

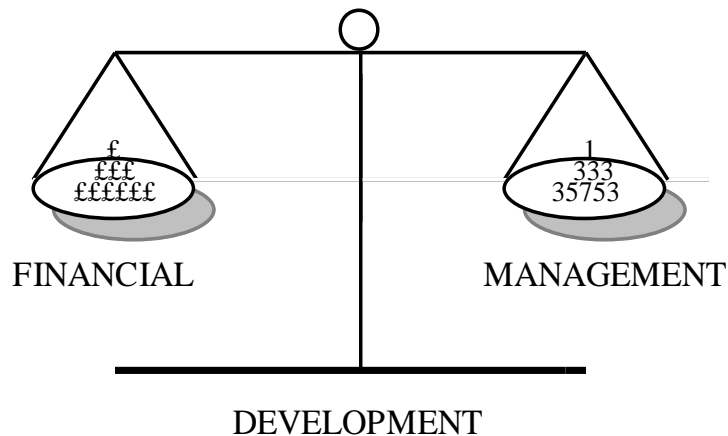
# FINANCIAL MANAGEMENT DEVELOPMENT

**Financial Accounting**

**University Accounting**

**NO 162**

## THE BALANCE SHEET



**ONE OF A SERIES OF GUIDES FOR  
FINANCIAL MANAGEMENT DEVELOPMENT  
FROM**

**[www.FinancialManagementDevelopment.com](http://www.FinancialManagementDevelopment.com)**

This is one of a series of documents produced by David A Palmer as a guide for managers on specific financial topics to assist informed discussion. Readers should take appropriate advice before acting upon any of the issues raised.

# THE BALANCE SHEET (UNIVERSITIES)

## OBJECTIVE

The Balance Sheet, as its name implies, balances. It sets out items owned (assets) and items owed (liabilities) by an organisation. If there are Net Assets these will have been funded by either capital which has been paid in (share capital, or some other form of equity) or by the retention of surpluses or profits from the past - called Reserves.

The objective of the Balance Sheet is to identify the constituent parts of the Net Assets in order to show the owners where their money has been invested. It is not a statement of the value of the business. The layout and headings are defined for businesses by the Companies Acts, for Universities by the provisions of the SORP (Statement of Recommended Practice: Accounting for Further and Higher Education 2007). The Board of Governors are responsible for the University even though they are not its "owners".

## ASSETS

### Fixed Assets

Fixed Assets are items purchased by the business (or transferred to it) which are for use rather than for resale. The main categories are:

1. Intangibles - Goodwill, Brand Names, Patent Rights etc. These are normally only shown when purchased.
2. Land and Buildings - Some organisations separate the Land from the Buildings. This also includes the value of any premiums paid for leasehold properties.
3. Equipment - Any asset live or dead used to assist the trade. There are rules about what is equipment and what is not. Some organisations e.g. Football Clubs, treat people as assets but only if they have been paid for.
4. Vehicles - Lorries, cars etc.
5. Investments - Long term investments e.g. shares in subsidiary companies.

It is normal to write off (charge as an expense) the cost of a fixed asset by depreciating it. The annual depreciation charge is merely the cost less any expected value on disposal spread over the asset's useful life. For intangibles the charge is called amortisation - effectively this is the same as depreciation.

For many Universities land and buildings were inherited when they were created as separate institutions. A value will normally have been placed on these as at the date of incorporation.

Land is not normally depreciated and some organisations recognise any increase in land value by showing the revalued amount in the Balance Sheet together with a balancing increase in the Equity (a Revaluation Reserve).

### Stocks and Work in Progress

Stocks are normally shown at cost. This includes the cost of any work done on them e.g. delivery or packing costs. If the value of the stock has declined then the reduction should be made to reduce the value together with an equivalent charge against profits.

### Prepayments

Where cash has been paid in advance of receiving a service, it is held as an asset and only charged against profit as it is used up or the service is received.

### Debtors

The amounts owed by customers who have not yet paid are shown as assets. This will include any associated VAT i.e. the amount is the true cash owing. If there is any doubt about gaining payment then it is normal to make a provision against the debt. (Reduce its value in the Balance Sheet and charge the reduction as a cost). The main debtors for a University will be Grant funds and Tuition Fees owing. There may also be accrued income e.g. work done under a research grant which has yet to be received.

### Cash

This is the cashbook cash figure and will therefore need to be reconciled to the bank statement to allow for unpresented cheques or lodgements in transit.

## **LIABILITIES**

### Overdrafts

Normally overdrafts are shown separately from cash balances. Again it is the cashbook figure which is shown.

