Balance sheet

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Introduction

In this essay I will try to explain and describe some well-known concepts of economics and apply it to Akelius Fastigheter AB. I will begin to explain how to interpret a balance sheet and after that explain more thoroughly the balance sheets and the different parts, like assets, shareholder's equity and liabilities.

Statement of financial position

A balance sheet, also known as a "statement of financial positions", determine a company's assets, liabilities and shareholder's equity. Together with the income statement and cash flow statement, the balance sheet makes up the company's financial report.[1]

BALANCE SHEET

Non current assets *Tangible assets* *Intagible assets* *Financial assets*	**Shareholder's equity** *Restricted capital* *Unrestriced capital*
Total non current assets **Current assets** *Inventories* *Short-term debt investemt*	**Total shareholder's equity** **Liabilities** *Long-term liabilities* *Short-term liabilities*
Total current assets	**Total liabilities**
TOTAL ASSETS	**TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES**

Exampel of balance sheet

[1] http://www.e-conomic.se/bokforingsprogram/ordlista/balansrakning

How to interpret a balance sheet

The balance sheet is divided into two parts that are, based on equation that I present below. On the right-hand side of the balance sheet we have the assets that can be both non current and current. On the left-hand side of the balance sheet we have the shareholder’s equity and liabilities. These two parts of the balance sheet must equal each other or balance each other out. The formula that explains the balance sheet is:[2]

Assets = Liabilities + Shareholders’ Equity

Before a company can invest, it must receive financing, which means that it must raise money to pay the investment. This is represented on the right-hand side of the balance sheet. A company will issue pieces of paper called debt (loan agreement) which can be current liability or equity shares (stock certificates). As I just said the assets are classified as long-term or short-term, so are liabilities.

A company’s assets

Assets are what a company uses to operate its business. The liabilities and equity are the two sources that support these assets.[3]
To exemplify, Akelius Fastigheter AB´s assets are balanced aganist their financial obligations along with the equity investment and its retained earnings.
One thing that is important to note is that a balance sheet is a snapshot of a company´s financial position at a single point in time.[4]

Different types of assets

Assets are often defined as the things a company owns. These assets are expected to provide future benefits. [5]

- *Non-current Assets*
  Fixed assets are not turned into cash easily. Assets like this have a life span of more than a year. Non current assets are those that will last a long time, example for assets like this at Akelius Fastigheter AB are buildings. Those characterize as

[2] R Brealey, S C Myers, F Allen, Pronciples of corporate Finance
[3] Investopedia
[4] http://www.e-conomic.se/bokforingsprogram/ordlista/balansrakning
[5] http://news.morningstar.com/classroom2/course.asp?docId=145091&page=3&CN=com

- Intangible assets such as good-will, research and development (FoU). This can also be defined as non-monetary.
- Tangible assets like land, buildings and machinery
- Financial assets such as long-term receivables, share and claims on associated companies and securities on other companies.

- *Current Assets*
  Current assets are indented to be put in operation within a few years or previous, meaning they can be converted easily into cash. The most common types of current assets include inventories, short-term investment and accounts receivable,[6] but the most fundamental of current assets is cash, which also comprise non-restricted bank accounts and checks[7].

Shareholder's equity

Shareholder's equity represents the difference between the value of the assets and the debt of the company.
Shareholder's equity is a claim against the company's assets that is residual. In a limited company the shareholders equity consists of both fixed and unrestricted capital. The splitting is a result of regulations that certain funds should be tied and not be distributable. It propose is to protect the company's creditors.

Shareholder's equity is the difference between the assets and the liabilities[8].

Assets – Liabilities = Stockholder's equity

Shareholders' equity comes from two main sources. The first and original source is the money that was originally invested in the company, along with any additional investments made thereafter.

The second comes from retained earnings which the company is able to accumulate over time through its operations. In most cases, the retained earnings portion is the largest component.
If a company have a loss on a fiscal year this must covers with the equity. However if the organization does not have enough equity to cover up the loss, the result will be a negative equity and the company will be insolvent. In Sweden every company has to establish a control balance sheet if minimum half of the equity capital is exhausted. If that proves to be the case the owners must inject capital into the business.

