

Notes on the balance sheet

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Introduction

Using notes in a financial report is a superb way of enabling drill down capabilities, enhancing understanding in the analysis of a company's financial statements.

Notes typically describe each item on the balance sheet – income statement and cash flow statement – in greater detail. Notes are considered an essential part of the financial statement.

Notes inform the readers on such things as significant accounting policies, commitments made by the company, potential liabilities and potential losses, etc.

Notes also provide additional information that would compromise the transparency of the income statement, balance sheet and cash flow statement if stated in the report itself.

Legal conduct

The Swedish regulations regarding the use of notes to the annual report is mainly found in the Swedish Code of Statutes (Svensk Författningssamling, SFS) ÅRL (1995:1554) and BFN (Bokföringsnämndens allmänna råd) and FAR (Vägledning om årsredovisning i aktiebolag).

Alongside the Swedish Code of Statutes there is an international framework called “International Financial Reporting Standards (IFRS). This is not equivalent to the Swedish legal framework.

IFRS only applies to listed groups but can also be used by unlisted groups. One essential difference between companies applying the Swedish rules (and IFRS companies) are that IFRS companies will be able to state their assets (properties) at market value.

The Swedish Code of Statues states what kind of information needs to be reported for the different types of items on the balance sheet.

The following list briefly points out the required content of the note for each item in the report. Each paragraph below represents one or more requirements stipulated by Swedish law.

Assets

Fixed assets, intangible assets and tangible assets

The notes for tangible assets are divided according to the different types of assets held by the company: eg, inventory, machinery and real estate.

The note should account for the opening balances and any changes made during the year compared with the previous financial year. The note should be broken down by cost, depreciation, revaluations and write-downs.

The assessed values of properties that are fixed assets must also be shown in this note.

Another piece of significant information that is mandatory for large companies is the total market value of its real estate. For groups that apply IFRS the valuation method that was used must be stated.

Financial fixed assets

The note should account for the conclusion values and any changes made during the year compared with the previous financial year. The note should be broken down by cost, revaluations and write-downs.

Financial assets in the form of receivables, or long-term securities holdings are valued at book value. If the claim or long-term securities holdings have a lasting decline of its value, it is valued according to market value. Information should be provided about the initial cost of these assets.

If there have been no write-downs made for these assets, the reason for this must be stated in the note along with if there has been support for recovery of the book value.

The value of the assets of the subsidiaries and associated companies should be reported including possible changes during the year. Related write-offs are reported in the same way.

For subsidiaries and associated companies, the book value and relative ownership shall be stated in the note as well as information on the equity and profit. This information gives the reader more information on the associated company's status and potential.

Information on the affiliates' registered information (company registration no. etc) must also be stated.

Changes in deferred tax receivable are recorded for the accounting year including the type of deferred tax.

A typical example is when a company has a deficit in their tax statement, which can be balanced out against the current year's profits.

Current assets

Inventories

Significant discrepancies between market value and book value of existing inventories must be stated in the note.

Current receivables

If the debt is due beyond one year from the year end close and this is accounted for under current receivables, this must be mentioned in the note.

Special or particular essential items have to be described in the note.

For example, a major accrual or a substantial advance payment for rent.

Information on ongoing work on behalf of others must be stated.

For example, a contracting company accumulating assets in the form of work done but not charged until the contract is completed.

Short-term investments

Cash

Equity, Share Capital

Profit carried forward, share premium reserve, and revaluation reserve

Any changes in shareholders' equity, compared with the previous year's balance sheet should be stated. Changes of the size or composition of the revaluation reserve must be stated. The total numbers of shares for each class of shares are also to be disclosed.

Liabilities

Provisions

Provisions to deferred tax liability must be stated. The kind of deferred tax liability that is the basis for the provision is also indicated.

Provisions to deferred tax liability are a common item in real estate companies. Real estate companies often have higher values of their properties in the balance sheet than they have in their tax statement. Hence the depreciation may differ between the books and their tax statement. The difference multiplied by the current corporate tax is booked as deferred tax liability.

Companies that apply IFRS usually have a very large reported deferred tax liability, because these companies value their real estate at market values. This means there is a greater difference between the value in the balance sheet and the value in their tax statement.

Long-term liabilities

The part of a liability that is due to be paid later than one and/or five years counted from the year end close should be stated in the note.

Collateral by liability are accounted for by nature, scale and form.

An example of this is a pledged property for a mortgage. Another type can be a business mortgage, which is set aside as a security for an overdraft facility.

Convertible loans require disclosure of the outstanding amount and the time and conditions for conversion or subscription for new shares.

Short term liabilities

Collaterals by liability are accounted for by nature, scale and form.

An example of this is pledged property collateral for a mortgage.

The utilized overdraft facility should be accounted for in the note as well as the credit limit.

Convertible loans require disclosure of the outstanding amount and the time and conditions for conversion or subscription for new shares. Accrued expenses and deferred income are stated in the note.

With regard to real estate companies, information is often provided on prepaid rent and accrued property tax.

Memorandum

Pledged assets and contingent liabilities

Pledged assets and contingent liabilities for the benefit of affiliates should be shown.

What is frequently used is the parent company guaranteeing a loan for a subsidiary.

Summary

The set of rules regarding balance sheet notes do vary from country to country, but the primary aim remains.

Some information is placed in notes to provide a complete picture of a company while by the same token, not jeopardizing report transparency.