

Balance sheet exercise essay

[Business](#), [Accounting](#)



State which of the following items could appear on the balance sheet of a business as an asset. Explain your reasons: 1. Euro 10, 000 owed by a customer who has gone into bankruptcy and has no assets. 2. The employment of a new sales director who doubled the wealth of the last business at which he worked. 3.

The purchase of a publishing license from company B giving company A the right to sell and distribute books in England for the next 10 years. Balance Sheet Answers 1 1. Normally a company would expect its customer to pay amounts owed and as such the debt would be included as an asset (under trade debtors or trade receivables (US terminology)). However, in this case the customer is bankrupt and has no assets so will never be able to repay the debt.

As such the amount owed needs to be written off, i. e. the amount previously recorded as owed by this customer will be reduced to 0 with a corresponding accounting charge in the profit and loss account.

2. The hiring of a person is not considered to be the acquisition of an asset and so would not be recorded on the balance sheet but his salary would be considered a cost in the profit and loss account. There is a difference with footballers where a club has paid for a contract but we will cover this area when we come to intangibles later in the course. 3. The purchase of a license would meet all of the conditions required of an asset (e.

g. probable future benefit exists; exclusive right to control the benefit; benefit must arise from some past transaction or event; asset must be capable of measurement in monetary terms).