

CE29x Team-Project Challenge

Financial Accounting I: The balance sheet

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with acknowledgements to Keith Primrose and Michael Fairbank

Acknowledgment

* This lecture is based on chapter six of:

Bott, F., 2014, "Professional Issues in Information Technology", Second Edition

Annual Reports

- * Limited liability companies have to produce an annual report
- * The Annual Report contains:
 - * Information about the company
 - * Its activities during the previous year
 - * Its financial health

Annual Reports

- * The proprietors of limited liability companies are privileged
 - * *Because* their liabilities are limited
 - * In return for this, the law demands that they must produce annual financial reports
 - * (Companies Consolidation Legislation (1987))
- * This allows others to decide whether dealing with the company is risky or not.

Companies Consolidation Legislation 1987

This forces companies to keep accounting records

- * Failure to do so can result in imprisonment and fines for those held responsible.
- * Accounting records are now on computer, this presents a security problem and maintaining access to archived records.
- * Failure to ensure persistence of readable data is the same offence as not keeping records at all.
- * UK Inland Revenue insists records are kept for 6 years.

Annual Reports

- * If the company is public (floated on stock market)
 - * The Stock Exchange imposes additional requirements regarding disclosure.
- * Recent scandals have led to:
 - * Calls for more openness
 - * More extensive information in annual reports
 - * Some by regulation
 - * Some due to becoming regarded as good practice
 - * E.g. Tesco recently had a £250m accounting “problem”

Annual Reports

It is good for you to know the how to read an annual report:

1. If you are about to engage business with another company, it's good to be able to know if they are financially viable
 - * Your company does not want to pay millions for them to deliver you a product, if they are likely to just take your money and then go bust
2. If you run your own company ever then you will have to file annual reports (or pay an accountant to do so)

Annual Reports

With your own company, you have to submit the accounting report to companies house, every year, e.g.

Report of the Director and
Financial Statements
for the Period
16 May 1997 to 31 March 1998
for
Fairbank Consulting Limited

Three Essentials

* Three financial statements are the most important sections of the annual report

1. The Balance Sheet

(A snapshot of what a company owns and owes)

2. The Profit & Loss Account

(Shows how much money has come into and out of the company in a given time period)

3. The Cash Flow Statement

(Gives details of the cash flows that contributed to the figures in the balance sheet)

* We will look at each of these in turn

- * Balance sheet (this lecture)

- * P+L and Cash Flow – next lecture

1. The Balance Sheet

(A snapshot of what a company owns and owes)

2. The Profit & Loss Account

(Shows how much money has come into and out of the company in a given time period)

3. The Cash Flow Statement

(Gives details of the cash flows that contributed to the figures in the balance sheet)

The Balance Sheet

- * The purpose of the balance sheet is to show:
 - * What the company owns – its assets
 - * What it owes - its liabilities.
- * It is a snapshot of the state of the company at a particular point in time.
- * Normally at the end of the last day of the company's financial year.

Process

- * To make things more familiar we will compare these statements:
 - * For a student
 - * For a company
- * This will allow us to draw out key points and also highlight the differences.

Balance Sheet for a Student

* We imagine a student, Jemimah Puddleduck

* Taken from [Balance sheet for a student](#) (on Moodle)

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374
LIABILITIES		
Credit Card Bill	175	100
Student Loan	14,000	7,000
Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

What is owned

What is owed

Total

Balance Sheet for a Student

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
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Other Assets	400	510
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Credit Card Bill	175	100
Student Loan	14,000	7,000
Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

- * The Balance sheet compares
 - * The present position (2012)
 - * To the position one year ago (2011)

Balance Sheet for a Student

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
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Total Assets	2,445	2,374
LIABILITIES		
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Student Loan	14,000	7,000
Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

* Note the accounting convention of showing negative numbers in brackets (rather than using the minus sign).

Balance Sheet for a Student

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
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Total Assets	2,445	2,374
LIABILITIES		
Credit Card Bill	175	100
Student Loan	14,000	7,000
Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

- * Let's look at what the student "owns"
- * This is the "Assets" section...

