12 The balance sheet 2: assets

A Fixed and current assets

MacKenzie Inc, New York	Balance Sheet 31 December 20_ _ ($'000)
Current assets	
Cash and equivalents	3,415
Accounts receivable	8,568
Inventory	5,699
Other current assets	5,562
Total current assets	23,244
Non-current assets	
Property, plant and equipment	4,500
Goodwill	950
Long-term investments	6,265
Total non-current assets	11,715
Total assets	**34,959**

In accounting, assets are generally divided into fixed and current assets. **Fixed assets** (or **non-current assets**) and investments, such as buildings and equipment, will continue to be used by the business for a long time. **Current assets** are things that will probably be used by the business in the near future. They include **cash** – money available to spend immediately, **debtors** – companies or people who owe money they will have to pay in the near future, and stock.

If a company thinks a debt will not be paid, it has to **anticipate the loss** – take action in preparation for the loss happening, according to the conservatism principle. (See Unit 7) It will **write off**, or abandon, the sum as a **bad debt**, and **make provisions** by charging a corresponding amount against profits: that is, deducting the amount of the debt from the year's profits.

B Valuation

Manufacturing companies generally have a stock of raw materials, **work-in-progress** – partially manufactured products – and products ready for sale. There are various ways of valuing stock or inventory, but generally they are valued at the **lower of cost or market**, which means whichever figure is lower: their cost – the purchase price plus the value of any work done on the items – or the current market price. This is another example of conservatism: even if the stock is expected to be sold at a profit, you should not anticipate profits.

C Tangible and intangible assets

Assets can also be classified as tangible and intangible. **Tangible assets** are assets with a physical existence – things you can touch – such as property, plant and equipment. Tangible assets are generally recorded at their historical cost (see Unit 7) less **accumulated depreciation charges** – the amount of their cost that has already been deducted from profits. This gives their **net book value.**

Intangible assets include **brand names** – legally protected names for a company's products, **patents** – exclusive rights to produce a particular new product for a fixed period, and **trade marks** – names or symbols that are put on products and cannot be used by other companies. Networks of contacts, loyal customers, reputation, trained staff or 'human capital', and skilled management can also be considered as intangible assets. Because it is difficult to give an accurate value for any of these things, companies normally only record tangible assets. For this reason, a going concern should be worth more on the stock exchange than simply its **net worth** or **net assets**: assets minus liabilities. If a company buys another one at above its net worth – because of its intangible assets – the difference in price is recorded under assets in the balance sheet as **goodwill.**

12.1 Find words and expressions in A, B and C opposite with the following meanings.

1 an amount of money that is owed but probably won't be paid
2 the accounting value of a company (assets minus liabilities)
3 a legal right to produce and sell a newly invented product for a certain period of time
4 the historical cost of an asset minus depreciation charges
5 the amount a company pays for another one, in excess of the net value of its assets
6 a legally protected word, phrase, symbol or design used to identify a product
7 to accept that a debt will not be paid
8 to deduct money from profits because of debts that will not be paid
9 products that are not complete or ready for sale
10 the amount of money owed by customers who have bought goods but not yet paid for them

12.2 Match the two parts of the sentences. Look at A, B and C opposite to help you.

1 A company's value on the stock exchange is nearly always
2 Brand names, trade marks, patents, customers, and qualified staff
3 Cash, money owed by customers, and inventory
4 Companies record inventory at the cost of buying or making the items,
5 Companies write off bad debts, and make provisions
6 Land, buildings, factories and equipment

a are current assets.
b are examples of intangible assets.
c are examples of tangible, fixed assets.
d by deducting the amount from profits.
e higher than the value of its net assets.
f or the current market price, whichever is lower.

12.3 Sort the following into current, fixed and intangible assets. Look at A and C opposite to help you.

buildings	cash in the bank	debtors
goodwill	human capital	investments
stock	land	reputation

Current assets	Fixed assets	Intangible assets
....	....	....
....	....	....
....	....	....

Over to you

Think about the company you work for, or your place of study. What are its most valuable assets? Are they shown on the balance sheet?