

# *Measuring business success*

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## **Learning Aim C:**

Understand how businesses measure success

# *Balance sheet*

A **statement of financial position** shows the financial position of a business at a point in time

- Does it have enough money to keep trading

AKA **balance sheet**

# Balance sheet

**Assets** – items owned by the business or money owed to it

- **Fixed** assets – e.g. vans, machines, property
- **Current** assets – cash in the bank or things that can be easily converted into cash – e.g. stock
- **Trade receivables** – money owed by customers

# Balance sheet

**Liabilities** – debts **owed** by the business

- Current liabilities – short term things
  - ▣ Trade payables – money owed to suppliers
  - ▣ Overdrafts – short term loans
  
- Long term liabilities – e.g. borrowed over 10 years etc...

# *Balance sheet*

**Working capital** – the money the business needs to trade day to day

AKA **Net current assets**

Current assets should be more than current liabilities – this will mean cash flow is likely to be positive and all costs can be met

# *Balance sheet*

## **Shareholders' funds:**

Money invested in the business by **shareholders** or **retained profit** – money kept inside the business and reinvested rather than being taken as a profit by the owners

## Balance sheet example

| ASSETS                                       | £     | £     |
|--|-------|-------|
| <b>Fixed assets</b>                          |       |       |
| Equipment                                    | 500   |       |
| Transport                                    | 2 000 |       |
| Property                                     | 2 500 | 5 000 |
| <b>Current assets</b>                        |       |       |
| Stock  | 1 000 |       |
| Trade receivables                            | 400   |       |
| Cash in bank                                 | 1 100 | 2 500 |
| <b>Total assets</b>                          |       | 7 500 |
| LIABILITIES                                  |       |       |
| <b>Current liabilities</b>                   |       |       |
| Trade payables                               | 700   |       |
| Overdraft                                    | 300   | 1 000 |
| <b>Working capital (net current assets)</b>  |       | 1 500 |
| <b>Total assets less current liabilities</b> |       | 6 500 |
| <b>Shareholders' funds</b>                   |       |       |
| Share capital                                | 2 500 |       |
| Retained profit                              | 500   |       |

Assets

Liabilities

**Working capital:**

current assets – current liabilities

= Total assets - Liabilities

**Right hand side = total of left hand side**