

Interpretation of financial statements

2017-18

FINANCIAL STATEMENTS

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→ shows assets, liabilities, capital
- ▶ statement of *comprehensive income* (or *profit and loss account*)
→ shows profits and losses of the year

KEY INFORMATION

STATEMENT OF COMPREHENSIVE INCOME

	2014 (£m)	2013 (£m)
Revenue	25.4	21.2
Cost of sales	12.3	11.7
Gross profit	13.1	9.5
Selling expenses	3.2	2.3
Admin expenses	6.4	5.2
Operating profit	3.5	2.0
Finance costs	0.4	0.4
Profit for the year (net profit)	3.1	1.6
Taxation	0.6	0.3
Profit for the year (net profit) after taxation	2.5	1.3

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- ▶ *Finance costs*: e.g., interest
- ▶ *Profit for the year (net profit)*: operating profit - cost of finance
- ▶ *Profit for the year (net profit) after tax*: revenue - all expenses - taxes

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- ▶ *Government*: estimate taxes (HMRC) and calculate public consumption (ONS)

STATEMENT OF FINANCIAL POSITION

Balance sheet: summary of a firm's assets, liabilities and capital

- ▶ *Assets*: resources that a business owns and uses

see worked example at page 369.

$$\text{asset} = \text{capital} + \text{liabilities}$$

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- ▶ *Capital*: money brought by owners

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KEY INFORMATION

FINANCIAL POSITION (BALANCE SHEET)

	2014 (£m)	2013 (£m)
Non-current assets		
Goodwill	30.5	27.8
Other intangible assets	15.2	11.6
Property, plant & equipment	97.7	94.1
	143.4	133.5
Current assets		
Inventories	8.6	6.7
Trade and other receivables	3.4	3.1
Cash and cash equivalents	3.1	2.7
	15.1	12.5
Total assets	158.5	146.0
Current liabilities		
Trade and other payables	5.5	5.1
Dividends payable	1.2	0.8
Current tax liabilities	6.7	5.7
	13.4	11.6
Non-current liabilities		
Borrowings	24.5	26.1
Provisions	4.1	3.4
Pensions	7.8	6.7
	36.4	36.2
Total liabilities	49.8	47.8
Net assets	108.7	98.2
Shareholders' equity		
Share capital	30.0	30.0
Other reserves	17.7	9.7
Retained earnings	61.0	58.5
Total equity	108.7	98.2

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- ▶ *Property, plant and equipment*:
- ▶ *Investments*: financial assets owned by business (e.g., shares held in other companies)

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- ▶ *Current tax liabilities*: corporation tax, income tax

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- ▶ *Provisions:* future expenditures that arise in contracts or warranties

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NET ASSETS

- ▶ (value of all assets) - (value of all liabilities)

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- ▶ (value of all assets) - (value of all liabilities)
- ▶ same value as *total equity*

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- ▶ *Others:*

KEY TERMS

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- ▶ *Finance cost*: interest paid by a business on any borrowed money
- ▶ *Finance income*: interest received by a business on any money held in deposit accounts