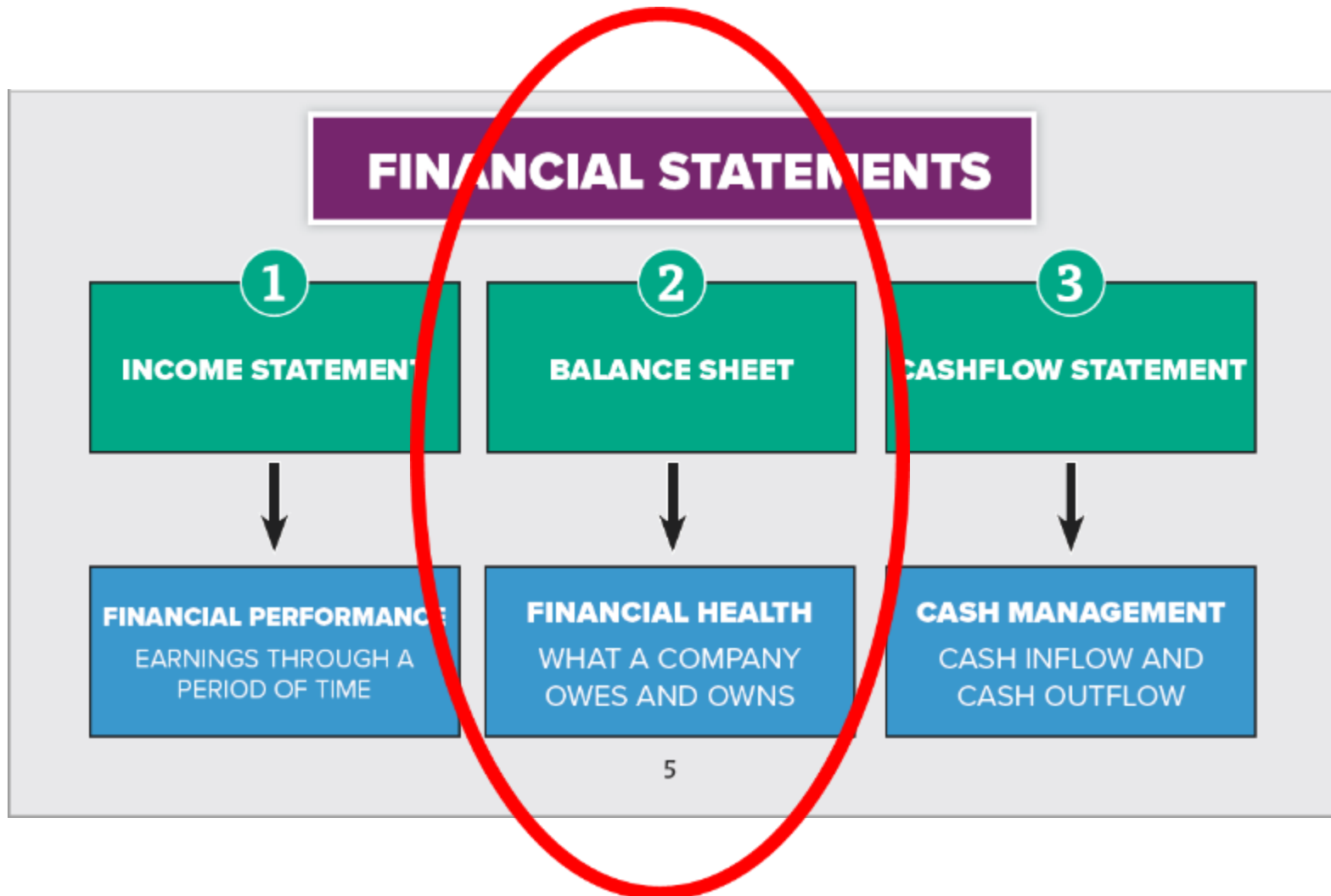


Finance Management & Planning

Balance Sheet

- Last week – Income Statement
- This Week
 - Overview of a Balance Sheet
 - Depreciation
 - Stock Valuation



- The Balance Sheet is a statement of its financial position.
- The Balance sheet is a lists of the assets , liabilities and the capital within its organisation.

