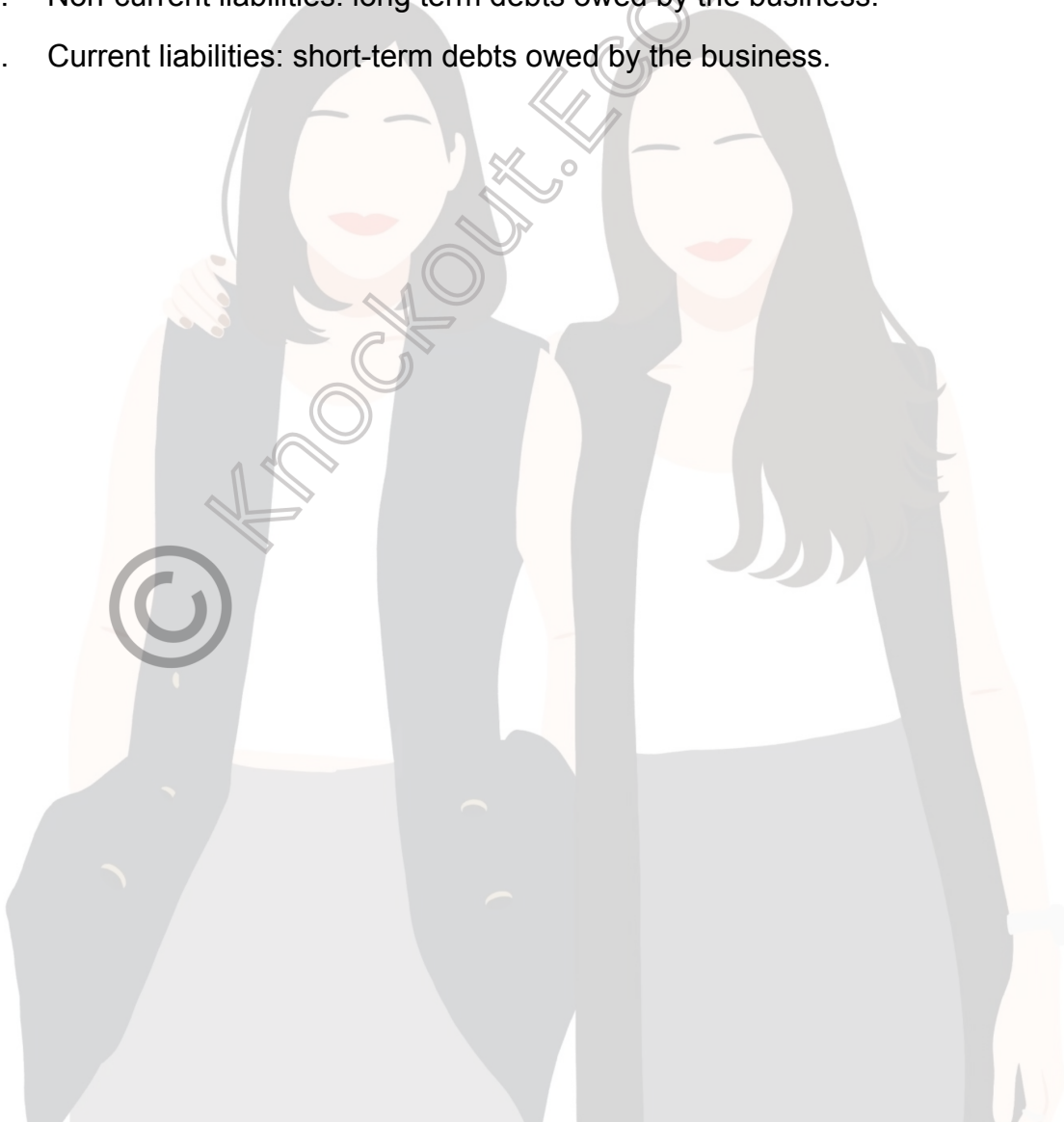


## Chapter 24 Statement of financial position

### Key terms

1. Balance sheet(Statement of financial position): shows the value of a business's assets and liabilities at a particular time.
2. Asset: items of value which are owned by the business. They may be fixed(non-current) or short-term current assets.
3. Liabilities: debts owed by the business.
4. Non-current assets: items owned by the business for more than one year.
5. Current assets: owned by a business and used within one year.
6. Non-current liabilities: long term debts owed by the business.
7. Current liabilities: short-term debts owed by the business.



## **1. Statement of financial position(Balance sheet):**

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

## **2.The main elements of a statement of financial position:**

2.1 **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.

2.1 **Liability**: debts owed by the business

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

2.3 **Equity**: Shareholder fund and reserve money in business

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

## **3. Interpreting a statement of financial position(Balance sheet)**

- Shareholders can check the value of total equity.
- Shareholders can analyse how expansion by the business has been paid for.
- To calculate working capital from balance sheet data.

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

- To calculate capital employed from balance sheet data.

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

- To calculate financial ratio including liquidity ratio from balance sheet data.