

3.4 Final accounts

Final accounts: Statement of financial position



Figure 1. The statement of financial position shows the value of assets – such as these weaving looms – as well as the liabilities of a business.

Credit: Trevor Williams, Getty Images

The statement of financial position (also known as the balance sheet) is a ‘snapshot’ of a company’s financial position at a specific point in time, such as the end of the financial year. It states the company’s assets and liabilities and shareholders’ investment or equity in the business.

This is shown in the simple accounting equation below:

$$\text{Assets} = \text{liabilities} + \text{equity}$$

For the statement of financial position to be valid, both sides of the equation must ‘balance’.

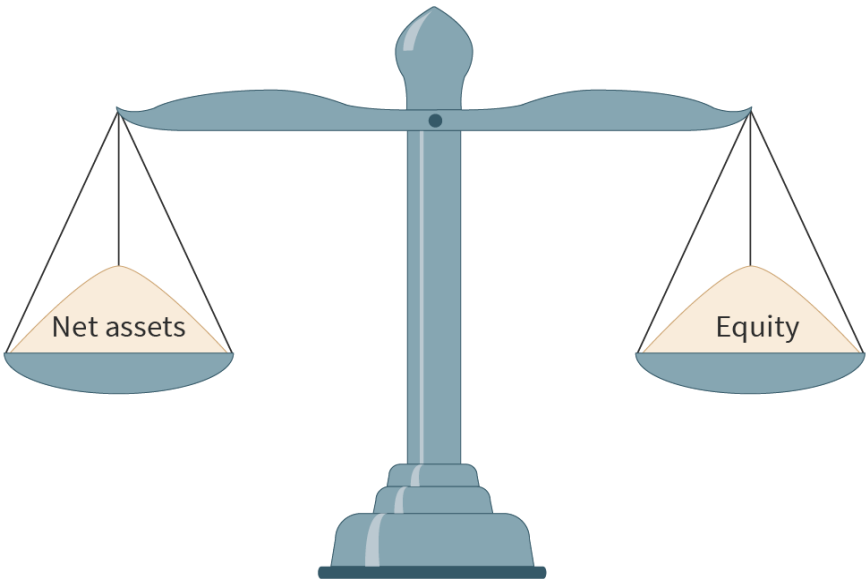


Figure 1. The statement of financial position shows that assets and equity are equal.

Statement of financial position for a for-profit enterprise

As in [Section 3.4.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/final-accounts-st-of-profit-or-loss-id-39284\)](#), this section uses financial data for the fictitious company Pap-Pie Ltd for the year ending 31 December 2021. The full statement of financial position (balance sheet) for the company is shown in **Table 1**. The table is divided by colour to indicate the different sections of the statement of financial position, which will be explained in this section in different steps moving from top to bottom in the statement as follows:

- **Step 1:** Assets: current and non-current (green section)
- **Step 2:** Liabilities: current and non-current (yellow section)
- **Step 3:** Net assets and equity (orange section)

Table 1. Statement of financial position for Pap-Pie Ltd for the year ending 31 December 2021.

	Thousands of \$	Thousands of \$
Non-current assets		

	Thousands of \$	Thousands of \$
Buildings	250	
Machinery and equipment	300	
Motor vehicles	150	
Accumulated depreciation	(40)	
Non-current assets		660
Current assets		
Cash	40	
Debtors	10	
Stock	20	
Current assets		70
Total assets		730
Current liabilities		
Overdrafts	8	
Trade creditors	7	
Short-term loans	5	
Current liabilities		20
Non-current liabilities		

	Thousands of \$	Thousands of \$
Borrowing (long term)	100	
Mortgage	80	
Non-current liabilities		180
Total liabilities		200
Net assets		530
Equity		
Share capital	400	
Retained earnings	130	
Total equity		530

Step 1: Assets (current and non-current)

Exam tip

In this section, you will learn about current assets first, so that the terminology 'non-current' makes sense.

However, in the statement of financial position, you will list non-current assets first, as shown in **Table 1**.

Listing current assets and then current liabilities directly below the assets also makes it easier to see the working capital of the business. Working capital is calculated by subtracting current liabilities from current assets. You will learn more about working capital in Subtopic 3.5 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39042).

The first section of information presented in the statement of financial position relates to assets. Assets are all items of value that are owned by the business; they can be broken down into current assets and non-current assets. Non-current assets have been referred to as 'fixed assets' until now. Current assets are items of value owned by the business that can be converted into cash in the short term; that is within 12 months. Typical types of current assets are:

- **Cash:** This includes cash in hand and cash in the business's bank account.
- **Debtors:** This relates to money owed to a business by individuals or other organisations. For example, if a person or business buys goods on credit from another business, but has not yet paid for the goods, the person or business owing the money would be considered a debtor.
- **Stock (inventory):** This refers to unsold goods, raw materials or work-in-progress that the company has in hand at the end of the trading period.



