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Balance Sheet

Balance sheets provide a snap shot of the assets and liabilities of a business at a point of time.

It shows what the business owns, is owed and owes:

- ▶ **Owens** – assets such as buildings, stock and cash.
- ▶ **Is owed** – money from debtors.
- ▶ **Owes** – money to creditors and the bank.
- ▶ **Owes** to the investors and owners of the business (they own the profit).

A typical balance sheet would look like this:

Balance sheet for XYZ plc as at 31st March 2003

	£'000	Notes
Fixed assets	1,800	Likely to find sub-totals for buildings, equipment and vehicles
Current assets		
Stock	300	
Debtors	250	
Cash	150	
Total current assets	700	Stock + debtors + cash
Current liabilities	(400)	
Net Current Assets	300	Current assets – current liabilities; also known as working capital
Net assets employed	2,100	Fixed assets + net current assets
<i>Financed by:</i>		
Long term liabilities	700	e.g. loans from banks
Share capital	1,000	Amounts invested by shareholders
Profit and loss reserves	400	The profit accumulated that has been retained by the business
Capital employed	2,100	Long term liabilities + share capital + profit and loss reserves

Note that **net assets employed = capital employed**. This is always the case, because the capital employed is the amount of long-term money put into the business and the net assets employed how it is used.

Fixed assets

Fixed assets are:

- ▶ Assets that provide a benefit for the business in the long-term (normally for at least a year), e.g. buildings and machinery

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- ▶ Assets that the business intends to keep

Note that fixed assets are depreciated over their useful life

Current assets

Current assets are assets that will be used up or sold in the next year + the cash balances kept in the business. The main categories are:

- ▶ **Stocks** – finished goods, work in progress and raw materials (note: you may also see stocks called “inventories”).
- ▶ **Debtors** – people who owe the business money (customers who owe money are known as “trade debtors”).
- ▶ **Cash** – in the bank and in the cash box.

Current liabilities

Current liabilities are what the business owes in the short run. The main categories are:

- ▶ **Creditors** – money owed by the business in the short term (suppliers who are owed money by the business are known as “trade creditors”).
- ▶ **Bank overdraft** – amounts due within the next 12 months.

The total of **current assets minus current liabilities** is known as **working capital**. This is amount of money available for the day to day running of the business. A negative figure can be a problem for some businesses that may need to pay for outstanding debts, but do not have enough spare cash to do so.

- ▶ **Long-term liabilities** are the monies the business has borrowed for a period of more than a year – mainly bank loans.
- ▶ **Share capital** is the money invested in the business by the owners.
- ▶ **Profit and loss reserves** are the profits due to the owners that have not already been paid out in dividends. This money is not necessarily held in cash (see the current assets), but may have been used to buy more stock or fixed assets.
- ▶ **Shareholder funds** are the share capital and reserves added together.
- ▶ **Capital** is the amount of long-term money put into the business to buy assets. Main forms of capital: owner’s money (share capital) and long term bank loans.

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