

Business Studies

Knowledge Book

Student name:

Form:

Subject:

Year group:

Component 3: Promotion and Finance for Enterprise

Learning Aim B:

**B6 Statement of financial position.
(Balance Sheet).**

The Big Question

What actions can be taken to improve a statement of financial position using given figures?

GRADE DESCRIPTORS

To achieve a grade, a learner is expected to demonstrate these attributes across the essential content of the component. The principle of best fit will apply in awarding grades.

Level 1 Pass Learners demonstrate basic knowledge of the elements of promotion and financial records. They can make basic observations about given information and can identify different promotional and financial factors that have positive or negative impacts. They demonstrate a basic ability to interpret information to identify factors that could potentially affect the performance of an enterprise, such as relevant information from cash flow forecasts and statements. Learners are able to make basic recommendations for success.

Level 2 Pass Learners demonstrate knowledge and understanding of the elements of promotion and financial records and apply them in context. They are able to interpret given information to explain factors that could potentially affect the performance of an enterprise, including the impact of specific factors such as information from cash flow forecasts and statements. They can explain how different factors have positive or negative impacts. Learners can produce some realistic recommendations for success.

Level 2 Distinction Learners demonstrate a high level of knowledge and understanding of the elements of promotion and financial records and apply them in context. They demonstrate a high level of ability to interpret given information and can explain, in detail, the factors that could potentially affect the success of an enterprise, and how different promotional and financial factors have positive and negative impacts. Learners can produce clear recommendations for success, with clear, realistic and convincing justifications.

B6 Statement of financial position.

Learners will complete and interpret a statement of financial position using given figures, and suggest appropriate actions.

- Statement of financial position: shows the financial performance of an enterprise at a point in time.
- Categorise total assets and liabilities using a statement of financial position.

Knowledge Phase

A **Balance Sheet** is a financial statement which shows the **ASSETS, LIABILITIES** and **CAPITAL** of a business on a particular date

Assets

Are items **owned** by the business or owed to the business



Capital

Is the money **invested** by the owners or shareholders

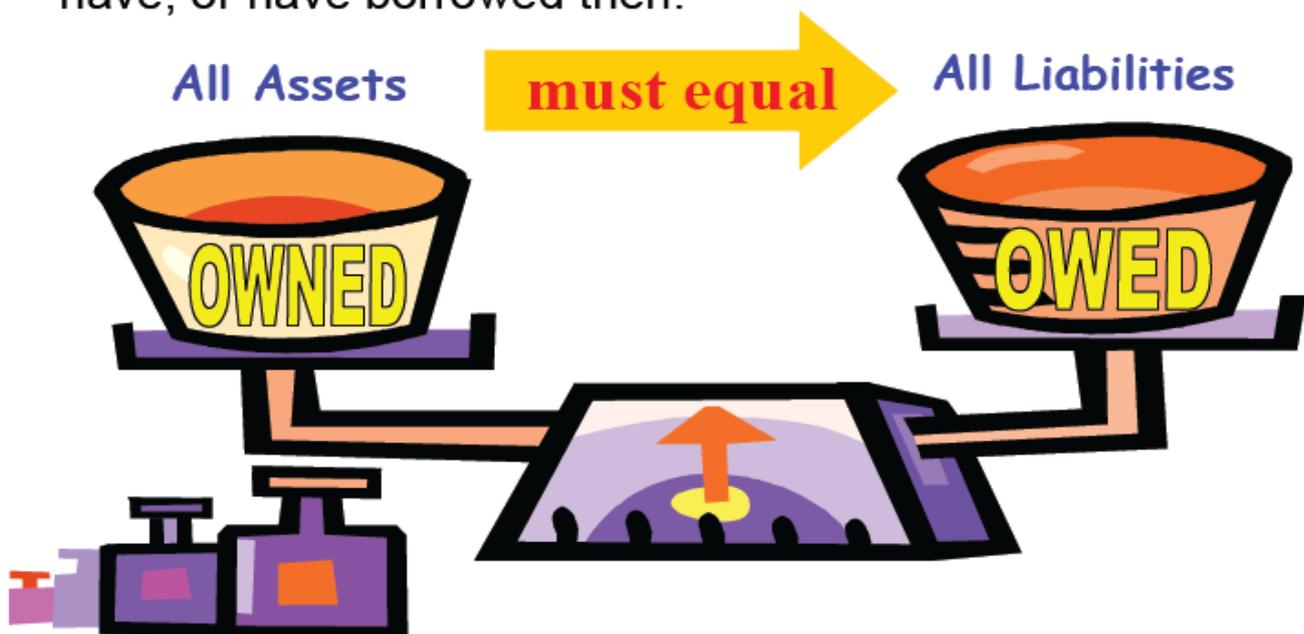
Liabilities

Are amounts **owed** by the business



The key principle of a Balance Sheet

- Businesses can only spend money that they either have, or have borrowed then:



Explaining Assets



Fixed assets

- last a long time, eg buildings, vehicles, computers
- cost a lot of money
- could be sold to increase capital (ie money owned by the business)

Current assets

- Items used and replaced regularly, eg raw materials or stock
- Customers who owe money (called **debtors**) for goods they have bought
- Money in the current bank account.

