# The balance sheet

# Balance Sheet, 31 December 20_ _ ($'000)

| | | | |
|---|---|---|---|
| Current assets | 3,500 | Liabilities | 6,000 |
| Fixed assets | 6,500 | Shareholders' equity | 4,000 |
| Total assets | 10,000 | Total liabilities and Shareholders' equity | 10,000 |

# The balance sheet

Company law in Britain, and the Securities and Exchange Commission in the US, require companies to publish annual **balance sheets**: statements for shareholders and creditors. The balance sheet is a document which has two halves. The totals of both halves are always the same, so they balance. One half shows a business's **assets**, which are things owned by the company, such as factories and machines, that will bring future economic benefits. The other half shows the company's **liabilities**, and its **capital** or **shareholders' equity** (see below). Liabilities are obligations to pay other organizations or people: money that the company owes, or will owe at a future date. These often include loans, taxes that will soon have to be paid, future pension payments to employees, and bills from **suppliers**: companies which provide raw materials or parts. If the suppliers have given the buyer a period of time before they have to pay for the goods, this is known as **granting credit**. Since assets are shown as debits (as the cash or capital account was debited to purchase them), and the total must correspond with the total sum of the credits – that is the liabilities and capital – **assets equal liabilities plus capital** (or A = L + C).

# The balance sheet

American and continental European companies usually put assets on the left and capital and liabilities on the right. In Britain, this was traditionally the other way round, but now most British companies use a vertical format, with assets at the top, and liabilities and capital below.

BrE: balance sheet; AmE: balance sheet or statement of financial position
BrE: shareholders' equity; AmE: stockholders' equity

# Shareholders' equity

Shareholders' equity consists of all the money belonging to shareholders. Part of this is share **capital** – the money the company raised by selling its shares. But shareholders' equity also includes **retained earnings**: profits from previous years that have not been **distributed** – paid out to shareholders – as dividends. Shareholders' equity is the same as the company's net assets, or assets minus liabilities.

A balance sheet does not show how much money a company has spent or received during a year. This information is given in other financial statements: the **profit and loss account** and the **cash flow statement**. (See Unit 14)

## .1 Are the following statements true or false?

1 British and American balance sheets show the same information, but arranged differently.

2 The revenue of the company in the past year is shown on the balance sheet.

3 The two sides or halves of a balance sheet always have the same total.

4 The balance sheet gives information on how much money the company has received from sales of shares.

5 The assets total is always the same as the liabilities total.

6 The balance sheet tells you how much money the company owes.

.2 Complete the sentences.

1 .......................... are companies that provide other companies with materials, components, etc.

2 .......................... are profits that the company has not distributed to shareholders.

3 .......................... are things a company owns and uses in its business.

4 .......................... consist of everything a company owes.

5 .......................... consists of money belonging to a company's owners.

3 Make word combinations using a word from each box. Then use the word combinations to complete the sentences below.

| | |
|---|---|
| distribute | liabilities |
| grant | money |
| owe | profits |
| pay | earnings |
| retain | credit |

1 We .................... a lot of our .................... because we don't .................... any of our .................... to the shareholders.

2 Most businesses have customers who .................... ...................., because they .................... them 30 or 60 days' .................... .

3 We have a lot of .................... that we'll have to .................... later this year.