[6] cash and cash equivalents, accounts receivable and inventory.
[7] Financial accounting
[8] http://www.koncernredovisning.biz/eget-kapital-i-koncernredovisningen.htm

In a company there will be distinguishments made between restricted equity and unrestricted equity and the division between them, that is to say, two decisions of regulations stipulated by laws of government, the aim is to protect the company's creditors. Only the unrestrictive equity can be distributed to shareholders. The restricted equity can only be awarded if the company is liquidated. The unrestrictive equity is characterized by free fund, profit or loss for the fiscal year.

A company's liabilities

In accounting terms, liability describes an obligation. A liability refers to money owed to complete a transaction, debt that has not yet been paid, or products or services that have been paid for but have not yet been consumed. There are two types of classifications to describe liability: short term and long term.

- *Current liabilities*
  Current liabilities often refer to all the debts of a business that are to be settled as cash in the fiscal year. A definition is that current liabilities are an obligation which is equal to the sum of all money owed by a company and due within one year[9].

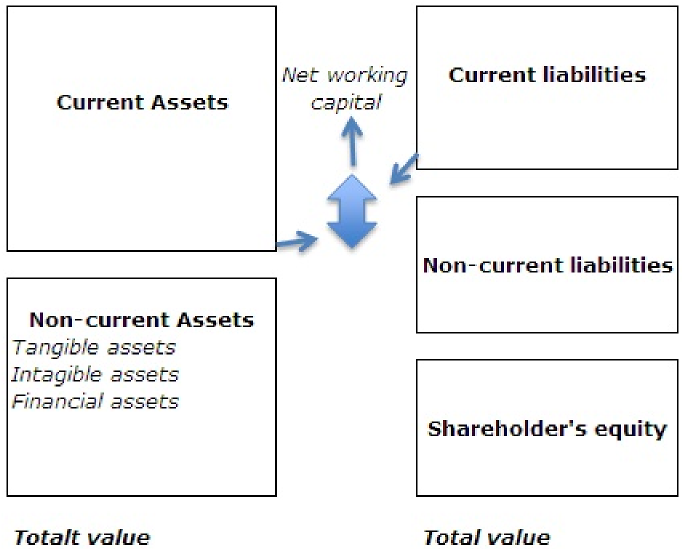
- *Non-current liabilities*
  This it money that the company has borrowed, that doesn't need to be paid back for several years. Short-term liabilities refers to debt paid within a year or less. An example of a non-current liability is pensions for the employees.

Too much of this kind of liability is generally risky for a company, because some day the debt must be repaid no matter how well or badly the business is doing.

Some other examples of liability for a company include money that has not been paid out yet, for example benefits from a life insurance policy or a settlement. This represents a liability for the insurance provider. In the case for Akelius Fastigheter AB the employee's pensions, as well as any other savings or retirement fund, is considered liabilities. For the individual, liabilities may include a home mortgage, second mortgage, line of credit, or car payment. Of course, for the unit to which these moneys are owed, each item generally represents an asset.

[9] http://www.wisegeek.com/what-are-current-liabilities.htm

To sum up, a company's differences between the current assets and the current liabilities are the net working capital[10].



Deferred taxes

Deferred taxes represent a company's liabilities of taxes that are postponed to the future. This is a tax that allows company's to write off expenses faster than they are recognized, and that creates a deferred tax liability[11].

Deferred Tax Liability

Deferred taxes are the result from the differences between a company's accounting income and true taxable income. The accounting income can be found in the income statement. It can be broken down as current taxes and deferred taxes. The current tax is send to the tax authorities, while the deferred tax is not.
If the accounting income is more than the taxable income the current year, it will be more than accounting income later on. The result of that is that the taxes that not are paid today have to be paid in the future. This makes a liability for the company. Consequently, this shows up as the deferred tax in the balance sheet[12].
Fact, the deferred tax is not a cash outflow.

[10] C Johansson, R Johansson, Extern redovisning
[11] http://www.investorglossary.com/deferred-tax.htm
[12] Financial accounting