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FACT SHEET

Managing your Finances: Balance Sheets

Quick Summary

- A balance sheet is vital in monitoring your businesses financial standing which can highlight issues within your business, or help secure new business assets
- There are different requirements on balance sheets depending on if you're self-employed or a limited company
- A balance sheet is not a quick and easy task to complete. A lot of information goes into making one so make sure to carve some time into your schedule to produce one to reduce the chances of it slipping through the to-do list

Introduction: Balance Sheet Basics

To start with, what is a balance sheet? It's a financial statement at any given point in time, providing a snapshot summary that highlights what your business owns or is owed - assets - and what it owes – liabilities.

The balance sheet therefore shows how your business is being funded and how you are using these funds.

Are you a limited company?

There are three ways you may use your balance sheet:

- Reporting purposes as part of a limited company's annual accounts
- Help you and other interested parties such as investors, creditors or shareholders to assess the worth of your business at a given moment
- A tool to help you analyse and improve the management of your business

Other key benefits of producing a balance sheet include:

There are three ways you may use your balance sheet:
- If you want to raise finance, most lenders or investors will want to see three years of accounts
- If you want to bid for large contracts, including government contracts, the client will most likely want to see audited accounts
- Producing formal accounts - including a balance sheet - will help you monitor the performance of your business

Limited companies and limited liability partnerships

Limited companies and limited liability partnerships must produce a balance sheet as part of their annual accounts for submission to Companies House, HM Revenue & Customs (HMRC) and shareholders.

As well as the balance sheet, annual accounts need to include:

- Profit and loss account
- Auditor's reports - unless exemptions apply
- Directors' report
- Notes to the accounts - these should provide any information you think may be relevant, e.g. supplementary financial information or additional detail

Other parties who may wish to see the accounts - and therefore the balance sheet - are:

- Potential lenders or investors
- Potential purchasers of the business
- Government departments carrying out inspections
- Employees
- Trade unions

Submitting annual accounts

There are strict deadlines for submitting annual accounts and returns to Companies House and HMRC - you may have to pay a fine if you send them in late.

Are you self-employed?

Self-employed people, partners and partnerships are not required to submit formal accounts and balance sheets on their tax return. However, the returns do require the relevant financial details to be entered in a set format, so you may find it beneficial to prepare the figures in a balance sheet format regardless.

Contents of the balance sheet

The reason behind the document being called a 'balance sheet' is because there is a debit entry and a credit entry for everything (but one entry may be to the profit and loss account), so the total value of the assets is always the same value as the total of the liabilities.

A balance sheet needs to include four key areas.

1. Fixed assets - long-term possessions

Fixed assets include:

- Tangible assets - e.g. buildings, land, machinery, computers, fixtures and fittings - shown at their depreciated or resale value where appropriate
- intangible assets - e.g. goodwill, intellectual property rights (such as patents, trade marks and website domain names) and long-term investments

2. Current assets - short-term possessions

Current assets are short-term assets whose value can fluctuate from day to day and can include:

- Stock
- Work in progress
- Money owed by customers
- Cash in hand or at the bank
- Short-term investments
- Pre-payments - e.g. advance rents

3. Current liabilities - what the business owes and must repay in the short term

Current liabilities are amounts owing and due within one year. These include:

- Money owed to suppliers
- Short-term loans, overdrafts or other finance
- Taxes due within the year - VAT, PAYE (Pay As You Earn) and National Insurance

4. Long-term liabilities - including owner's or shareholders' capital

Long term liabilities Include:

- Creditors due after one year - the amounts due to be repaid in loans or financing after one year, e.g. bank or directors' loans, finance agreements
- Capital and reserves - share capital and retained profits, after dividends (if your business is a limited company), or proprietors capital invested in business (if you are an unincorporated business)

By law, the balance sheet must include the elements shown above in bold. However, what each includes will vary from business to business. The firm's external accountant will usually decide how to present the information, although if you have a qualified accountant on staff, they may make this decision.

Accounting periods

A balance sheet normally reflects a company's position on its accounting reference date (ARD), which is the last day of its accounting reference period. The accounting reference period, also known as the financial year, is usually 12 months. However, it can be longer or shorter in the first year of trading, or if the ARD is subsequently changed for some reason.

Companies House automatically sets the first ARD. Thus the end of the first financial year is the first anniversary of the last day of the month in which the company was formed. **If you decide to change this, you will need to notify Companies House and HM Revenue & Customs (HMRC).**

Are you self-employed?

Self-employed people and partnerships can choose their first accounting period. Subsequent accounts are usually prepared a year after the first balance sheet date.

Your business may decide to draw up accounts to help you monitor business performance, with some businesses deciding to draw up monthly accounts for close financial monitoring. In this case the figures - often known as management accounts - are for internal use only. You do not need to file them with Companies House or HMRC.