Finance Factsheet: Balance Sheets

A balance sheet is a financial 'snapshot' that summarises the value of your business at a specific point in time -usually at the end of the financial year, when you have to include one in your annual accounts. This factsheet explains its main features and content.

A balance sheet shows:

- All the assets of your business (anything owned by, or owing to, it)
- All your business's liabilities (all the money owed by you to your creditors)
- The difference between the two.

A balance sheet does not show:

- The profitability of your business - which is shown by the profit and loss account
- The true market value of your assets
- The market value of your business -which depends on profitability and the current value of your assets.

Using balance sheets

You can compare balance sheets over time to identify changes in your business's financial strength. You can also use them to assess the standing of other businesses.

*Based on Cobweb information: *A guide to understanding balance* sheets.

Below is a detailed explanation of a typical balance sheet:

Balance sheet at (date)	£	£	Explanation
Fixed assets (1) Tangible assets Buildings Equipment Intangible assets Goodwill	95,000 40,000 5,000	= 140,000	***Fixed assets*** generally have a life of more than one year. They may be ***tangible***, such as buildings, equipment and motor vehicles, or ***intangible,*** such as goodwill. The cost of tangible fixed assets is depreciated over their expected lifetime; it is the depreciated value that appears in the balance sheet.
Current assets (2) Stock Debtors Cash at bank	10,000 20,000 5,000 35,000		***Current assets*** usually have a life of less than one year. They include stock, work in progress, debtors (money owed to you by customers) and cash at the bank.
Current liabilities (3) Loans Creditors Tax	23,000 7,000 2,000 32,000		***Current liabilities:*** include overdrafts, loans due within one year, creditors (money you owe to suppliers), and amounts owed under hire purchase agreements due within one year or owed in VAT or tax.
Net current assets (2 minus 3)		3,000	***Net current assets*** are the difference between ***current assets*** and ***current liabilities***.
Total assets less current liabilities (1 plus 2 minus 3) Creditors (falling due after one year) Net assets		143,000 (100,000) 43,000	***Total assets:*** £140,000 plus £35,000 = £175,000 minus ***liabilities*** of £32,000 = £143,000 ***Net assets:*** £143,000 minus £100,000 owed
Capital and reserves Shareholders Reserves Net worth		30,000 13,000 43,00	***Your capital*** (money introduced by you and any shareholders) plus ***reserves*** (retained profits of the business, not the same as cash) make up your ***net worth***. This is equal to your ***net assets***.