10 Financial position and depreciation – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
statement of financial position			
assets			
liabilities			
equity			
Depreciation			

Recall

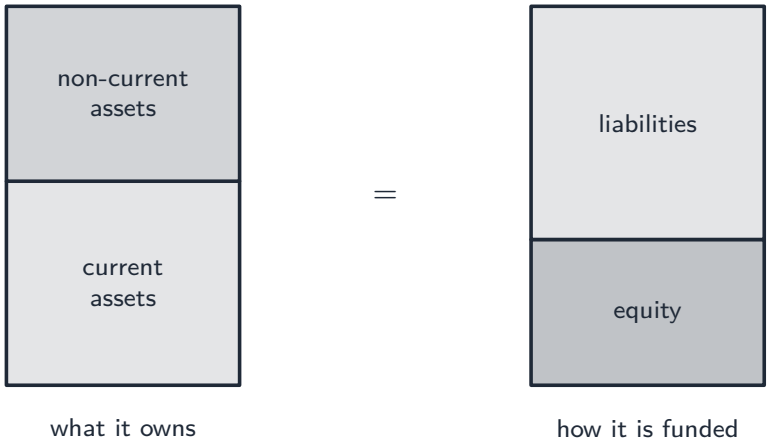
The second financial statement is a photo of what a business owns and owes on one day.

New ideas

Read these first, then do the Practice.

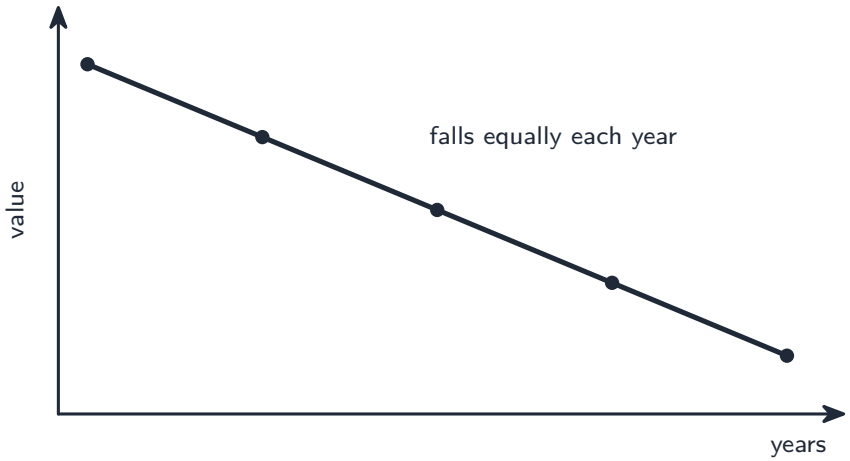
■ 1 The statement of financial position

The **statement of financial position** always balances:



- **assets** are what the firm owns (buildings, machines, stock, cash);
- **liabilities** are what it owes (debts);
- **equity** is the owners' money in the business;
- the rule: assets = liabilities + equity.

2 Depreciation



Depreciation spreads the cost of a non-current asset over the years it is used. A £10,000 machine used for 5 years may lose £2,000 of value each year.

Watch out: the statement of financial position is a *snapshot* on one day (the income statement covers a whole year). It must balance: assets = liabilities + equity. Depreciation spreads an asset's cost over its useful life.

Practice

Try these in order.

10.6 What does the *statement of financial position* show? [1]

10.7 Write the balancing rule (assets = ...). [1]

10.8 Are buildings and machines *assets* or *liabilities*? [1]

10.9 What is *depreciation*? [1]

10.10 A £10,000 machine loses value evenly over 5 years. How much each year? [1]

10.11 Challenge. A firm buys a £15,000 van expected to last 5 years. Using straight-line depreciation, find the yearly depreciation and the van's value after 2 years. [2]