**Unit 12:** **The balance sheet II**

“The one who defends himself shows that his strength is inadequate; the one who attacks shows that is abundant. A victorious army wins the advantage, before having sought battle; an army doomed to defeat fights in the hope of winning”

Sun Tzu, Chinese general, in “The art of the war”, 544-496 BC

If a company thinks a debt will not be paid, it has to anticipate the loss. It will write off or abandon the sum as a bad debt and make a provision by charging a corresponding amount against profit.

We usually classify assets as tangible and intangible. Tangible assets are assets with physical existence; we record them at their historical cost less accumulated depreciation charges, the amount of their costs that has already been deducted from profits. This gives their **net book value**.

Intangible assets include:

- Brand names, legally protected names for company's products.

- Patents, exclusive rights to produce a particular new product for a specific period.

- Trade marks, names or symbols put on products and other companies cannot use them.

Assets minus liabilities gives the ***net worth*** or the ***net assets*** of a company. If a company buys another one at above its net worth, the difference in price is recorded under assets in the balance sheet as ***goodwill***.

Manufacturing companies record on their balance sheet three kinds of stock:

* Raw material.
* Partially manufactured products (or work in progress).
* Products ready for sale.

Stocks are valuing at their cost that include the price of purchase plus any work done on the items.

**Vocabulary**:

Exercise 1: match each word with its appropriate definition.

Goodwill – bad debt – write off – make provision - partially manufactured products – trade mark – net book value – patent – net worth

1. An amount of money that is owed but probably will not be paid.
2. The accounting value of a company.
3. A legal right to produce and sell a newly invented product for a certain period.
4. The historical cost of an asset minus its 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 will not be paid.
9. Products that are not complete or ready for sale.

Exercise 2: match the two parts of the sentence

1. A company's value on the stock exchange is nearly always
2. Brand names, patents, customers and qualified staff
3. Cash, money owed by customers and stocks
4. Companies record stocks at the cost of buying, cost of manufacturing
5. Companies write off bad debts and make provision
6. Land, building, factory and equipment
	1. are current assets.
	2. are examples of intangibles assets.
	3. are examples of tangible, fixed assets.
	4. by deducting the amount from the profits.
	5. higher than the value of its net assets.
	6. or the current market price, whichever is lower.