Balance Sheet for a Student

	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	500	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374

* Jemimah's most obvious asset is Money

* She has £25 in cash in her purse

* And £700 in the bank

Balance Sheet for a Student

	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374

- * “Prepaid accommodation” is a less obvious “asset”
 - * Note the date of the statement 31 Oct
 - * At the start of term Jemimah paid a term's rent up-front
 - * Some 60% of this has not been 'used'
 - * And could, in principle, be turned into cash
- * The debts owed by friends could also be converted to cash
 - * So that's another +£20 “asset”

Balance Sheet for a Student

	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374

- * The computer and the mobile phone are also considered as assets.
- * These are examples of “fixed assets”
 - * assets that she will own and use for some time
- * The computer was bought for her two years ago for £800
- * She bought the mobile for £400 in October 2011
- * Since then, both items have depreciated in value

Depreciation

- * The most common way of calculating depreciation is to reduce the value by a uniform amount year on year.
 - * The computer will probably be obsolete after four years
 - * Jemimah will need to replace it by a new one then
 - * So we reduce its value by 25% (of the original price) each year i.e. £200 per year
- * Sometimes other models are used
 - * Consider the purchase of a new car.
 - * It loses at least 30% of its value the day you drive it out of the dealers!
- * Accountants use the phrase “write down” to show something has decreased in value,
 - * c.f. “written off”

Other Assets

	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374

- * The figure given for other assets covers the many small personal items that people own
 - * Clothes, Books, CDs, etc.
- * We take an approximate value for these
 - * The calculations involved in dealing with them precisely would be far more extensive than the value of the item justifies
- * We depreciate them over a longer period of time

Valuation

	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374

- * So her total current assets are valued at £2445
- * The valuation of assets can be a contentious issue.
 - * For now we shall simply accept the figures given in the balance sheet
 - * But we will need to pay more attention when we come to look at a commercial balance sheet.

Balance Sheet for a Student

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
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Student Loan	14,000	7,000
Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

- * Next look at what the student “owes”
- * This is the “Liabilities” section...

Liabilities

LIABILITIES	
Credit Card Bill	175
Student Loan	14,000
Total Liabilities	14,175

- * Jemimah's liabilities are more straightforward.
 - * She owes money on her credit card
 - * She has a student loan.
- * These can be categorised as short-term or long-term debts
- * The credit card debt is an example of a short-term debt
 - * She is expected to repay it fairly quickly
 - * She may incur other debts against it (i.e. pay for more things using the card).
- * The student loan is a long-term debt,
 - * It does not need to be repaid until she graduates and is earning a reasonable salary.

Net worth

Balance sheet for a student		
Jemimah Puddleduck		
Balance Sheet		
As at 31 October 2012		
	2012	2011
ASSETS		
Cash in hand	25	40
Cash at bank	700	234
Pre-paid Accommodation	600	590
Debts owed by friends	20	0
Computer	400	600
Mobile phone	300	400
Other Assets	400	510
Total Assets	2,445	2,374
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Total Liabilities	14,175	7,100
NET WORTH (or Equity)	(11,730)	(4,726)

* How is net worth calculated?

Net worth

NET WORTH	(11,730)
(or Equity)	

- * It represents the amount of cash which Jemimah would have
 - * If all her assets were sold
 - * And all her debts paid off
 - * In other words, how much, in financial terms, she is 'worth'.
 - * In Jemimah's case, as with many students, her net worth is negative
- * Net worth is often labelled 'excess of assets over liabilities', or “equity”.

Balance

- * A balance sheet must balance
 - * The total assets and total liabilities should be equal.
- * Now the balance sheet “balances”,
 - * i.e. the net worth (-£11730) plus the liabilities (£14175) together equal her total assets (£2445)

Balance Sheet	
As at 31 October 2012	
	2012
ASSETS	
Cash in hand	25
Cash at bank	700
Pre-paid Accommodation	600
Debts owed by friends	20
Computer	400
Mobile phone	300
Other Assets	400
Total Assets	2,445
LIABILITIES	
Credit Card Bill	175
Student Loan	14,000
Total Liabilities	14,175
NET WORTH (or Equity)	(11,730)

Commercial Balance Sheets

- * Commercial balance sheets are prepared on precisely the same basis as we have just seen but:
 - * The assets and liabilities are grouped into various categories
 - * A single figure is given for each category.

