Exercise walk-through

Statement of financial position ▪ 5.4

eXercise

You must be able to

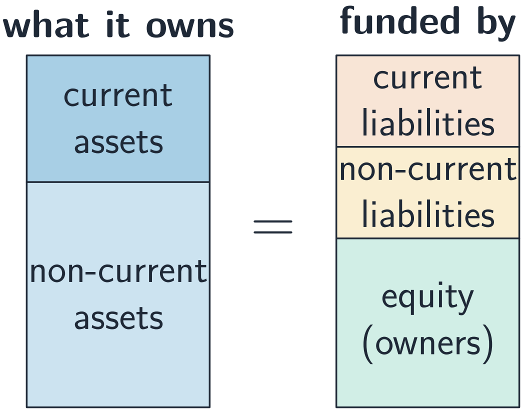
- explain what a statement of financial position shows
- distinguish non-current/current assets and liabilities
- explain how the statement is used

Method — What the business owns and owes

- **Non-current assets 非流动资产**: long-term (buildings, machines). **Current assets 流动资产**: short-term (**inventory 库存**, money owed, cash).
- **Current liabilities 流动负债**: debts due within a year (overdraft, suppliers). **Non-current liabilities 非流动负债**: long-term loans.
- **Owners' equity 所有者权益**: money the owners put in, plus retained profit.
- **Used to** check the firm's worth, its debts, and whether it can pay them.

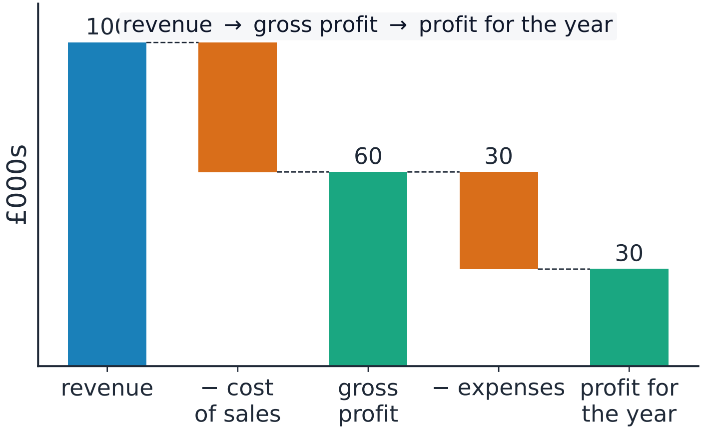
Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

Method — What the business owns and owes



The two sides always balance: assets equal liabilities plus equity

Method — What the business owns and owes



The income statement steps down from revenue to the profit for the year

Practice 2.1 ▪ 2 marks

Define the term *current asset*.

Solution 2.1

Method: What the business owns and owes

Worked steps

a short-term asset that is cash or can soon be turned into cash, such as inventory or money owed by customers (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

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

Solution 2.2

Worked steps

a current liability is a debt due within a year (overdraft, suppliers); a non-current liability is due after more than a year (a long-term loan) (2 for a clear difference; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

Identify two examples of non-current assets.

Solution 2.3

Method: What the business owns and owes

Worked steps

any two of: buildings; machines; vehicles; equipment $(1 + 1)$.

Exam-style 3.1 ▪ 2 marks

Identify two things a statement of financial position shows.

Solution 3.1

Method: What the business owns and owes

Worked steps

any two of: what the business owns (assets); what it owes (liabilities); the owners' equity; whether it can pay its debts $(1 + 1)$.

Exam-style 3.2 ▪ 6 marks

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

Solution 3.2

Method: What the business owns and owes

Worked steps

[6] For **each** of two reasons: K 1 + An up to 2 — e.g. *check it can repay*: the bank sees the assets and debts → it judges whether the firm can repay a loan. *Check security*: it sees the non-current assets that could act as collateral → it lends more safely. Maximum 3 each.

Exam-style 3.3 ▪ 6 marks

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.

Solution 3.3

Method: What the business owns and owes

Worked steps

[6] Both sides + judgement. **For the statement of financial position:** it shows what the firm owns and owes and whether it is financially stable. **Against:** the income statement shows the *profit*, which is what most matters to an investor's return. **Judgement (Ev):** an investor needs **both** — the income statement for profit and the statement of financial position for stability and debts; neither alone is enough, so it depends on what the investor most wants to know.