Chapter 6 The Balance Sheet

Questions

1. Edsel owns a manufacturing business which makes metal storage containers. The following are descriptions of some of the items in his balance sheet. For each item fill in the adjacent box with FIXED ASSET, CURRENT ASSET, LONG-TERM LIABILITY or CURRENT LIABILITY.

Metal for use in	
manufacture	
manalatata	
Office desks and chairs	
Welding machine	
weiding machine	
Loan from bank repayable	
in 5 years time	
Bank loan to be repaid in six	
months time	
Amount noveble to color	
Amount payable to sales	
representative in respect of	
her most recent expenses	
claim	
Amount owed by customer	

- 2. Fintan's business capital is £303 630. Fixed assets are £267 760 and total liabilities are £83 776. Use the accounting equation to find the total for current assets.
- 3. Fiannula's business balance sheet includes the following totals:

£ 344 460

Current assets

Current liabilities	207 740
Fixed assets	117 770
Capital	204 490

The four totals above do not produce a balancing balance sheet. How much is the difference? Is it an asset or liability?

4. Gustavus's balance sheet at 30 June shows the following balances:

	£
Fixed assets	21 470
Stock	16 222
Debtors	5 934
Cash	266
Bank overdraft	1803
Due to Customs & Excise	766
Trade creditors	3 722

- a) What is the total of assets in the business?
- b) What is the total of current assets?
- c) What is the total for liabilities?
- d) What is Gustavus's capital?
- 5. Gilroy's business, which trades as Gilroy International Services, has the following balances at 31 March:

	£
Stock	31774
Trade creditors	18 251
Cash in bank accoun	8 342
Long-term bank loan	10 000
Fixed assets – premises	47 000
Fixed assets – office equipment	5 222
Amounts owed by customers	16 870
Amounts owed to Inland Revenue	2 044

Gilroy's capital

78 913

Prepare Gilroy's balance sheet at 31 March.

6.	Hana's balance sheet at 1 June is as follows:		
		£	£
	Fixed assets		28 870
	Current assets		
	Stock		
		18 250	
	Debtors	8 477	
	Bank account	6 212	
		32 939	
	Current liabilities		
	Creditors	(18 240)	
	Net current assets (£32 939 - £18 240)		14 699
	Net assets		43 569
	Capital		43 569

On 2 June Hana pays a creditor £4100

On 3 June Hana receives £786 from a debtor

On 4 June Hana buys a fixed asset for $\pounds1000$

Explain how her balance sheet will be affected and show the new balance sheet at 4 June after taking account of the three transactions.

Answers

1. Edsel

Metal for use in	Current asset
manufacture	
Office desks and chairs	Fixed asset
Welding machine	Fixed asset
Loan from bank renavable	l ong-term
in 5 years time	liability
in 5 years time	liability
Bank loan to be repaid in six	Current liability
months time	
Amount payable to sales	Current liability
representative in respect of	
her most recent expenses	
claim	
Amount owed by customer	Current asset

2. Fintan

Turning the accounting equation around:

CAPITAL + LIABILITIES = ASSETS

Capital = \pounds 303 630 Liabilities = \pounds 83 776

Total assets = \pounds 303 630 + \pounds 83 776 = \pounds 387 406 \pounds 267 760 of this total comprises fixed assets. Therefore total current assets = \pounds 387 406 - \pounds 267 760 = \pounds 119 646

3. Fiannula

Remember the accounting equation: ASSETS – LIABILITIES = CAPITAL

Total assets in Fiannula's balance sheet = \pounds 117 770 (fixed assets) + \pounds 344 460 (current assets) = \pounds 462 230.

Assets – liabilities = $\pounds 462\ 230 - \pounds 207\ 740 = \pounds 254\ 490$ However, the figure given for capital is $\pounds 204\ 490$, i.e. $\pounds 50\ 000$ less. It seems likely that the imbalance relates to long-term liabilities.

Proof: if long-term liabilities are £50 000, total liabilities = £207 740 + £50 000 = £257 740.

Assets - liabilities then becomes:

 \pounds 462 230 - \pounds 257 740 = \pounds 204 490 (i.e. the capital figure given for Fiannula).

- 4. Gustavus
 - a) Total assets = £21 470 (fixed assets) + £16 222 (stock) + £5 934 (debtors) + £266 (cash) = £43 892
 - b) Current assets = £16 222 (stock) + £5 934 (debtors) + £266 (cash) = £22 422
 - c) Total liabilities = $\pounds 1803$ (bank overdraft) + $\pounds 766$ (due to Customs & Excise) + $\pounds 3722$ (trade creditors) = $\pounds 6291$

Gustavus' s capital = assets – liabilities = \pounds 43 892 - \pounds 6 291 = \pounds 37 601.

5. Gilroy

Gilroy International Services: Balance sheet at 31 March

	£	£
Fixed assets		
Premises	47 000	
Office equipment	5 222	
		52 222
Current assets		
Stock	31774	
Debtors	16 870	
Bank	8 342	
	56 986	
Current liabilities		
Creditors	(18 251)	
Due to Inland Revenue	(2 044)	

	(20 295)	
Net current assets (£56 986 – £20 295)		36 691
		88 913
Long-term liabilities		(10 000)
Net assets		78 913
Capital		78 913

6. Hana

In transaction 1, on 2 June, Hana is using up \pounds 4100 of the bank balance to pay creditors. The asset of bank reduces, but so also does the liability to pay creditors.

Decrease bank by £4100 Decrease creditors by £4100

In transaction 2, on 3 June, the asset of Hana's business bank balance increases. However, the asset of debtors decreases by a corresponding amount.

Increase bank by £786 Decrease debtors by £786

In transaction 3, on 4 June, Hana is using up ± 1000 of the amount in the business bank account but at the same time is increasing fixed assets.

Decrease bank account by £1000 Increase fixed assets by £1000

Hana: balance sheet at 4 June

	£	£
Fixed assets (28 870 + 1 000)		29 870
Current assets		
Stock	18 250	
Debtors (8 477 – 786)	7 691	
Bank account (6 212 – 4 100 + 786 – 1 000)	1 898	
	27 839	
Current liabilities		
Creditors (18 240 – 4	(14 140)	

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Net current assets (£27 839 – 14 140)	13 699
Net assets	43 569
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Capital	43 569