



Balance Sheet

The Balance Sheet is a statement of the financial position of the House. It essentially lists what the House OWNS and what it OWES. The net position of the House, i.e. its Accumulated Funds, must be positive which therefore states that the House owns more than it owes. The Balance Sheet report should be reviewed by the Management Committee, along with the Operating Report, on a monthly basis. A description of typical Balance Sheet for a Neighbourhood House is:

Item	Explanation
ASSETS	Everything that your Neighbourhood House OWNS – includes such items as cash, accounts receivable and vehicles.

CURRENT ASSETS	What your House owns that it expects to convert into cash within 12 months.
Cash at bank	Cash held in bank accounts.
Funds on hand	Cash held in petty cash and non-bank sources.
Accounts receivable	Sometimes referred to as debtors. Invoices issued for amounts owing to the House e.g. room hire, membership fees etc.
Stock	Goods held by the House, awaiting sale. Would only be shown if the House is running a trading arm as an income generator.
Prepaid expenses	Items that the House has paid for, but has not yet gained the full use of, but will do so within the next 12 months. Examples are rent and insurance.
TOTAL CURRENT ASSETS	The total value of all of the above items i.e. cash at bank + funds on hand + accounts receivable + stock + prepaid expenses.

NON-CURRENT ASSETS	What the House owns that it intends to retain to help it produce its income).
Investment funds	All investments made with a maturity greater than 12 months e.g. term deposits.
Land and buildings	All land and buildings that are owned in the House's name. Would include the House if owned, but not if leased.
Office equipment	All office equipment, such as furniture and computers. The value shown is the original purchase cost, less depreciation.
Depreciation	Non-current assets decline in usefulness as they age. Depreciation is a non-cash item (entry in the financial records) that systematically spreads the cost of each asset (except land) over its useful life.

TOTAL NON-CURRENT ASSETS

The total value of all of the above non-current assets.

TOTAL ASSETS

The total of all CURRENT and NON-CURRENT ASSETS.

Item	Explanation
LIABILITIES	Everything that the House OWES , including loans, bank overdraft and creditor invoices.

CURRENT LIABILITIES	What the House owes that is expected to be paid within 12 months.
Short-term debt	Amounts owing under overdrafts and credit cards held in the name of the House.
Current portion of long-term debt	The amount owing within the next 12 months on any long-term loans held in the name of the House.
Accounts payable	Sometimes referred to as creditors. Amounts owed that the House has been invoiced for, but has yet to pay.
Provisions	Expenses that the House has gained the full use of, but has not yet paid for (although it will need to do so within the next 12 months). Includes items such as salaries, staff leave etc.
TOTAL CURRENT LIABILITIES	The total value of all of the above items. I.e. short term debt + current portion of long term debt + creditors + accruals.

NON-CURRENT LIABILITIES	What the House owes that is due to be repaid in a period greater than 12 months.
Long-term debt	Total of all loans owed by the House with a maturity greater than one year.
Provisions	Expenses that the House has gained the full use of, but has not yet paid for and will not do so for the next 12 months. Includes items such as long service leave.
TOTAL NON-CURRENT LIABILITIES	The total value of all of the above items.

TOTAL LIABILITIES	The total of all CURRENT and NON-CURRENT LIABILITIES.
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NET ASSETS	The difference obtained by subtracting Total Liabilities from Total Assets.
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ACCUMULATED FUNDS	This is the end balance from last year's balance sheet.
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RETAINED SURPLUS / (DEFICIT)	This is the amount of surplus/deficit generated and retained by the House this year.
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NEW ACCUMULATED FUNDS BALANCE	<p>This the new balance achieved by adding the amount of ACCUMULATED FUNDS to the RETAINED SURPLUS.</p> <p>BALANCE MUST BE POSITIVE FOR THE HOUSE TO BE SOLVENT AND MUST EQUAL NET ASSETS</p>
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Example of a Balance Sheet

This is an example of a balance sheet for Imaginary Neighbourhood House Inc.

Imaginary Neighbourhood House Inc			
Balance Sheet at 30 June			
	This year		Last year
ASSETS			
Current assets			
Cash at bank	37,000		25,000
Accounts receivable	8,000		9,000
Funds on hand	<u>7,000</u>		<u>6,000</u>
<i>Total current assets</i>	52,000		40,000
Non-current assets			
Investment funds	75,000		90,000
Land and buildings	440,000		420,000
Office equipment (at cost)	32,000	27,000	
Less accumulated depreciation	<u>21,000</u>	<u>11,000</u>	<u>17,000</u>
<i>Total non-current assets</i>	526,000		520,000
TOTAL ASSETS	578,000		560,000
LIABILITIES			
Current liabilities			
Accounts payable	<u>18,000</u>		<u>25,000</u>
<i>Total current liabilities</i>	18,000		25,000
Non-current liabilities			
Provision for long service leave	61,000		54,000
Long term debt	<u>220,000</u>		<u>200,000</u>
<i>Total non-current liabilities</i>	<u>281,000</u>		<u>254,000</u>
TOTAL LIABILITIES	299,000		279,000
NET ASSETS	<u>279,000</u>		<u>281,000</u>
ACCUMULATED FUNDS			
Balance 1 July last year	281,000		271,200
Surplus for year	<u>-2,000</u>		<u>9,800</u>
Balance 30 June this year	<u>279,000</u>		<u>281,000</u>

Review

What can we tell and what should we look for in this Balance Sheet? The following points are highlighted:

A small operating deficit of \$2,000 was generated in the current year, in contrast to a surplus of \$9,800 in the previous year. This is a negative trend and needs to be monitored.

As a result of this operating deficit, accumulated funds have fallen by \$2,000. This is a modest amount but it would be sensible to monitor this situation.

The Imaginary Neighbourhood House owns the House from which it operates – refer to land and buildings under non-current assets.

The building has been subject to alterations and improvements during the year, with the amount of \$20,000 (cost) being spent.

Funds spent on the building have been borrowed – note the increase of \$20,000 in long term debt under non-current liabilities. In your capacity as a Management Committee member, you would need to monitor the House's capacity to service this loan.

The working capital position of the House (capacity to meet its bills as they fall due) can be measured by the working capital ratio, or
$$\frac{\text{current assets}}{\text{current liabilities}}$$

Last year the ratio was $\$40,000 / \$25,000 = 1.6$, i.e. for every dollar the House has to pay in the short term it had \$1.60 in current assets available. This ratio was 2.80 in the current year. This measure is satisfactory for both years. The situation is stronger in the current year, largely due to the increased cash holding at the bank.

The Management Committee should consider if it needs to hold as much as \$37,000 in its operating account. Perhaps some of these funds could be invested to earn interest.

An additional \$5,000 has been spent on office equipment during the year.

Overall, the Imaginary Neighbourhood House is in a sound financial position. Its working capital position allows it to pay its bills on time. The capacity to service its debt and to reverse the trend into deficit should be monitored.

Date to be reviewed: November 2020