Give two examples of a **FIXED** asset



Give two examples of a **CURRENT** ASSET



Explaining Liabilities



Current Liabilities

- amounts owed which are due to be repaid within a year.
- Money the business owes to suppliers (called **creditors**) for goods purchased on credit
- Short term loans

Long Term Liabilities

- amounts owed which are due to be repaid in more than a years time.
- Mortgages normally payable over a 25 year period.
- Long term bank loans

Activity.

1. Please explain the term 'liability.'

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Which two of these are liabilities?

- a. Equipment
- b. Bank loan
- c. Customers who owe money (debtors)
- d. Overdraft.

Balance Sheet/Statement of Financial position

ASSETS - what we OWN.	£	£
Fixed assets		
Equipment	500	
Transport	2 000	
Property	2 500	5 000
Current assets		
Stock	1 000	
Trade receivables (Money owed to us)	400	
Cash in bank	1 100	2 500
Total assets		7 500
LIABILITIES - what we OWE.		
Current liabilities		
Trade payables (Money we OWE)	700	
Overdraft	300	1 000
Working capital (net current assets)		1 500
Total assets less current liabilities		6 500
Shareholders' funds		
Share capital	2 500	
Retained profit	500	

Key Terms

Assets - what we OWN.

Trade receivables

Liabilities - money we OWE

Working capital:

current assets – current liabilities

CAPITAL EMPLOYED: subtract current liabilities from total assets or add fixed assets to working capital.

Calculating the Working Capital

Working capital (The cash the business has): Current Assets – Current Liabilities.

Capital Employed: Fixed Assets + Working Capital OR Total Assets – Current Liabilities.

ASSETS	Please complete the Balance Sheet	£	£
Fixed assets			
Equipment		10,000	Total fixed assets: £
Transport		2 000	
Property		2 500	
Current assets			
Stock		1 000	Total current assets: £
Trade receivables		400	
Cash in bank		10,000	
Total assets			Total: £
LIABILITIES			
Current liabilities			
Trade payables		800	Total: £
Overdraft		300	
<u>Working Capital (net current assets)</u>			
<u>Total assets less current liabilities</u>			

Application Phase

Tyler has started to produce a Statement of Financial Position.

(b) Complete the Statement of Financial Position.

Extract from Statement of Financial Position as at 30 April 2019

	£	£	
FIXED ASSETS			
Car	3 275		
Photographic equipment	3 140		
Total fixed assets		(i)	(1)
CURRENT ASSETS			
Inventory	626		
Debtors	(ii)		(1)
Total current assets	1 565		
Total current liabilities	1 252		
Net current assets	(iii)		(1)
NET ASSETS - all the assets of the Company minus the liabilities of the Company.	(iv)		(1)

Consolidation Phase

ACTIVITY

Tyler wants to improve the financial management of his enterprise as it grows. He thinks that producing financial statements would help.

He is not sure what some of the terms mean in a statement of financial position.

State the meaning of the term 'creditor'.

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State the meaning of the term 'capital'.

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Tyler has started to produce a Statement of Financial Position.

Complete the Statement of Financial Position.

Extract from Statement of Financial Position as at 30 April 2019

	£	£	
Fixed assets			
Car	3 275		
Photographic equipment	3 140		
Total fixed assets		(i)	(1)
Current assets			
Inventory	626		
Debtors	(ii)		(1)
Total current assets	1 565		
Total current liabilities	1 252		
Net current assets	(iii)		(1)
Net assets		(iv)	(1)

Exam practice question

Tyler needs to calculate liquidity ratios to help with financial decisions.

He asks you to calculate these ratios based on the figures in the statement of financial position.

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Liquid capital ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$

Calculate the current ratio for Tyler's enterprise.

Show your working

Calculate the liquid capital ratio for Tyler's enterprise

Show your working

Tyler wants to improve the liquidity of his enterprise. He has looked at his statement of financial position to see what actions he could take to help him to do this.

Explain one action Tyler could take to improve the liquidity of his enterprise.

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(Total for Activity 6 = 10 marks)

The Big Question

What are my questions an enterprise needs to ask when it is completing a Statement of Financial Position?

2. Is there enough money to carry on running the business?

1. Have I got enough money in my business to pay off the debts?

3. Can I reduce debtor terms?

Next Lesson

I'm greedy for knowledge – I always want more, tell me what happens if creditor (money that the business owes) terms are increased and if debtor (money owed to the business by customers) terms are reduced.