

## Chapter 6 The Balance Sheet

### Questions

- 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	
Office desks and chairs	
Welding machine	
Loan from bank repayable in 5 years time	
Bank loan to be repaid in six months time	
Amount payable to sales representative in respect of her most recent expenses claim	
Amount owed by customer	

- 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.
- Fiannula's business balance sheet includes the following totals:
 

	£
Current assets	344 460

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	1 803
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	31 774
Trade creditors	18 251
Cash in bank account	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	
	<hr/>	
	32 939	
Current liabilities		
Creditors	(18 240)	
	<hr/>	
Net current assets (£32 939 - £18 240)		14 699
Net assets		43 569
Capital		<hr/>
		43 569
		<hr/>

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 £1 000

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

### 2. Fintan

Turning the accounting equation around:

CAPITAL + LIABILITIES = ASSETS

Capital = £303 630

Liabilities = £83 776

Total assets = £303 630 + £83 776 = £387 406

£267 760 of this total comprises fixed assets. Therefore total  
 current assets = £387 406 - £267 760 = £119 646

### 3. Fiannula

Remember the accounting equation: ASSETS - LIABILITIES =  
 CAPITAL

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

Assets – liabilities = £462 230 - £207 740 = £254 490  
 However, the figure given for capital is £204 490, i.e. £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:  
 £462 230 - £257 740 = £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 = £1 803 (bank overdraft) + £766 (due to Customs & Excise) + £3 722 (trade creditors) = £6 291

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

#### 5. Gilroy

##### **Gilroy International Services: Balance sheet at 31 March**

	£	£
Fixed assets		
Premises	47 000	
Office equipment	5 222	
	<hr/>	52 222
Current assets		
Stock	31 774	
Debtors	16 870	
Bank	8 342	
	<hr/>	
	56 986	
Current liabilities		
Creditors	(18 251)	
Due to Inland Revenue	(2 044)	
	<hr/>	

	(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 £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 – 4 100)	(14 140)	

100)

Net current assets (£27  
839 – 14 140)

13 699

Net assets

43 569

Capital

43 569