Figure 3. Stock (inventory) is considered a current asset.

Credit: alvarez, Getty Images

The ease with which assets can be converted into cash is called liquidity. Cash is the most liquid current asset. Debtors are the next most liquid current asset, followed by stock. Stock is considered the least liquid current asset, since the business does not

know whether it can sell the stock within the trading period. When listing current assets in the statement of financial position, you should place them in order – either from most liquid to least liquid or the other way around.

Non-current assets, also known as fixed assets, are long-term tangible items of value owned by the business. These are items that are necessary for the operations of the business and have a lifespan of over 12 months, or are not sold within a year. These assets are less liquid than current assets. Examples of non-current assets include factory buildings, land, equipment, and other physical capital. When listing these assets in the statement of financial position, you would also list them in a pattern from most to least liquid, or the other way around.



Figure 4. A coffee roasting machine is a non-current asset.

Credit: Edwin Tan, Getty Images

Over time, some non-current assets lose their value. For example, a coffee machine in a café that was bought new for \$2000 may only be worth \$1000 after a few years. This is because the machine will not work as well after making thousands of coffees, and because newer better coffee machines will be available. This loss in value is called depreciation and is included in the statement of financial position. This keeps value of non-current assets up to date by subtracting accumulated (over time) depreciation from the value of non-current assets (see **Table 2**). HL students will learn more about depreciation in [Section 3.4.5 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/depreciation-hl-id-39287\)](https://app.kognity.com/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/depreciation-hl-id-39287).

Table 2. Assets for Pap-Pie Ltd recorded in the statement of financial position (first section).

	Thousands of \$	Thousands of \$
Non-current assets		
Buildings	250	
Machinery and equipment	300	
Motor vehicles	150	
Accumulated depreciation	(40)	
Non-current assets		660
Current assets		
Cash	40	
Debtors	10	
Stock	20	
Current assets		70
Total assets		730

Activity

Learner profile: Inquirer

Approaches to learning: Thinking skills (transfer)

Consider a business that you visit regularly. List the current and non-current assets that you notice in the business.

Step 2: Liabilities (current and non-current)

The next set of information in the statement of financial position is liabilities. Liabilities are all funds owed by the company to financial and other institutions, such as banks and suppliers respectively. Liabilities can be classified into current liabilities and non-current liabilities.

Current liabilities are funds that a business owes to individuals or institutions that should be paid within 12 months. Examples include:

- **Bank overdrafts:** These relate to situations whereby a business takes out more money from its bank account than it had in deposit. You learned about overdrafts in Section 3.2.3 (</study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/ext-sources-of-finance-debt-id-39292>).
- **Short-term loans:** These refer to money that the business has borrowed from a bank, which will be paid back over a relatively short period of time. You learned about short-term finance in Section 3.2.2 (</study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/ext-sources-of-finance-equity-id-39291>).
- **Trade creditors:** These relate to money that a business owes another business or individual when it has bought goods or services on credit. For example, Pap-Pie Ltd may buy corn flour from a miller on credit and be given 30 days to pay. You learned about trade credit in Section 3.2.3 (</study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/ext-sources-of-finance-debt-id-39292>).

Non-current liabilities are funds that a business owes individuals and/or institutions that are paid back over a longer period, typically more than 12 months. Examples are long-term loans and mortgages. A mortgage is a loan for immovable property such as land and buildings, and where the property itself is taken as collateral. The liabilities of Pap-Pie Ltd are listed in **Table 3**.

Table 3. Liabilities of Pap-pie Ltd recorded in the statement of financial position (second section).

	Thousands of \$	Thousands of \$
Current liabilities		
Overdrafts	8	
Trade creditors	7	
Short-term loans	5	
Current liabilities		20
Non-current liabilities		
Borrowing – long term	100	
Mortgage	80	
Non-current liabilities		180
Total liabilities		200

Exam tip

Students often confuse the terms ‘debtors’ and ‘trade creditors’.

Debtors are considered a current asset, referring to the amount of money owed to the business by customers who have been sold goods on credit.

Trade creditors are considered a current liability, referring to the amount of money the business owes to its suppliers for goods bought on credit.

Step 3: Net assets and equity

The next section of the statement of financial position will show why the statement is often called a balance sheet. As you will see, the net assets ‘balance’ with the equity in the business.