It highlights :

- The company's ability to meet its current obligations.
- Financial Health of an organisation.
- Why is it important ?
 - Short term Liquidity
 - Long Term Liquidity

Balance sheet example

TEDDY FAB INC. BALANCE SHEET December 31, 2100

ASSETS

Current assets

Cash and cash equivalents	\$ 100,000
Accounts receivable	20,000
Inventory	15,000
Prepaid expense	4,000
Investments	10,000
Total current assets	149,000

Property and equipment

Land	24,300
Buildings and improvements	250,000
Equipment	50,000
Less accumulated depreciation	(5,000)

Other assets

Intangible assets	4,000
Less accumulated amortization	(200)

Total assets **\$ 472,100**

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 30,000
Notes payable	10,000
Accrued expenses	5,000
Deferred revenue	2,000
Total current liabilities	47,000

Long-term debt 200,000

Total liabilities **247,000**

Shareholders' Equity

Common stock	10,000
Additional paid-in capital	20,000
Retained earnings	197,100
Treasury stock	(2,000)

Total liabilities and shareholders' equity **\$ 472,100**

Assets

- Property
- Plant & equipment
- Fixtures and fittings
- Patents and trademarks
- Debtors (those who owe the business – trade receivables), and
- Investments

Liabilities

- Bank loan or overdraft
- Creditors (trade payables)
- Mortgage
- HP or Lease agreements
- Owners capital

‘A resource held by a business’

All 4 conditions must apply to be an ‘asset’

- A probable future economic benefit with some monetary value
- The benefit must arise from some past transaction or event
- The business must have the right to control the resource
- The asset must be capable of measurement in monetary terms

Does not have to be physical – can be non physical: - tangible or non-tangible

Assets of the Business (What the company owns)

- Fixed Assets split between Tangible and Intangible.
 - Items owned and used within the operation of the organisation.
 - Expected to have a lifespan of longer than 1 year.

Assets of the Business (What the company owns)

- Intangible Examples being:

12 Examples of Intangible Assets



Patents



Films



Customer Lists



Goodwill



Copyrights



Use Rights



Internet
Domain Names



Brands and
Trademarks



Proprietary
Software



Order
Backlogs



Franchise
Agreements



Trained
Workforce

Assets of the Business (What the company owns)

- Tangible Examples being:
 - Land
 - Plant and Machinery
 - Machinery and Equipment
 - Vehicles
 - Furniture and Fittings

Treatment of Non-Current Assets of the Business

Why do we treat certain assets as Non - Current Assets differently?

Depreciation

- To calculate Depreciation we need to understand four factors :-
 - The cost or fair value of the asset
 - The useful life of the asset
 - The residual value of the asset. (expected disposal value)
 - The Depreciation method
 - Straight Line method
 - Reducing Balance method

Depreciation – Straight Line methodology

- Company A
 - purchased a new Machine for £100,000 ,
 - expected lifespan of 5 years
 - Expected Residual value at end of 5 years is £10,000

Balance Sheet

- Company A – Straight Line Method

Total Cost	100,000
Residual Value	10,000
Total Depreciation	90,000
Depreciation per Year	18,000

	<u>Income Statement</u>	<u>Balance Sheet</u>
Year 0	0	100,000
Year 1	18,000	82,000
Year 2	18,000	64,000
Year 3	18,000	46,000
Year 4	18,000	28,000
Year 5	18,000	10,000

Depreciation

- Purchased a new Machine for £50,000 ,
- expected lifespan of 3 years
- Expected Residual value at end of 3 years is £0
- Straight Line Method

Total Cost	50,000
Residual Value	0
Total Depreciation	50,000

Useful Life	3
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Depreciation per Year	16,667
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Straight Line Method

	Income Statement	Balance Sheet
Year 0	0	50,000
Year 1	16,667	33,333
Year 2	16,667	16,667
Year 3	16,667	0
Year 4		
Year 5		

Depreciation

- To calculate Depreciation we need to understand four factors :-#
- Reducing Balance method

$$DB = 1 - \sqrt[n]{\frac{\text{Salvage Value}}{\text{Cost}}}$$

- Company A
 - purchased a new Machine for £100,000 ,
 - expected lifespan of 5 years
 - Expected Residual value at end of 5 years is £10,000
 - Calculated Reducing Balance 36.9%

Balance Sheet

Depreciation

Total Cost	100,000
Residual Value	10,000
Total Depreciation	90,000
Useful Life	5
Reducing Balance %	36.9%

Reducing Balance Method

		Income Statement	Balance Sheet	Expected Residual Value
Year 0		0	100,000	10,000
Year 1	1	36,900	63,100	
Year 2	2	23,284	39,816	
Year 3	3	14,692	25,124	
Year 4	4	9,271	15,853	
Year 5	5	5,850	10,003	

Straight Line

Vs

Reducing Balance

1. Equal depreciation each year
2. Total of depreciation and repairs may increase as the asset gets older
3. Value of asset could be reduced to Rs zero or scrap value
4. Depreciation rate = $\frac{\text{Depreciation} \times 100}{\text{Cost}}$
5. Suitable for assets which have low repairs and maintenance costs e.g leases, copyrights etc

