Current assets

This section of the balance sheet shows the assets a business owns which are either cash, cash equivalents, or are expected to be turned into cash during the next twelve months.

Current assets are, therefore, very important to cash flow management and forecasting, because they are the assets that a business uses to pay its bills, repay borrowings, pay dividends and so on,

Current assets are listed in order of their liquidity – or in other words, how easy it is to turn each category of current asset into cash.

The main elements of current assets are:

Inventories	Inventories (often also called "stocks") are the **least liquid kind of current asset**. Inventories include holdings of raw materials, components, finished products ready to sell and also the cost of "work-in-progress" as it passes through the production process. For the balance sheet, a business will value its inventories at cost. A profit is only earned and recorded once inventories have been sold. Not all inventories can eventually be sold. A common problem is **stock "obsolescence**" – where inventories have to be sold for less than their cost (or thrown away) perhaps because they are damaged or customers no longer demand them. For these inventories, the balance sheet value should be the amount that can be recovered if the stocks can finally be sold.
Trade and other receivables	Trade debtors are usually the main part of this category. A trade debtor is created when a customer is allowed to buys goods or services on credit. The sale is recognised as revenue (income statement) when the transaction takes place and the amount owed is added to trade debtors in the balance sheet. At some stage in the future, when the customer settles the invoice, the trade debtor balance converts into cash! Most businesses operate with a reasonably significant amount owed by trade debtors at any one time. It is not unusual for customers to take between 60-90 days to pay amounts owed, although the average payment period varies by industry. Of course some customer debts are not eventually paid – the customer becomes insolvent, leaving the business with debtor balances that it cannot recover. When a business is doubtful whether a customer will settle its debts it needs to make an allowance for this in the balance sheet. This is done by making a "**provision for bad and doubtful debts**" which effectively

	reduces the value of trade debtors to the total amount that the business reasonably expects to receive in the future.
Short-term investments	A business with positive cash balances can either hold them in the bank or invest them for short periods – perhaps by placing them on short-term deposit. Such investments would be shown in this category.
Cash and cash equivalents	The most liquid form of current assets = the actual cash balances that the business has! The bank account balance would be the main item in this category.