**Section 1**

1. What is the difference between a fixed asset and a current asset? (4 marks)
2. What is the difference between current liabilities and long term liabilities? (4 marks)
3. What is a creditor? (2 marks)
4. What is working capital and how is it calculated? (4 marks)
5. What are net assets employed and how is it calculated? (4 marks)
6. What is capital employed? (2 marks)

**Section 2: Example Balance Sheet**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 1. Complete the balance sheet for the business for 2011 and 2012. (12 marks) 2. In which year do you think their balance sheet is better? Explain your answer. (8 marks) | | | | | | |
|  | 2011 | |  | 2012 | |  |
|  | $ | $ |  | $ | $ |  |
| **Fixed Assets** |  |  |  |  |  |  |
| Premises | 60,000 |  |  | 74,000 |  |  |
| Equipment | 14,000 |  |  | 24,000 |  |  |
|  |  |  |  |  |  |  |
|  | | |  |  | |  |
| **Current Assets** |  |  |  |  |  |  |
| Stocks | 2,000 |  |  | 3,000 |  |  |
| Debtors | 5,000 |  |  | 3,000 |  |  |
| Cash at Bank | 5,000 |  |  | 2,000 |  |  |
|  |  |  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |  |  |
| Overdraft | 3,000 |  |  | 3,000 |  |  |
| Creditors | 3,000 |  |  | 3,000 |  |  |
|  |  |  |  |  |  |  |
|  | | |  |  | |  |
| **Working Capital** |  |  |  |  |  |  |
| **Net Assets** |  |  |  |  |  |  |
|  | | |  |  | |  |
| Financed by: |  |  |  |  |  |  |
| Owners Capital |  | 40,000 |  |  | 65,000 |  |
| Loan |  | 40,000 |  |  | 35,000 |  |
| **Capital Employed** |  |  |  |  |  |  |

**Section 1 – Answers**

1. What is a fixed asset?

Fixed assets are long term asset the business owns e.g. a building whereas as a current asset is an asset that can be turned into cash quickly e.g. cash in the bank or stock

1. What is the difference between current liabilities and long term liabilities?

Current liabilities are debts which have to be paid in the very near future and long term liabilities debts which can be paid over a longer period of time.

1. What is a creditor?

This is a an organisation who lends a business money (e.g. a bank)

1. What is working capital?

This is the money a business has available to pay its running costs.

***Current assets – Current liabilities***

1. What are net assets employed and how is it calculated?

This shows a business the value of all the assets it owns.

***Fixed assets + Working Capital***

1. What is capital employed?

This shows where all the money that the business has used came from.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Section 2 – Answers** | 2011 | |  | 2012 | |  |
|  | $ | $ |  | $ | $ |  |
| **Fixed Assets** |  |  |  |  |  |  |
| Premises | 60,000 |  |  | 74,000 |  |  |
| Equipment | 14,000 |  |  | 24,000 |  |  |
|  |  | **74,000** |  |  | **98,000** |  |
|  | | |  |  | |  |
| **Current Assets** |  |  |  |  |  |  |
| Stocks | 2,000 |  |  | 3,000 |  |  |
| Debtors | 5,000 |  |  | 3,000 |  |  |
| Cash at Bank | 5,000 |  |  | 2,000 |  |  |
|  |  | **12,000** |  |  | **8,000** |  |
| **Current Liabilities** |  |  |  |  |  |  |
| Overdraft | 3,000 |  |  | 3,000 |  |  |
| Creditors | 3,000 |  |  | 3,000 |  |  |
|  |  | **6,000** |  |  | **6,000** |  |
|  | | |  |  | |  |
| **Working Capital** |  | **6,000** |  |  | **2,000** |  |
| **Net Assets** |  | **80,000** |  |  | **100,000** |  |
|  | | |  |  | |  |
| Financed by: |  |  |  |  |  |  |
| Owners Capital |  | 40,000 |  |  | 65,000 |  |
| Loan |  | 40,000 |  |  | 35,000 |  |
| **Capital Employed** |  | **80,000** |  |  | **100,000** |  |