Balance sheets

How to read a balance sheet

The true financial position of an organisation is read from the information in the annual audit report. The key document is the Balance Sheet. This shows the total worth of the organisation. The total worth of the organisation is what is left after:

- the value of all **liabilities** (amounts owed by the organisation)

  is taken from

- the value of all **assets** (what the organisation already has, or what is owed to it).

This is called the Accumulated Funds or the Retained Surplus, or (sometimes) Residual Equity (Re).

Assets - Liabilities = Re

Assets: are made up of Current Assets (cash, or items that will convert to cash within the next financial year) and Fixed Assets (usually equipment or stock). If the organisation is owed money (including grants that belong to that period, but which have not been received), these are listed as assets

Depreciation: is the loss in value of the fixed assets. It appears as an item of expenditure in the statement of income and expenditure. It is best thought of as a rough representation of the liability to the organisation were it to replace these items - which may be dealt with by maintaining a provision for replacement in the actual liabilities section of the balance sheet.

Liabilities: most community organisations have three major liabilities - staff (long service leave, accumulated holiday leave loading, any other award or contract provisions that would need to be paid out should staff leave); equipment replacement funds; funding in advance.

The Retained Surplus does not, by itself, tell the organisation how healthy it is. This must be read by looking at the following:

- **The annual income and expenditure statement** - comparing the year with the previous year, what has changed in the individual items and how does the surplus or deficit for the year compare? What appears to be the trend? When considering the surplus or deficit, look at the impact of depreciation, as this is not something that has actually been cash expenditure.

- **Liabilities and fixed assets** - what is the real situation here? Have you put away a realistic amount for equipment replacement, are any grants in advance listed, and are your staff liabilities accurately estimated?

- **Cash at the bank (from the balance sheet)** - how much money do you actually have? Take away from this amount the liabilities (making sure that any grants your organisation receives in advance are listed). This tells you how much 'real money' you have.

Example: Balance Sheet

Assets

Current/cash at Bank:	359 800
Non-Current (Office equipment and motor vehicles):	47 700
Total Assets:	**407 500**
Liabilities	
Accruals	52 000
Grants in advance	125 200
Annual Leave	28 200
<u>Total Current Liabilities</u>	<u>205 400</u>
Long service leave	13 100
Equipment replacement	32 500
<u>Total Non-Current Liabilities</u>	<u>45 600</u>
Total Liabilities:	**251 000**
Surplus Funds:	**156 500**

The 'surplus funds' show the overall health of the organisation, but this is not the amount that the organisation has available to it, as it includes fixed assets.

To calculate the starting point for the annual budget you should look at:

The cash in the bank = $359,800

less:

Total liabilities (ensuring that grants received in advance are included) = $251,000

The example organisation has $108,800 real 'surplus' in terms of unattached funds.