

Exercise walk-through

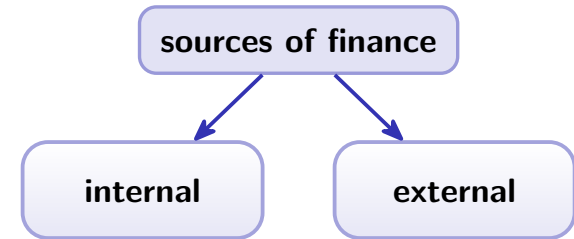
5.4

Statement of financial position

IGCSE Business Studies

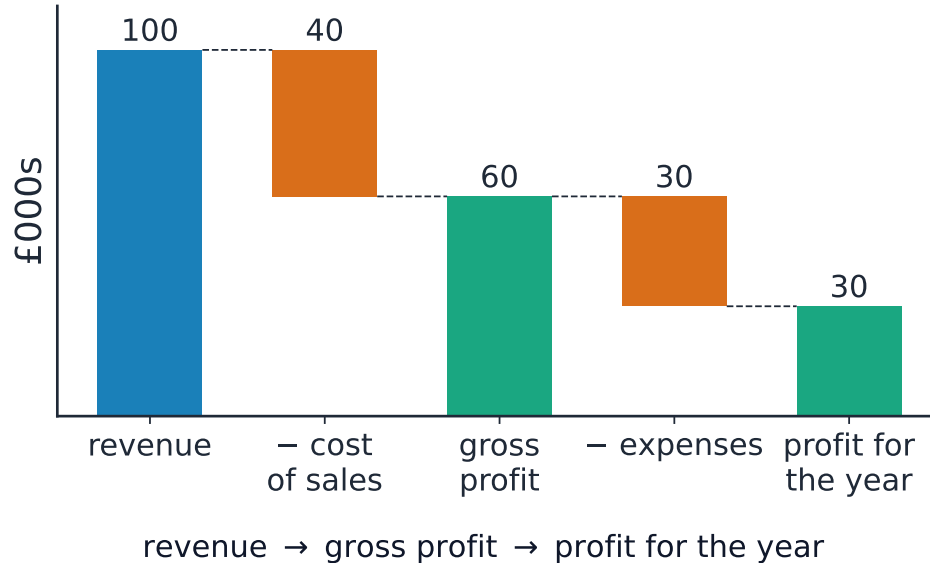
What we will cover

- 1 Why finance is needed
- 2 Sources of finance
- 3 Cash flow
- 4 The income statement
- 5 The balance sheet
- 6 Ratios



sources of finance

The income statement



An **income statement** runs from **revenue** down to profit.

- revenue – cost of sales = **gross profit**
- – expenses = **net profit**

The balance sheet

what it owns

current assets
non-current assets

=

funded by

current liabilities
non-current liabilities
equity (owners)

The **statement of financial position** balances:

$$\text{assets} = \text{liabilities} + \text{equity}$$

It shows what the business
owns & **owes** .

Exercises 2.1-2.3

2.1 Define the term *current asset*.

[2]

2.2 State the difference between a *current* and a *non-current* liability.

[2]

2.3 Identify two examples of non-current assets.

[2]

Exercises 2.1-2.3

2.1 Define the term *current asset*. [2]

2.1

- a **current asset** is cash or can soon be turned into cash (inventory, money owed by customers) (K)

2.2 State the difference between a *current* and a *non-current* liability. [2]

2.2

- **current liability**: due **within a year** (K)
- **non-current liability**: due **after more than a year** (K)

2.3 Identify two examples of non-current assets. [2]

2.3

- any **two** of: buildings / machines / vehicles / equipment (K, K)

Exercises 3.1-3.2

3.1 Identify two things a statement of financial position shows. [2]

3.2 Explain two reasons why a bank would want to see a business's statement of financial position. [6]

Exercises 3.1-3.2

3.1 Identify two things a statement of financial position shows. [2]

3.1

- any **two** of: assets / liabilities / owners' equity / whether it can pay its debts (K, K)
-

3.2 Explain two reasons why a bank would want to see a business's statement of financial position. [6]

3.2

- for **each** of two reasons: K + An, max 3 each
- e.g. **can it repay**: assets and debts show whether the firm can repay a loan
- e.g. **security**: non-current assets as collateral → the bank lends more safely

Exercise 3.3

3.3 Do you think the statement of financial position is more useful than the income statement to a person thinking of investing in a business? Justify your answer. [6]

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3.3

- **for the statement of financial position:** what the firm owns and owes; stability
- **against:** the income statement shows **profit**, which is the investor's return
- **judgement (Ev):** an investor needs **both** – neither alone is enough