

Knockout.Economics by Kru P'Eve & Kru P'Da

IGCSE -Business studies

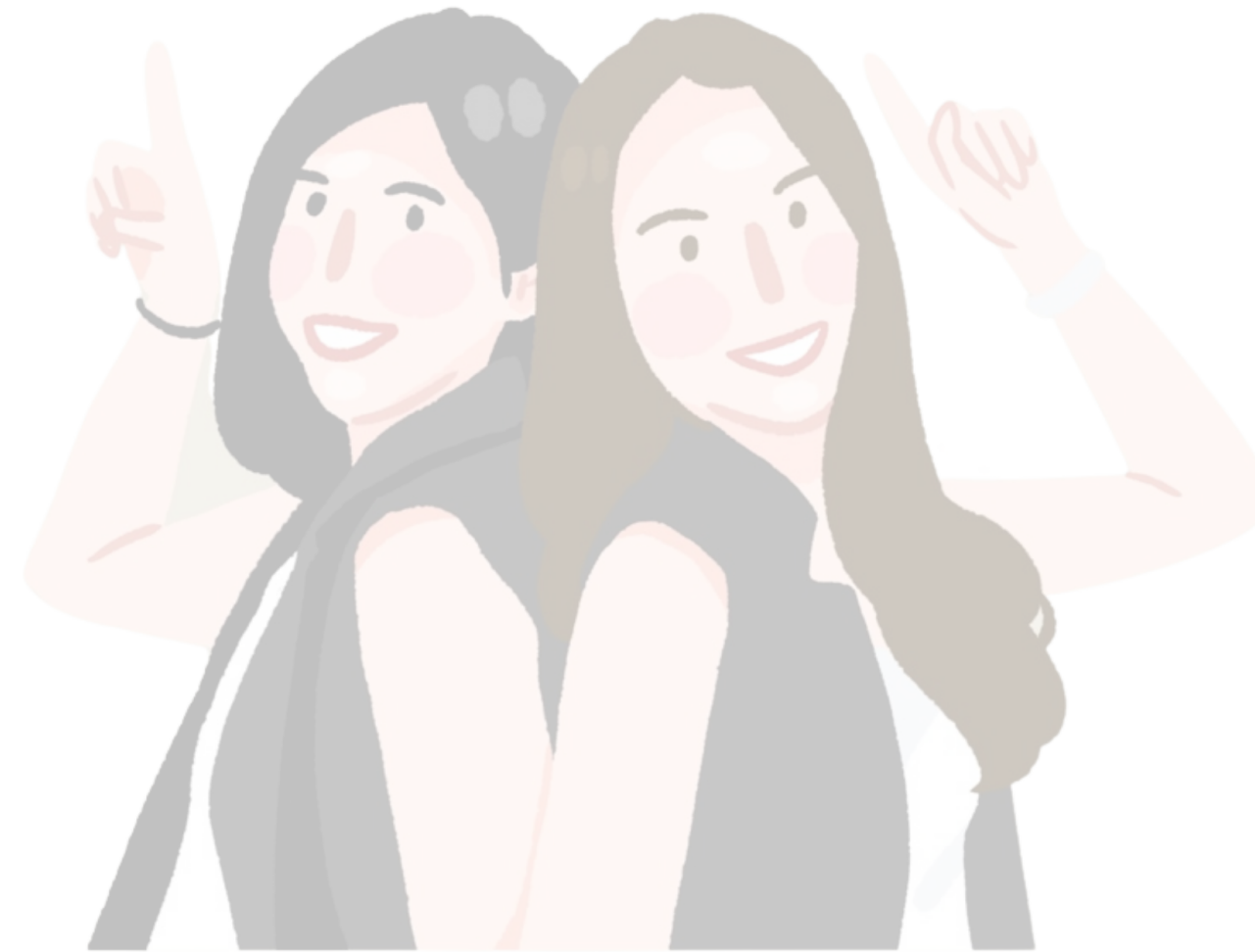
The main elements of a statement of financial position

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



Overviews

1. Statement of financial position
2. The main elements of a statement of financial position



1. Statement of financial position

Statement of financial position (Balance sheet): shows the value of a business's assets and liabilities at a particular time.

Grande Corporation		Figures in \$1,000's
Balance Sheet at 31 December 20YY		
ASSETS		
Current Assets	9,609	
Long Term Investments & Funds	1,460	
Property, Plant & Equipment	9,716	
Intangible Assets	1,222	
Other Assets	<u>68</u>	
Total Assets		22,075
LIABILITIES		
Current Liabilities	3,464	
Long Term Liabilities	<u>5,474</u>	
Total Liabilities		8,938
OWNERS EQUITY		
Contributed Capital	3,464	
Retained Earnings	<u>5,474</u>	
Total Owners Equity		<u>13,137</u>
Total Liabilities and Equities		22,075


$$\text{Total asset} = \text{Total liabilities} + \text{Shareholders' equity}$$

Reference: www.business-case-analysis.com

2. The main elements of a statement of financial position

1. **Asset:** items owned by business

- **Non-current asset**: owned by the business for more than 1 year; such as land, building and machines.
- **Current asset**: owned by the business less than 1 year or in the short-term period; such as cash, account receivable and debtor.

2. **Liability:** debts owed by the business

- **Non-current liability**: long-term borrowing which does not need to repay within one year; such as long term loans.
- **Current liability**: Short term borrowing which must be repaid within one year; such as bank overdraft and account payable to suppliers.

3. **Equity:** Shareholder fund and reserve money in business

$$\text{Total asset} = \text{Total liabilities} + \text{Shareholders' equity}$$

2. The main elements of a statement of financial position

	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Share Capital	Reserve
Building						
Ordinary share capital						
Cash						
Retained profit						
Tax owed to government						
Money owed by customers						
Long term bank loan						

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Interpreting a statement of financial position 🔍

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Overviews

1. Interpreting a statement of financial position



1. Interpreting a statement of financial position

- ▶ *To check the value of total asset, liability and equity.*
- ▶ *To analyse how does the business finance its operations and expansion.*
 - By long-term loan(non-current liability), issue of share(capital), or selling inventory
- ▶ *To calculate working capital/net assets* from a statement of financial position data.

$$\text{Working capital} = \text{Current assets} - \text{Current liability}$$

- *If a business does not have enough working capital,*
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-

1. Interpreting a statement of financial position

- ▶ **To calculate capital employed** from a statement of financial position data.

$$\text{Capital employed} = \text{Non current liability} + \text{Shareholders' funds}$$

- **Capital employed** is long term and permanent capital of the business which are used to invest in the assets of the business.
- ▶ **To calculate financial ratio** including liquidity ratio from a statement of financial position data. (Liquidity ratio is used to assess the potential to repay short term debt)

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Exercise: Statement of financial position

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Exercise

P'Eve is the owner of a car wash. She employs 3 full-time cleaners and 2 part-time cleaners during busy time. The business has the statement of financial position as table below.

Current assets		\$15,000
Trade receivables	\$8,000	
Cash	X	
Current liabilities		\$7,000
Net current assets		Y

(a) What is meant by 'Trade receivables'? [2]

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The amount of money owed by customers buying good on credit.

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(b) What is the value of X and Y ? [2]

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(b) What is the value of X and Y ? [2]

Current assets = Trade receivables + Cash

$$X = \$15,000 - \$8,000 = \$7,000$$

Net current assets/working capital = Current assets - Current liabilities

$$Y = \$15,000 - \$7,000 = \$8,000$$

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(c) What is meant by 'non current liability' and giving an example? [2]

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