A-LEVEL BUSINESS • EXERCISE SHEET

10.1 Financial statements

Name: ____________ Class: ________ Date: __________ **Total: 29 marks**

KEY WORDS statement of financial position 财务状况表 • balance sheet 资产负债表 • financial statements 财务报表 • income statement 利润表 • depreciation 折旧

Objective

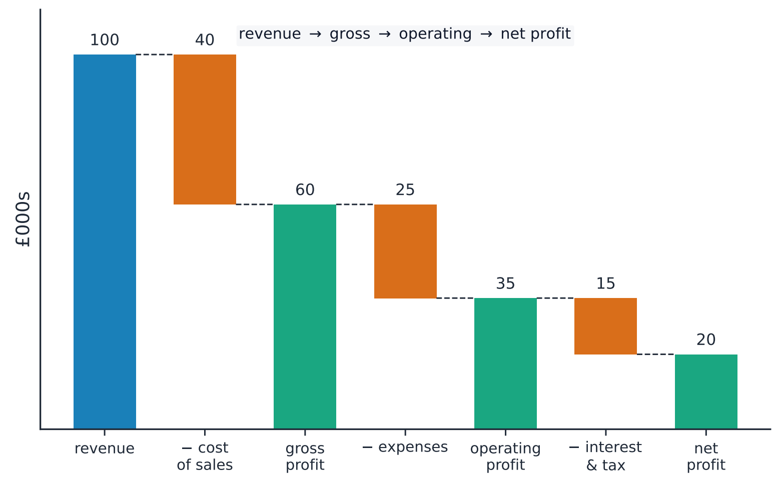
Build the skills to answer exam questions on **financial statements** 财务报表 — the **income statement** 利润表, the **statement of financial position** 财务状况表 (balance sheet), and **depreciation** 折旧.

You must be able to:

- calculate gross, operating and net profit
- describe what the statement of financial position shows
- analyse and evaluate how stakeholders use financial statements

1 Worked examples

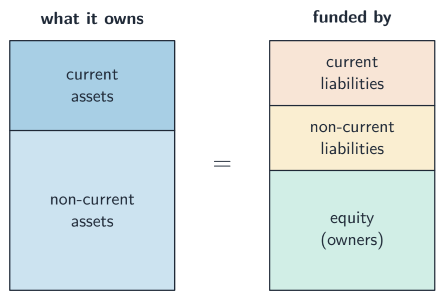
■ **Income statement and balance sheet**



Revenue − cost of sales = gross profit; − expenses = operating profit; − interest and tax = net profit

$$\text{gross profit} = \text{revenue} - \text{cost of sales}$$

- **Worked:** revenue \$500,000, cost of sales \$300,000 → gross profit = \$200,000.
- **Statement of financial position:** assets = liabilities + equity (it always balances).



The statement of financial position: assets = liabilities + equity

- **Depreciation:** spreads a fixed asset's cost over its life, so profit is not overstated.

Depreciation spreads a fixed asset's cost over its useful life

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the formula for *gross profit*. [2]

2.2 A firm has revenue of $400,000 and cost of sales of $250,000. Calculate its gross profit. [2]

2.3 Define the term *depreciation*. [2]

3 Exam-style questions

3.1 Explain one reason why a company must publish its financial statements. [3]

3.2 Analyse how two different **stakeholders** would use a firm's financial statements. [8]

3.3 'Financial statements alone show how well a business is performing.' Evaluate this view. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 gross profit = revenue − cost of sales (2 for the correct formula; 1 for a partial idea).

2.2 \$400,000 − \$250,000 = \$150,000 (2; award 1 for a correct method with the wrong figure).

2.3 spreading the cost of a non-current (fixed) asset over the years it is used, rather than all at once (2 for a clear definition; 1 for a partial idea).

3.1 *[3]* **AO1** 1 — give a reason (it is a legal requirement; to inform shareholders; for tax). **AO2** up to 2 — develop it, e.g. publishing the accounts lets shareholders see the profit and return → they can decide whether to keep their shares → meeting the legal duty of a company (2 developed / 1 limited).

3.2 *[8]* For **each** of two stakeholders: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *a lender*: reads the statements → checks profit and existing debt → decides whether the firm can repay a new loan. *An investor*: reads the profit and ROCE → judges the return on their money → decides to buy or sell shares. Maximum 4 per stakeholder, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** statements give clear, comparable figures on profit, assets and debt that show financial health. **Against:** they use past data, ignore non-money factors (brand, staff morale, market position) and can be window-dressed. Judgement: statements are essential but not enough on their own — a full view also needs ratios over time and non-financial information; their usefulness depends on what they are compared with.