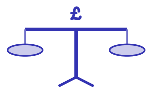
Finance & Accounting

A-Level Business ▪ Topic 10

A-Level Business



What we will cover

statements reveal performance

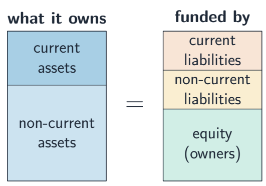
1 Financial statements

The income statement

Revenue − cost of sales = **gross profit** 毛利. Then subtract expenses to get operating profit, then interest and tax to get profit for the year.

> It shows performance over a period. The statement of financial position is a snapshot of assets and liabilities on one day.

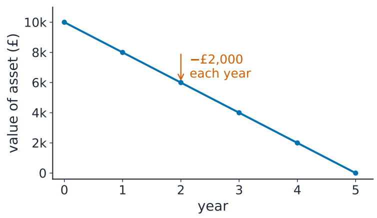
Statement of financial position



The **balance sheet** 资产负债表 is a photo of what the firm owns and owes on one day.

> **assets** 资产 = **liabilities** 负债 + **equity** 所有者权益 – the two sides always balance.

Depreciation



Depreciation 折旧 spreads a non-current asset's cost over the years it is used. A £10,000 machine over 5 years loses £2,000 a year – an expense each year, so profit is not overstated.

2 Ratio analysis

Profitability ratios

$$\text{ROCE} = \frac{\text{op. profit}}{\text{capital employed}} \times 100\%$$

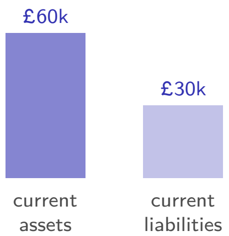
Profitability 盈利能力: how well sales & capital turn into profit.

Worked example

rev £500k, gross £200k, op. £80k, capital £400k

gross margin 毛利率 $= 40\%$; op. margin $= 16\%$; **ROCE** 资本回报率 $= 20\%$

Liquidity and gearing



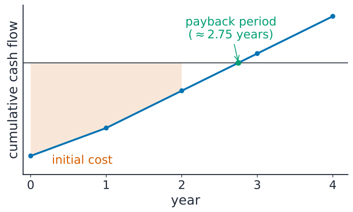
Liquidity 流动性 – can it pay short-term debts?

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}} = 2.0$$

acid test 速动比率 (drop inventory) $= 1.2$. **Gearing** 杠杆比率 $= \frac{\text{non-current liabilities}}{\text{capital employed}}$ – high = heavy borrowing.

3 Investment appraisal

Payback and ARR

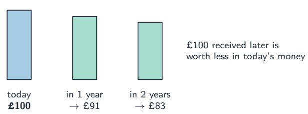


The **payback period** 回收期 is when cumulative cash flow climbs back to zero – shorter is safer.

$$\text{ARR} = \frac{\text{avg. annual profit}}{\text{initial investment}} \times 100\%$$

ARR 会计回报率: £25k profit on £100k $= 25\%$.

Net present value and discounting



Discounting 折现 shrinks future cash to today's value – £100 next year is worth ~£91 now.

NPV 净现值 = discounted inflows – initial cost. A positive NPV adds value.

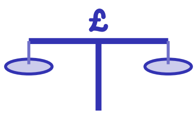
4 Recap

Topic 10 – key takeaways

1. **Statements** — income statement & balance sheet
2. **Profitability** — margins & ROCE measure profit
3. **Liquidity** — current & acid test; gearing = borrowing
4. **Appraisal** — payback, ARR, NPV judge projects

Check yourself

1. Revenue minus cost of sales gives what?
2. Assets equal liabilities plus what?
3. Acid test drops which current asset?
4. A positive NPV means a project does what?



Answers **1.** gross profit **2.** equity **3.** inventory **4.** adds value