Provides helpful financial ratios:**

Balance Sheet helps to calculate the ratios to determine a company’s long-term profitability and short-term financial outlook. Ratios like the current ratio and the acid test or liquidity ratio are calculated using information from the balance sheet. These ratios help obtain a very thorough summary of the company’s financial health by analyzing its cash position, working capital, liquidity and leverage. It also provides insight into the company’s likelihood of defaulting on its credit obligations or even its bankruptcy risk.

**Disadvantages of the balance sheet**

* **Numbers could be misleading:**

As the balance-sheet gives the financial snapshot at a given point of time, it could be misleading sometimes. For e.g. the analysis could get distorted if the company’s cash position at year end is high, indicating high reserves, but the company may intend to distribute it in the form of dividends.

* **Doesn’t give true value of assets:**

The balance sheet does not provide the true value of the assets as they are reported at the historical costs. It does not reflect the current market valuation.

* **Other limitations:**

The balance sheet has some of the current assets valued on estimated basis, so it does not reflect the true financial position of the business. Also there is complete omission of the valuable non monetary assets from the balance-sheet.

**Conclusion**

Balance-sheet is one of the essential financial statements needed to take appropriate and sound financial decisions. Blended with the other components (Profit and Loss Statement, Cash Flow Statement and Statement of Owner’s Equity) of financial reporting, one can decide whether the business under focus is right as an investment option.