

Case study – Balance sheet basics

This is the solution to part 1 of the case study found at the end of:

- Chapter 6 *The Balance Sheet*

(a)

The over-riding risk facing Isobel, of course, is that the business will fail. Failure may result from any, all, or a combination of the following:

- Misjudgement of the market leading to poorer than expected sales
- Failure to price goods at a level where they will sell and cover all the costs of the business
- Competition from other providers of craft goods
- Poor location of business
- Failure to market the business effectively
- Mismanagement through lack of experience and training (Isobel does not know anything about business start ups or finance)
- Running out of money. The borrowing available from Andrew and Hannah may not be sufficient

(b) Buchanan International Designs – balance sheet at 1 March 20X1

	£
Asset (bank account)	50 000
Liability (loan from uncle and aunt)	40 000

Net assets	<u>10 000</u>
	<u><u> </u></u>
Capital	<u>10 000</u>
	<u> </u>

(a) Buchanan International Designs – balance sheet at 2 March 20X1

	£
Fixed assets	
Lease	10 000
Current assets	
Bank account*	40 000
	<u>50 000</u>
Long-term liabilities	
Liability (loan from uncle and aunt)	40 000
Net assets	<u>10 000</u>
	<u><u> </u></u>
Capital	<u>10 000</u>
	<u> </u>

*The balance on the bank account was £50 000 before Isobel wrote the cheque for £10 000. After she has issued the cheque, the bank account balance drops to £40 000.

(b) Buchanan International Designs – balance sheet at 3 March 20X1

	£
Fixed assets	
Lease	10 000
Display stands	4 500
	<hr/> 14 500
Current assets	
Bank account*	35 500
	<hr/> 50 000
Long-term liabilities	
Liability (loan from uncle and aunt)	40 000
Net assets	<hr/> 10 000
	<hr/>
Capital	<hr/> 10 000
	<hr/>

*The balance on the bank account was £40 000 before Isobel wrote the cheque to the carpenter for £4 500. After she has issued the cheque, the balance on the bank account drops to £35 500.

(c) Buchanan International Designs – balance sheet at 4 March 20X1

	£	£
Fixed assets		
Lease		10 000
Display stands		4 500

	<hr/> 14 500
Current assets	
Stock	23 500
Bank account	35 500
	<hr/> 59 000
Current liabilities	
Amount owed to Ivan	(23 500)
	<hr/>
Net current assets (£59 000 – £23 500)	35 500
	<hr/> 50 000
Long-term liabilities	
Liability (loan from uncle and aunt)	(40 000)
	<hr/>
Net assets	<hr/> 10 000
	<hr/>
Capital	<hr/> 10 000
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