

THE BALANCE SHEET POCKETBOOK

2nd Edition

By Anne Hawkins and Clive Turner

Drawings by Phil Hailstone

“A uniquely accessible guide - if you only read one book on finance, read this!”

**Peter Colley, Director of Finance and Membership Services,
RAC Motoring Services Ltd**

“The authors’ wealth of practical experience and understanding of the line manager’s perspective is fully reflected in this clear and readable book.”

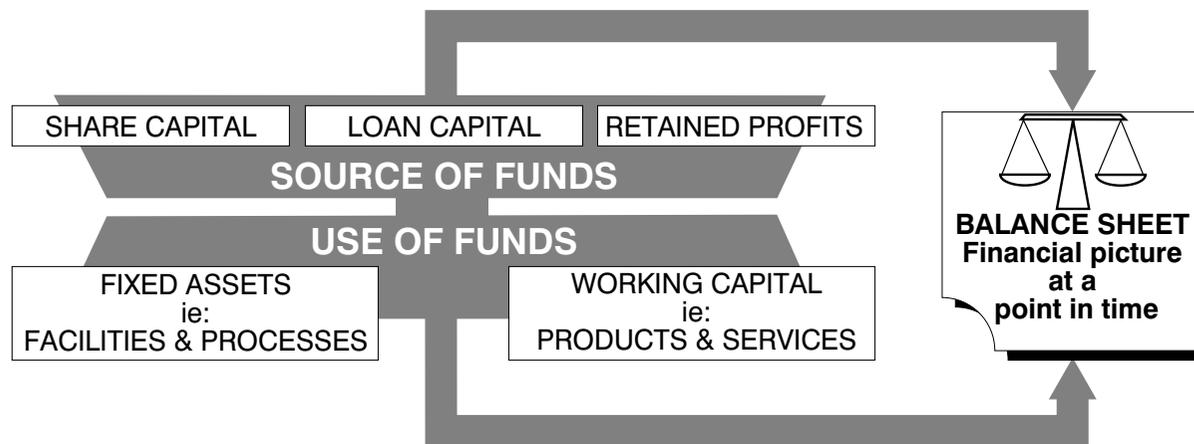
Ray Jennings, Human Resources Director, Dowty Aerospace

CONTENTS

	INTRODUCTION	1		THE BALANCE SHEET	45
				Use of Funds (Fixed Assets, Working Capital), Source of Funds, the balancing act, published format	
	THE BUSINESS FINANCIAL MODEL	5		PROFIT AND LOSS ACCOUNT	69
	Sources of Funds, Uses of Funds, making profit, summary			Profit is not cash, operating profit, financing costs, published format	
	CLASSIFICATION OF EXPENDITURE	35		APPENDIX ONE	93
	Why classify? Capital or Revenue? control			Jargon explained	
	FINANCIAL REPORTS	41		APPENDIX TWO	101
	Introduction			Calculating depreciation	
				This symbol refers the reader back to a previous section where the item or term has already been explained	

THE BALANCE SHEET

INTRODUCTION



The Balance Sheet is:

- A financial statement of the business investment as at a specific point in time; and
- Reports at the specific point in time
 - where the money invested in the business came from **SOURCE OF FUNDS**
 - and how it is currently invested **USE OF FUNDS**

THE BALANCE SHEET

FORMAT



The Balance Sheet format swops the two halves of the model over:

- Use of Funds appears at the top of the statement
- Source of Funds appears at the bottom of the statement

Hence ...

Balance Sheet: ARC plc as at 31st December 201-	
	£
Use of Funds	
Fixed Assets	
Working Capital	_____

Source of Funds	
Share Capital	
Retained Profits	
Loan Capital	_____

THE BALANCE SHEET

FIXED ASSETS

VALUATION OF FIXED ASSETS



Fixed Assets are:

Facilities and Processes acquired for use in the business as a result of
Capital Expenditure  p20

Fixed Assets are valued on the Balance Sheet at

	£
Cost, to include:	
purchase costs	
legal costs	
installation costs	
Less:	
Depreciation	
ie:	_____
Net Book Value	
(or Written Down Value)	_____

THE BALANCE SHEET

FIXED ASSETS

DEPRECIATION OF FIXED ASSETS



By definition:

- Fixed Assets are used in the business for a period in excess of one year
- The cost of the Fixed Asset is considered significant given the scale of the business operation

Charging capital expenditure against profits in the year of purchase would **unfairly penalise that year's result** and subsequent years, when the facility continued to be used, would not bear any of the cost.

Therefore there needs to be a basis for apportioning the cost of the investment over the years which will benefit from its use.

The resultant charge is called:

D E P R E C I A T I O N

THE BALANCE SHEET

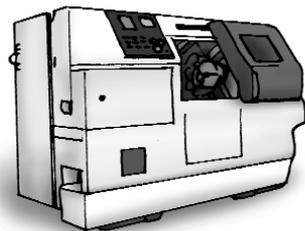
DEPRECIATION OF FIXED ASSETS



Depreciation is not applied to land (with the exception of quarries and mines).