1. Reducing depreciation each year
2. Total of depreciation and repairs may not vary much from year to year
3. Value of asset cannot be extinguished
4. Depreciation rate = $1 - \sqrt[n]{\frac{\text{Residual Value}}{\text{Cost of Assets}}} \times 100$
5. Suitable for plant and machinery which have high repairs and maintenance costs as the machine gets older

Balance Sheet



Straight Line Method

	Income Statement	Balance Sheet	Expected Residual Value
Year 0	0	100,000	10,000
Year 1	18,000	82,000	
Year 2	18,000	64,000	
Year 3	18,000	46,000	
Year 4	18,000	28,000	
Year 5	18,000	10,000	

Reducing Balance Method

	Income Statement	Balance Sheet	Expected Residual Value
Year 0	0	100,000	10,000
Year 1	36,900	63,100	
Year 2	23,284	39,816	
Year 3	14,692	25,124	
Year 4	9,271	15,853	
Year 5	5,850	10,003	

Current Assets made up of

- Stock / Inventory
 - Raw Materials
 - Work in Progress
 - Finished Goods
- Cash and Cash Equivalents
- Market Securities
- Debtors
- Prepayments

Stock

- Raw Materials
- Work in Progress
- Finished Goods

Stock Calculation Methods

- LIFO
- FIFO
- AVCO
- Standard

Stock Calculation Methods

Stock Transactions

		Units	Cost per Unit
May 1st	Opening Stock	5,000	10
May 2nd	Purchased	10,000	10
May 10th	Purchased	20,000	13
May 20th	Sold	9,000	

FIFO	
Units	Cost per Unit
15,000	10
20,000	13

LIFO	
Units	Cost per Unit
20,000	13
15,000	10

AVCO Calc	
Units	Cost per Unit
15,000	10
20,000	13
35,000	11.71

Closing Stock	26,000
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Stock Calculation Methods

Stock Transactions

		Units	Cost per Unit
May 1st	Opening Stock	5,000	10
May 2nd	Purchased	10,000	10
May 10th	Purchased	20,000	13
May 20th	Sold	9,000	

Closing Stock	26,000
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	FIFO
COGS	90,000

	LIFO
COGS	117,000

	AVCO
COGS	105,429

6,000	60,000
20,000	260,000
26,000	320,000

15,000	150,000
11,000	143,000
26,000	293,000

26,000	304,571

AVCO Calc		Ave
15,000	150000	10.00
20,000	260000	13.00
35000	410000	11.71

Inventory Costing Method	Description	Benefit
First-in, First-out (FIFO)	Cost of goods sold has older, lower costs; Ending inventory has newer, higher costs	Most closely matches actual flow of goods; Maximizes net income which attracts investors and creditors
Last-in, First-out (LIFO)	Cost of goods sold has newer, higher costs; Ending inventory has older, lower costs	Minimizes net income and income taxes; reduces cash paid for taxes
Average cost	Average costs in Cost of goods sold and ending inventory	A “middle-ground” solution for reporting income and paying taxes

What other circumstances do we need to consider when valuing stock ?

- Obsolete Stock being held
- Major change in market value of goods (Fair valuation)
- Bad buying decision being made
- The goods are being used as a loss leader so full value may not be recovered.

Gem Merchandise Co.
Aging of Accounts Receivable
As of August 31, 2015

CUSTOMER NAME	TOTAL RECEIVABLE	CURRENT	PAST DUE 1 - 30 DAYS	PAST DUE 31 - 60 DAYS	PAST DUE 61+ DAYS
ABC Co.	\$ 62,456	\$ 59,121	\$ 3,335	\$ -	\$ -
Extreme Co.	\$ 18,210	\$ -	\$ -	\$ -	\$ 18,210
Main Corp.	\$ 48,954	\$ 48,954	\$ -	\$ -	\$ -
Trifact LLC	\$ 1,200	\$ -	\$ -	\$ 1,200	\$ -
Totals	\$ 130,620	\$ 108,075	\$ 3,335	\$ 1,200	\$ 18,210

Provision for Doubtful Debts ?