* From example [Balance sheet for a services company, on Moodle:](#)

Balance sheet for a software company

XYZ Software Ltd

Balance Sheet

As at 31 October 2012

	2012	2011
	£'000	£'000
Fixed Assets		
Intangible assets	475	-
Tangible assets	960	770
Investments	50	82
Total Fixed Assets	1,485	852
Current Assets		
Work in progress	550	621
Debtors	3,400	2,580
Cash in hand and at bank	2,491	1,663
Total Current Assets	6,441	4,971
Creditors: Amounts falling due within one year	(3,210)	(2,601)
Net Current Assets	3,231	2,370
Total Assets less current liabilities	4,716	3,222
Creditors: Amounts falling due after one year		
Borrowings	(154)	(61)
Provisions for liabilities and charges	(7)	(16)
Net Assets	4,555	3,145
Capital & Reserves		
Called-up share capital	318	308
Share premium reserve	350	145
Profit and loss account	3,887	2,692
Shareholders' funds – equity	4,555	3,145

Commercial Balance Sheets

Balance sheet for a software company		
XYZ Software Ltd		
Balance Sheet		
As at 31 October 2012		
	2012	2011
	£'000	£'000
Fixed Assets		
Intangible assets	475	-
Tangible assets	960	770
Investments	50	82
Total Fixed Assets	1,485	852
Current Assets		
Work in progress	550	621
Debtors	3,400	2,580

- * Similarities to the balances for a student:
 - * Year by year comparison
- * Notice that the figures are now in thousands (“£'000”)

Commercial Balance Sheets

Balance sheet for a services company	
XYZ Software Ltd	
Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
Intangible assets	475
Tangible assets	960
Investments	50
Total Fixed Assets	1,485
Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

* First look at the *assets*...

Commercial Assets

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets
Current Assets
Work in progress
Debtors
Cash in hand and at bank
Total Current Assets

- * Assets are classified as:
 - * Fixed assets.
 - * Contribute to the company's productive capacity
 - * Are held primarily for the purpose of creating wealth,
 - * Further subdivided into
 - * Tangible assets (assets that have some physical existence)
 - * Intangible assets (assets such as copyright in software or ownership of brand names. Things that have no physical existence).
 - * Investments (e.g. shares in other companies),
 - * Current assets
 - * Items which are bought and sold in the course of its day to day trading activities

Subtle differences

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets
Current Assets
Work in progress
Debtors
Cash in hand and at bank
Total Current Assets

- * In most cases, the difference between fixed assets and current assets is easily perceived.
- * *But* the treatment of the same item may vary from organization to organization or even within the same organization.
 - * If a company buys a car to enable one of its salesmen to operate more effectively, this is a fixed asset
 - * If a car dealer buys a car in order to resell it as part of his business, this is a current asset.

Valuing Current Assets

- * The rules of accounting state that current assets are shown on the balance sheet with a value that is the lower of what they cost and what it is expected they could be sold for.
- * Suppose a company has a stock of 1,000 user manuals for a piece of technology that it sells.
 - * The manuals sell at £10 each but cost £2 each to produce.
 - * How much should these be valued at?
 - * $1000 \times £10$ or $1000 \times £2$?
- * On the other hand, a stock of printer paper that cost £5,000 would only be saleable for a lower figure, say £2,000
 - * How much would these be valued at on a balance sheet?
 - * £2000 or £5000?

Valuing Fixed Assets

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * Fixed assets are not expected to be sold in normal trading operations and their resale value is irrelevant
- * What is needed is a measure of their value to the company.
- * This is done by reducing their value each year in accordance with the company's depreciation policy.
- * The most common way to do this is the straight-line method we have already seen
 - * Decide how many years the asset will continue to be useful for.
 - * Divide its initial cost by that number to get the annual depreciation.
 - * Each year, reduce (or “write down”) the value of the asset by that amount until the value of the asset reaches zero.

Re-valuation

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * Assets are generally valued on the basis of historic cost i.e. their original monetary cost.
- * In times of high inflation, this can be seriously misleading.
- * The value of certain types of fixed assets, in particular land and buildings, may increase rather than decrease.
- * Some companies therefore arrange to have their property re-valued from time to time and include this valuation in the balance sheet.