The net assets are the total assets minus the total liabilities. In the case of Pap-Pie Ltd this would be:

$\$730\,000 - \$200\,000 = \$530\,000$

The value of the net assets should be equal to the value of equity in the business. Equity refers to the money that the shareholders have invested in the business plus retained profits (retained earnings) of the business. There are two elements to the equity section of the statement of financial position (see **Table 4**):

- **Share capital:** This is the money raised through the sale of shares.
- **Retained earnings (retained profit):** This is the amount of net profit after interest, tax and dividends have been paid. It is the last line of the statement of profit or loss that you learned about in [Section 3.4.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/final-accounts-st-of-profit-or-loss-id-39284\)](/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/final-accounts-st-of-profit-or-loss-id-39284).

Table 4. Net assets and equity of Pap-Pie Ltd recorded in the statement of financial position (third section).

Net assets		530
Equity		
Share capital	400	
Retained earnings	130	
Total equity		530

Now that you have been introduced to the three sections of the statement of financial position (balance sheet), you may want to revisit **Table 1** to see how assets, liabilities and equity all fit together.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (transfer)

Classify the following items from a statement of financial position (balance sheet) into assets (current and non-current), liabilities (current or non-current) or equity by copying the table and writing an 'x' in the relevant cells.

Statement of financial position (balance sheet) item	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Own equity
Overdraft					
Stock					
Share capital					
Cash					
Mortgage					
Building					
Trade creditors					
Retained profit					

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (transfer)

Use the following financial information about Ahaan Hotels – a fictional multinational company – to complete the tasks below.

- Current assets: \$2006 million
 - Current liabilities: \$1836 million
 - Share capital: \$1040 million
 - Retained profit: \$2590 million
 - Non-current liabilities: \$162 million
 - Equity: \$3630 million
 - Non-current assets: \$3622 million
1. Construct a statement of financial position (balance sheet) for Ahaan Hotels for the year ending 31 December 2021 (in millions of dollars). Note that because the list of items given does not include subcategories of assets or liabilities, the statement of financial position only needs to include one column of figures.
 2. Create a second version of your statement of financial position, and add in hypothetical subcategories of non-current assets, current assets, current liabilities and non-current liabilities. Make sure to place these in the right grouping and use numbers that would make sense given the totals for assets and liabilities.

Statement of financial position for non-profit social enterprises

As was the case with the statement of profit or loss, non-profit social enterprises have a slightly different structure for the statement of financial position (balance sheet). Non-profit social enterprises have no shareholders, so there is no share capital listed in the equity section of the statement of financial position.

Table 5. Statement of financial position for Lowood University for the year ending 31 December 2021.

	Thousands of \$	Thousands of \$
Non-current assets		
Property, plant, equipment	250 000	
Accumulated depreciation	(25 000)	
Non-current assets		225 000
Current assets		
Cash	510	
Debtors	120	
Stock	90	
Current assets		720
Total assets		225 720
Current liabilities		
Trade creditors	250	
Short-term loans	5000	
Current liabilities		5250
Non-current liabilities		
Borrowing (long term)	70 000	
Non-current liabilities		70 000

	Thousands of \$	Thousands of \$
Total liabilities		75 250
Net assets		150 470
Equity		
Retained earnings	150 470	
Total equity		150 470

Activity

Learner profile: Thinkers; Inquirers

Approaches to learning: Thinking skills (creative thinking, critical thinking, transfer); Research skills (information literacy)

The following activities will deepen, extend and connect your understanding of final accounts. Choose one or more activity to complete, depending on your learning needs.

1. **Deepen:** Make up your own practice question with hypothetical financial data and write out the relevant statement. Challenge another student to complete the statement. Then ask them to do the same for you. This will give you more practice and, by having to think up data that makes sense in the statements, you will be thinking in a different way and deepening your understanding.
2. **Extend:** Select a large publicly listed company that you know and access that company's annual report from the most recent year. You should be able to see the statement of profit or loss (income statement) and the statement of financial position (balance sheet). These statements will not look exactly like the statements required by the IB, but you should be able to make some sense of them using your new knowledge. These statements could be a good source of information for your internal assessment or extended essay.
3. **Connect with descriptive data:** You can practise graphing and interpreting data ([Section 4.4.6 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-descriptive-statistics-id-39001\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-descriptive-statistics-id-39001)) by looking at company final account information over time. There are several places you can look to find company financial data. One example is the [Wall Street Journal Markets \(https://www.wsj.com/market-data/quotes/company-list/?mod=nav_top_subsection\)](https://www.wsj.com/market-data/quotes/company-list/?mod=nav_top_subsection) page, where you can search for companies by sector or country. There is a tab for financial accounts data, which usually covers the past five years.

Find a company that you know and use the data in the financial accounts to graph sales revenue, gross profit, profit before income and tax (EBIT), profit (net profit), or some other indicator from the statement of financial position in which you are interested.

International Mindedness

Different countries will have different reporting requirements for the statement of profit or loss and the statement of financial position. If you research this information for a company in your own country, the reporting format may look different from what has been explained here. Nonetheless, you should be able to pick out the key elements of the final accounts.