### Creditors

Creditors are the amounts owed to third parties for goods or services received but not yet paid for. Normally this is the total of unpaid invoices including VAT. VAT is not recoverable by Universities since their "output" - education - is exempt from VAT. Although if they provide some VATable services e.g. catering or exports (even if these are zero rated for VAT) they may be able to recover some proportion of the VAT on inputs. There may be a separate creditor for VAT charged but not yet paid to the Government, just as there will commonly be a creditor for PAYE and NI deducted from salaries, but not yet paid over.

### Accruals

Accruals are amounts owed for which no invoice has been received. It is normal to have accruals for items such as electricity, phone etc. where bills are received in arrears as well as for bank interest, audit and professional fees.

### Deferred Income

Sometimes income has been received in advance of it being earned - e.g. research grants, or payments in advance for courses. These are held on the Balance Sheet as an amount owing and only released as income when the work is done.

### Provisions

In addition to creditors and accruals most Universities have provisions for future liabilities e.g. pension liabilities.

### Loans

Loans, whether from a bank or elsewhere are liabilities and therefore will be shown at the amount owing. Normally any related interest owing is shown under accruals.

## **EQUITY (OR THE WAY IN WHICH THE NET ASSETS HAVE BEEN FUNDED)**

In Companies called Shareholders' Funds, in Universities these may be called Reserves or Funds. They comprise:

### Deferred Capital Grants

Amounts received to fund the acquisition of assets, which are released to the Income and Expenditure account as the assets are depreciated.

### Endowments

Specific monies received to fund future activities e.g. to provide scholarship funds.

### Revaluation Reserves

A recognition of the increase in values of assets - commonly the increase in value of land and buildings since acquisition, or incorporation. (It is silly to show the value of a building at its original cost of 32 Shillings and a Groat, but if you show its proper value the Balance Sheet does not balance so the difference is shown as a Revaluation Reserve.)

### Balance on the Income and Expenditure Account

Surpluses, less deficits since the University was Incorporated.

In some cases some portion of the Reserves may be designated as being set aside for a specific use.

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David is an experienced financial professional who has devoted his skills to management training in practical understanding and utilisation of financial information. A Graduate, Chartered Accountant, and Associate of the Institute of Taxation, he is also a Member of the Chartered Institute of Personnel and Development and has been an Ordained as a Deacon in the Catholic Church.

He has worked as a Financial Controller and Company Secretary in the Finance industry and as a Director of Finance and Administration in the Computer Services industry. Since 1990 he has conducted management development programmes for over forty major organisations including Arla Foods, Blue Circle, BP, CSC Computer Sciences, Conoco, Ernst & Young, Lloyds Bowmaker, Royal Mail, Unilever and Zeneca. He also runs programmes for the Leadership Foundation and the management teams at a number of Universities. International training experience includes work in Belgium and Holland for CSC, in Denmark, Kenya and the Czech Republic for Unilever, in Holland and the US for Zeneca, in Dubai for Al Atheer, in Bahrain and Saudi Arabia for Cable & Wireless.

He specialises in programmes in financial management for both tactical and strategic decision making. In addition he has run courses in acquisition evaluation (The Economist, Eversheds, Blue Circle and Hays Chemicals) and in post-acquisition management (Unilever). All training is specifically tailored to the needs of the organisation with the emphasis on practical applications to enhance profitability and cashflow. He has developed material for delivery by in-house personnel (Royal Mail, Lloyds Bowmaker and Conoco), computer based training packages (The Post Office, Unilever and BP), and post course reinforcement self-study workbooks (CSC and Zeneca). He has also produced a training video on Cashflow Management.

He is a prolific writer of case studies, role plays and course material. He has also published articles on the financial justification of training, financial evaluation of IT investment proposals, the use of Activity Based Costing and Customer Profitability statements, commercial considerations for consultants, the need for taxation awareness training for general managers, evangelisation and Christian business ethics.

Many of his generic documents are freely available on his website:

**FinancialManagementDevelopment.com** including papers on Charity Management.

In addition to his Diaconal work in the Church, he has held a number of voluntary positions including University, College and School Governor, Hospice Treasurer and Trustee of various charitable institutions. He continues to provide ad hoc commercial advice to several other charitable organisations. He has been married for over 35 years and has one daughter and three granddaughters.

This series of papers is designed to help managers by providing a basic understanding of key financial concepts to assist them in their work. It is provided at no cost since this knowledge is a Gift from God and thus to be shared (Matthew 10:8).