The Fixed Asset Register

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * Tangible fixed assets (e.g. large equipment, buildings, land) have to be recorded in the company's fixed asset register
- * From time to time, their presence will be physically checked.
- * Each year, depreciation must be calculated
 - * If a fixed asset is sold for a sum higher than its depreciated value, the company must show the difference as income.
- * Because of these complicated procedures, it is usual to treat all purchases of less than, say, £1,000 as expenses in the year in which they are incurred.

Difficulties

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * Some assets are difficult to classify as “fixed” or “current”.
- * Software is one example
 - * E.g. consider a payroll package.
 - * It could be treated as a “fixed asset”, because it’s like a piece of machinery
 - * A company buys such a package because to help carry out its day-to-day operations more efficiently.
 - * So if the expected lifetime is 10 years, it should be depreciated as usual over that timescale.
 - * But some accounts treat software as a “current expenditure” because software is intangible

Research and Development

- * Is “R & D” a fixed or current asset?
- * Logically, resources spent on developing new products should be regarded as an investment that will produce a fixed asset
 - * Something that will allow the company to operate more effectively.
- * But results of R & D are always uncertain and often prove to be worth very little
 - * To treat all the costs as investment would be misleading.

Research and Development

- * In practice, most software companies in the UK treat expenditure on R & D as current expenditure rather than as investment
 - * The accounting rules allow for more flexible treatment.
- * In the USA, there are strict rules regarding the capitalization of software that is developed for sale;
 - * These rules are based on a rather unrealistic model of the product life cycle.

Intangible Fixed Assets

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * Reminder: Intangible assets are
 - * assets such as copyright in software
 - * or ownership of brand names.
 - * Things that have no physical existence.
- * Intangible fixed assets are the source of much discussion in the accounting profession.

Fixed Assets	
Intangible assets	475
Tangible assets	960

- * Software is generally regarded as an intangible asset, but it is more tangible than many items, e.g. brand names, which are often shown as intangible assets.

Intangible Fixed Assets

Fixed Assets
Intangible assets
Tangible assets
Investments
Total Fixed Assets

- * High “intangible assets” is often a warning sign that a company is potentially having difficulties –
 - * They are a lot less reliable measures of wealth than tangible assets.
- * An item that frequently appears under intangible assets on the balance sheets of software product companies is “goodwill”.
 - * **Goodwill** in accounting is an intangible asset that arises when a buyer pays more to acquire an existing business than its net assets are worth

Goodwill

- * E.g. XYZ Ltd purchases another company, PQR Ltd, that owns the rights to a profitable software package
 - * If, as is likely, the package was not shown as an asset on PQR's balance sheet XYZ would probably pay much more to buy PQR than the value of PQR's net assets.
 - * The difference between the price paid and the value of PQR's net assets represents XYZ's estimate of the value of the rights in that package (and, possibly, other things such as the value of PQR's name).
 - * This needs to be shown on XYZ's balance sheet.
 - * While it would be preferable for the value of the package to be shown explicitly, this is not normal practice.
 - * The whole of the difference between the purchase price and the value of PQR's net assets is normally shown under the heading of “goodwill”.

Liabilities

Balance sheet for a services company	
XYZ Software Ltd	
Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
Intangible assets	475
Tangible assets	960
Investments	50
Total Fixed Assets	1,485
Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

- * Next look at liabilities.
- * These are interspersed with the assets – appearing as negative assets

Liabilities

Balance sheet for a services company	
XYZ Software Ltd	
Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
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Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

* How much total liabilities are shown here?

Short-term Liabilities

Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

- * “Amounts falling due within one year” refers to debts that the company owes to its “creditors”.
 - * These will include trade creditors, that is, outstanding invoices that the company has received but has not yet paid,
 - * They will also include any bank overdraft, as opposed to a long-term loan.
 - * It is committed to repaying these debts within one year.
 - * In just the same way that the 'debtors' item refers to invoices that the company has issued but which have not yet been paid.

