Balance Sheet (overview)

A balance sheet is a statement of the total **assets** and **liabilities** of an organisation **at a particular date** - usually the last date of an accounting period.

The balance sheet is split into two parts:

(1) A statement of **fixed assets**, **current assets** and the **liabilities** (sometimes referred to as "**Net Assets**")

(2) A statement showing how the Net Assets have been financed, for example through share capital and retained profits.

The Companies Act requires the balance sheet to be included in the published financial accounts of all limited companies. In reality, all other organisations that need to prepare accounting information for external users (e.g. charities, clubs, partnerships) will also product a balance sheet since it is an important statement of the financial affairs of the organisation.

A balance sheet does not necessary "value" a company, since assets and liabilities are shown at **"historical cost"** and some intangible assets (e.g. brands, quality of management, market leadership) are not included.

Example Balance Sheet

The structure of a typical balance sheet is illustrated below:

Boston Learning Systems plc Balance Sheet at 31 December	**2009 £'000**	**2008 £'000**
ASSETS		
Non-current assets		
Goodwill and other intangible assets	150	150
Property, plant & equipment	2,450	2,100
	2,600	**2,250**
Current assets		
Inventories	1,325	1,475
Trade and other receivables	4,030	3,800
Short-term investments	250	190
Cash and cash equivalents	1,340	780
	6,945	**6,245**
Current liabilities		
Trade and other payables	2,310	2,225
Short-term borrowings	350	550

Current tax liabilities	800	650
Provisions	290	255
	3,750	**3,680**
Net current assets	**3,195**	**2,565**
Non-current liabilities		
Borrowings	1,200	1,450
Provisions	140	140
	1,340	**1,590**
NET ASSETS	**4,455**	**3,225**
EQUITY		
Share capital	500	500
Retained earnings	3,955	2,725
TOTAL EQUITY	**4,455**	**3,225**

An asset is any right or thing that is owned by a business. Assets include land, buildings, equipment and anything else a business owns that can be given a value in money terms for the purpose of financial reporting.

Definition of Liabilities

To acquire its assets, a business may have to obtain money from various sources in addition to its owners (shareholders) or from retained profits. The various amounts of money owed by a business are called its liabilities.

Long-term and Current

To provide additional information to the user, assets and liabilities are usually classified in the balance sheet as:

- Current: those due to be repaid or converted into cash within 12 months of the balance sheet date;

- Long-term: those due to be repaid or converted into cash more than 12 months after the balance sheet date;

Fixed Assets

A further classification other than long-term or current is also used for assets. A "fixed asset" is an asset which is intended to be of a permanent nature and which is used by the business to provide the capability to conduct its trade. Examples of **"tangible fixed assets"** include plant & machinery, land & buildings and motor vehicles. **"Intangible fixed assets"** may include goodwill, patents, trademarks and brands - although they may only be included if they have been "acquired". Investments in other companies which are intended to be held for the long-term can also be shown under the fixed asset heading.

Definition of Capital

As well as borrowing from banks and other sources, all companies receive finance from their owners. This money is generally available for the life of the business and is normally only repaid when the company is "wound up". To distinguish between the liabilities owed to third parties and to the business owners, the latter is referred to as the **"capital"** or **"equity capital"** of the company.

In addition, undistributed profits are re-invested in company assets (such as stocks, equipment and the bank balance). Although these "retained profits" may be available for distribution to shareholders - and may be paid out as dividends as a future date - they are added to the equity capital of the business in arriving at the total **"equity shareholders' funds"**.

At any time, therefore, the capital of a business is equal to the assets (usually cash) received from the shareholders plus any profits made by the company through trading that remain undistributed.