### Unit 30

# Statement of financial position

# 1. What is a statement of financial position?

- Statement of financial position: summery 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

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	Non-current assets	
	Property	340
	Fixtures and fittings	100
		440
	Current assets	
	Inventories	150
	Trade receivables	78
	Cash	56
		284
	Current liabilities	
٦	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

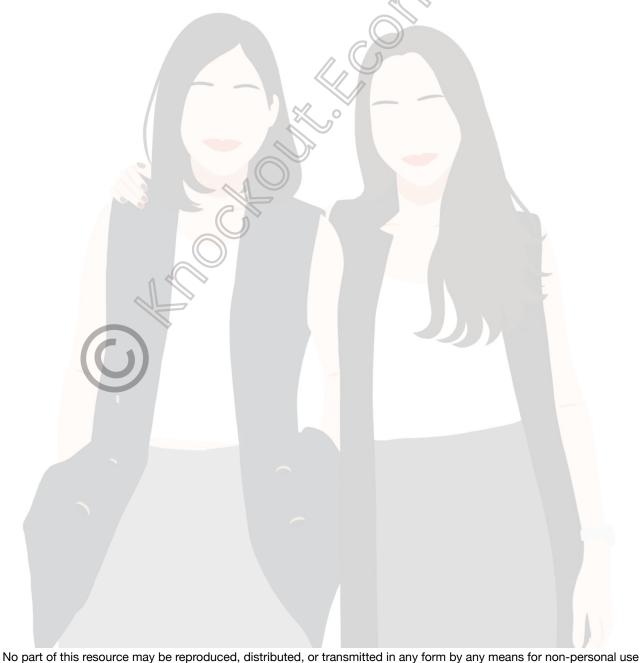
: This is all the money that is owned to the owners. It may also be called shareholders' funds or capital and reserves. It also included share capital, retained profit

### 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 hasindicating whether a business has enough liquid resources to pay its immediate bills



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