Long-term Liabilities

Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

- * 'Creditors: Amounts falling due *after* one year' refers to long-term debts
 - * These may be long-term borrowings or they may be liabilities, that is, sums that the company expects to have to pay at some time in the future

Net Current Assets (Working Capital)

Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555

- * 'Net Current assets' in the Balance sheet is also known as the Working Capital.
- * It represents the amount of money invested in the day-to-day operations of the company, as opposed to its infrastructure.

Net Assets

Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
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Creditors: Amounts falling due after one year	
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Provisions for liabilities and charges	(7)
Net Assets	4,555

- * Net Assets (as opposed to net “current” assets) includes:
 - * the total assets (fixed and current)
 - * minus the total liabilities (falling both in the current year and after one year)
- * This is a snapshot of what the company currently has (total £4555k)

Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
Intangible assets	475
Tangible assets	960
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Total Fixed Assets	1,485
Current Assets	
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Net Assets	4,555
Capital & Reserves	
Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887
Shareholders' funds – equity	4,555

- * Next look at the value of the company to its shareholders
- * “Capital & Reserves”

Shareholders Funds

- * The total under the heading of 'Capital and reserves' is known by different names:
 - * Shareholders' equity
 - * Owners' equity
 - * Owners' claim.
- * It notionally represents the value of the company to its shareholders

Capital & Reserves	
Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887
Shareholders' funds – equity	4,555

Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
Intangible assets	475
Tangible assets	960
Investments	50
Total Fixed Assets	1,485
Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
Total Current Assets	6,441
Creditors: Amounts falling due within one year	(3,210)
Net Current Assets	3,231
Total Assets less current liabilities	4,716
Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555
Capital & Reserves	
Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887
Shareholders' funds – equity	4,555

* The value to the shareholders must “balance” the net assets

Net Assets

- * The Capital and Reserves section must balance the net assets, as capital and reserves show where the money for the above assets has come from.

Net Assets	4,555
Capital & Reserves	
Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887
Shareholders' funds – equity	4,555

Capital Reserves

Capital & Reserves

Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887

- * There are a number of ways in which Capital Reserves may be shown.
- * Share capital is the portion of a company's equity that has been obtained by trading stock to shareholders for cash.
 - * Share capital comprises the nominal values of all shares issued (that is, the sum of their par values, as printed on the share certificates).
- * Called-up share capital is the amount raised from the par value of the shares that the company has issued.

Capital Reserves

Capital & Reserves

Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887

- * When a successful company decides to issue more shares, these are often sold at more than their par value.
- * The extra is known as the share premium and the money raised from this is shown under the next heading, as the 'share premium reserve'.

Capital Reserves

Capital & Reserves

Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887

- * In the example, the remainder is labelled as 'Profit and loss account', indicating that it results from the accumulated surplus on the profit and loss account over the life of the company'

As at 31 October 2012

	2012	2011
	£'000	£'000
Profit and loss account	3,887	2,692

This difference of 1195 comes from the P&L account's figure for "retained profits" in 2012 (next lecture)

Quick Review

Balance Sheet	
As at 31 October 2012	
	2012
	£'000
Fixed Assets	
Intangible assets	475
Tangible assets	960
Investments	50
Total Fixed Assets	1,485
Current Assets	
Work in progress	550
Debtors	3,400
Cash in hand and at bank	2,491
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Creditors: Amounts falling due within one year	(3,210)
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Creditors: Amounts falling due after one year	
Borrowings	(154)
Provisions for liabilities and charges	(7)
Net Assets	4,555
Capital & Reserves	
Called-up share capital	318
Share premium reserve	350
Profit and loss account	3,887
Shareholders' funds – equity	4,555

* How were the circled figures calculated?

“Notes” section

- * Also, there will be several 'notes' to the balance sheet
 - * Describing the basis of the accounts
 - * Giving more detail about certain items
 - * Such items will cross-reference the notes.
- * For an example, see [company accounts filed for 1999](#)

Summary + Next lecture

Done this lecture:

1. The Balance Sheet

(A snapshot of what a company owns and owes)

For next lecture:

1. The Profit & Loss Account

(Shows how much money has come into and out of the company in a given time period)

2. The Cash Flow Statement

(Gives details of the cash flows that contributed to the figures in the balance sheet)

* Summary Quiz on today's lecture in Moodle