

Unit 30**Statement of financial position****1. What is a statement of financial position?**

- **Statement of financial position** : summary at a point in time of business assets, liabilities and capital (often called the balance sheet)
- Asset : are the resources owned by a business. Example include building , machinery, equipment, vehicle etc.
- Liabilities : are the debts of the business, that is, what is owes to others. Liabilities are a source of funds for a business. They might be short term, such as overdraft or longterm eg. Mortgage.
- Capital : is the money put into the business by the owners. For limited companies this will be share capital.

2. Features of a statement of financial position

	US\$000
Non-current assets	
Property	340
Fixtures and fittings	100
	440
Current assets	
Inventories	150
Trade receivables	78
Cash	56
	284
Current liabilities	
Trade payables	112
Taxation	12
	124
Net current assets	160
Non-current liabilities	
Mortgage	(60)
Net assets	540
Shareholders' equity	
Share capital	100
Retained profit	395
Other reserves	45
Capital employed	540

1 Asset

1.1 Non current asset

: assets that last for more than one year

: For example : Property, Factors, fixtures and fitting

1.2 Current asset

: assets that will be changed into cash within one year. (Liquid asset)

: Liquidity of an asset is how easily and how quickly it can be changed into cash.

- Inventories of raw materials, cash and trade receivable

1.3 Current liabilities

: debts that have to be repaid within 1 year

- Trade payables : money owned to supplier.

- Leases and hire purchase are other forms of borrowing

- Short-term loans and overdrafts are money owed to banks repayable within 12 months.

1.4 Net current assets (Working capital)

: Current asset- Current liabilities

: is the value of liquid resources that can be used to meet running costs of a business.

2 Non-current liabilities

: debts that are payable after 12 months.

: eg. Mortgage is long-term secured loan usually taken out to buy property.

3 Net assets

: Total asset - Total liabilities

4 Shareholders' equity

: This is all the money that is owned to the owners. It may also be called shareholders' funds or capital and reserves. It also included share capital, retained profit

2.5 Capital employed

: is the amount of money that the owners have invested in the business. (= Net asset)

3. Interpreting the statement of financial position?

: It shows

- Value of all business assets, capital, liabilities
- Asset structure of business, which means how the money raised by business has been spent on different types of asset
- Capital structure of a business, which is an analysis of the different types of funding the business has used
- Value of net current assets, which is how much working capital a business has- indicating whether a business has enough liquid resources to pay its immediate bills