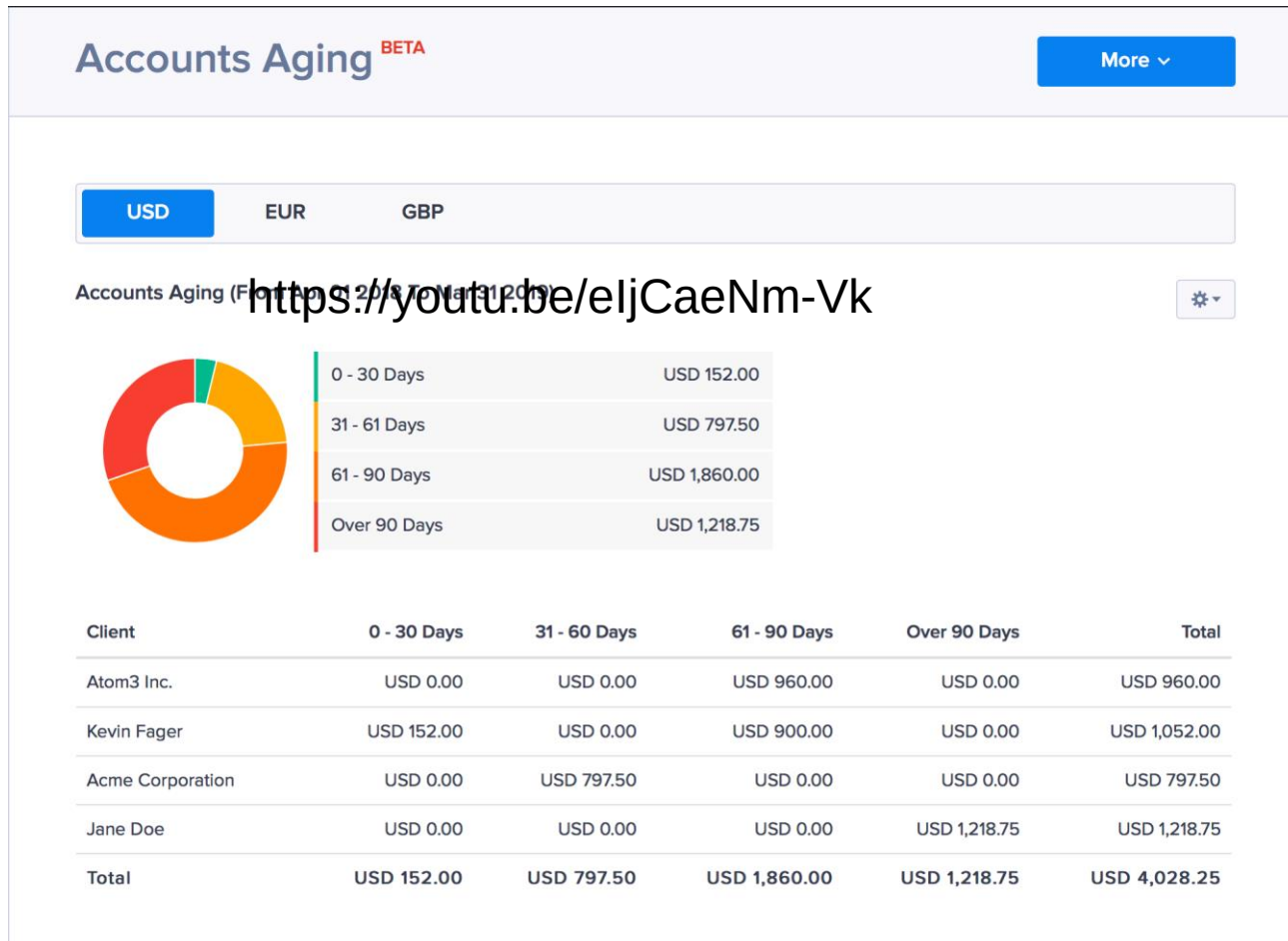
Two main types:

- Liabilities - claims of individuals and organisations on the business e.g. supply of goods or lending money
- Equity – sometimes referred to as owners capital

- Liabilities (What the organisation owes)
- Current Liabilities (Obligation to be paid within one year)
 - Creditors
 - Cash and Cash Equivalents
 - Accrued Liabilities
 - Short term Bank loans

Balance Sheet

- Current Liabilities (Obligation to be paid within one year)
- Creditors / Accounts Payable



Balance Sheet

- Prepayments
- Accruals

- Working Capital
- Current Assets Less Current Liabilities

Current Assets

Stock

Debtors

Cash + Cash Equivalents

Current Liabilities

Creditors

Cash and Cash Equivalents

- Why is this important to understand ?

- Working Capital
- Cashflow
- Profitability Ratios

Balance Sheet



Stock Transactions

		Units	Cost per Unit
May 1st	Opening Stock	500	10
May 2nd	Purchased	750	15
May 10th	Purchased	400	15
May 20th	Sold	500	

Closing Stock	1,150
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	FIFO
COGS	5,000

1,150	17,250
1,150	17,250

	LIFO
COGS	7,500

500	5,000
650	9,750
1,150	14,750

	AVCO	
COGS	6,742	13.48

1,150	15,508

AVCO Calc		Ave
500	5000	10.00
750	11250	15.00
400	6000	15.00
1,650	22,250	13.48