It is applied to
all other Fixed Assets:



THE BALANCE SHEET

WORKING CAPITAL

DEFINITION

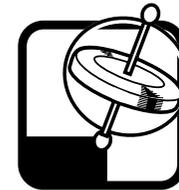
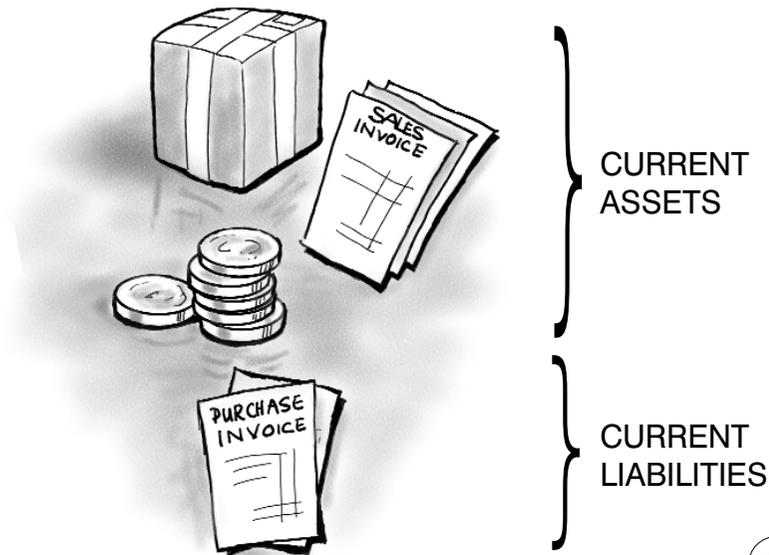
The Funds used to provide the flow of materials, services and credit required to achieve the sales and satisfy customer needs. ◀◀ p23

- Stock (Raw materials, Work in Progress and Finished Goods)
- Debtors/Receivables (Amounts owed by customers)
- Cash

Less:

- Creditors/Payables (Amounts owed to suppliers)

Equals Working Capital



THE BALANCE SHEET

VALUATION OF WORKING CAPITAL



The values shown in the Balance Sheet are as follows:

Stock At the **lower** of cost and net realisable (ie: saleable) value
- Allowances are made for slow-moving and redundant stock, etc

Debtors At the sum expected to be collected
- Bad debts are written off
- Allowances are made for possible bad debts

Cash At face value

Creditors At the sum expected to be paid

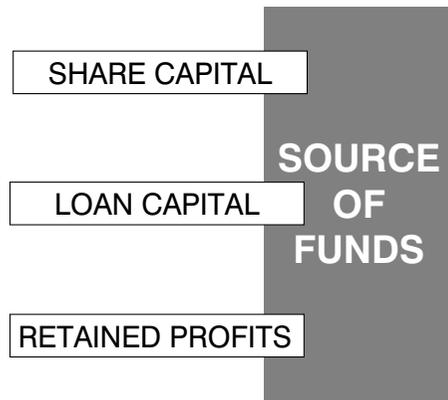
THE BALANCE SHEET

SOURCE OF FUNDS

VALUATION



We now reach the bottom half of the Balance Sheet, which shows where the funds (used in the top half) came from.



- **SHARE CAPITAL**
the number of shares issued valued at a standard or 'nominal' value (see page 54)
- **LOAN CAPITAL**
long-term borrowings from Banks (or similar institutions)
- **RETAINED PROFITS**
the accumulation of profits re-invested into the business, reported on the Balance Sheet under the collective term 'Reserves' (see page 54)

THE BALANCE SHEET

RESERVES



'Reserves' is a collective term used on the Balance Sheet and forms part of the shareholders' investment in the business.

The principal reserves are:

Retained Profits:

This represents the cumulative profits made by the business which have been 'ploughed back'.  p16

Share Premium Account:

Share Capital is shown on the Balance Sheet at its 'Nominal Value', eg: £1 per share. If shares are issued above nominal value the premiums are put into the Share Premium Account.

Example: Company X has shares with a nominal value of £1. The company issues 100,000 new shares at the current market price of £1.30.

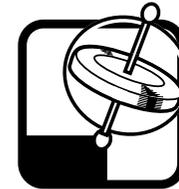
Share Capital increases by £100,000

Share Premium Account increases by £30,000

balanced by the increase in Cash of £130,000.

THE BALANCE SHEET

RESERVES



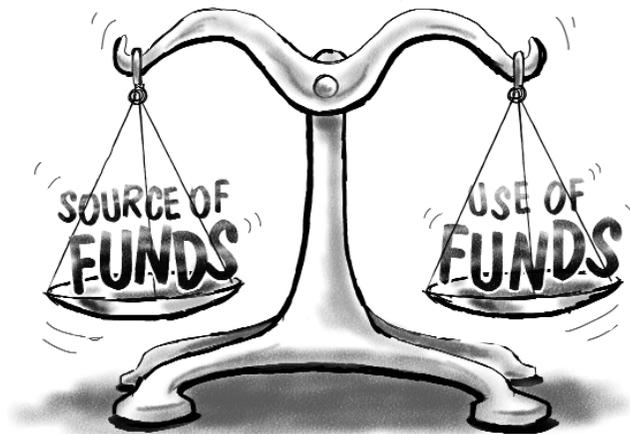
Revaluation Reserve:

Companies are required periodically to revalue assets such as property and listed investments and adjust their Balance Sheet values accordingly.

- The business belongs to the shareholders
- Therefore any change in the value of assets held by the business falls to those shareholders
- Hence any increases or decreases in asset values caused by revaluation will be matched by an increase or decrease in the Revaluation Reserve

THE BALANCE SHEET

THE BALANCING ACT



- You can't do something with money you never had
- Neither can money you have had just disappear!

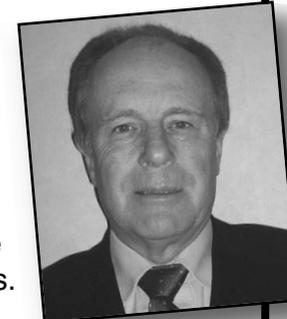


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