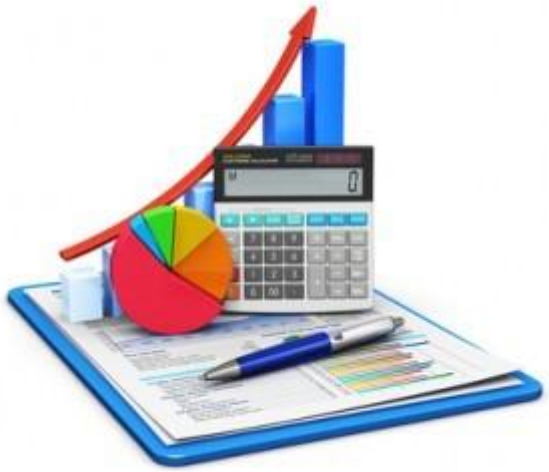
# UNIT 2
# MANAGING FINANCIAL RESOURCES AND DECISIONS



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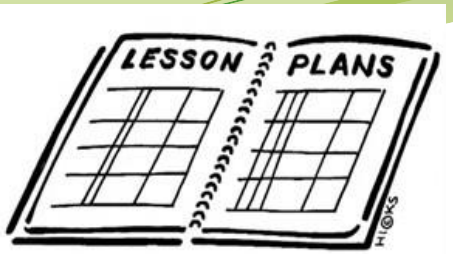
# MANAGING FINANCIAL RESOURCES AND DECISIONS

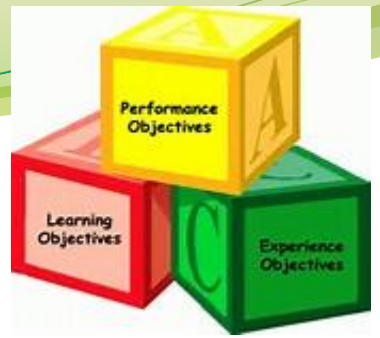
- **LO 2:Understand the implications of finance as a resource within a business**




# THE BASIC SYLLABUS

- Understand the sources of finance available to business.
- Understand the implications of finance as a resource within a business
- Be able to make financial decision's based on financial information
- Be  able to evaluate the financial performance of a business.

# LEARNING OBJECTIVE




- At the end of the class students should be able to:

- AC 2.4 Explain the impact of finance on the financial statements

# OVERVIEW

- Companies must produce a series of financial statements to provide information on the their activities, net worth and viability. There are three main financial statements maintained by companies and each plays a different role. Investors, lenders and stockholders have an interest in the financial statements, as do owners and members of management.

# FINANCIAL STATEMENTS

- Financial statements are a collection of reports about an organization's financial results, financial condition, and cash flows. They are useful for the following reasons:
- To determine the ability of a business to generate cash, and the sources and uses of that cash.
- To determine whether a business has the capability to pay back its debts.

# FINANCIAL STATEMENTS

- To track financial results on a trend line to spot any looming profitability issues.
- To derive financial ratios from the statements that can indicate the condition of the business.
- To investigate the details of certain business transactions, as outlined in the disclosures that accompany the statements.

# DIFFERENT TYPES OF FINANCE AND THEIR COSTS APPEAR IN THE FINANCIAL STATEMENTS OF A BUSINESS

- Finance costs are usually understood to be referred to interest costs. Usually they are thought to refer to interest expense on short-term borrowings (for example bank overdraft and notes payable) and long-term borrowings (for example term loans and real estate mortgages). The term “finance cost” is broader and also includes costs other than just interest expense.

# THE INTERACTION OF ASSETS AND LIABILITIES ON THE BALANCE SHEETM AND ON INTERNATIONAL EQUIVALENTS UNDER THE INTERNATIONAL ACCOUTING STANDARDS (IAS)

- A balance sheet shows the assets, liabilities, and net worth of an individual or entity at a given point in time. In other words, it is a snapshot or statement of financial position on a specific date.
- Of all the financial statements issued by companies, the balance sheet is one of the most effective tools in evaluating financial health at a specific point in time. Consider it a financial snapshot that can be used for forward or backward comparisons.

# THE INTERACTION OF ASSETS AND LIABILITIES ON THE BALANCE SHEET AND ON INTERNATIONAL EQUIVALENTS UNDER THE INTERNATIONAL ACCOUTING STANDARDS (IAS)

- The simplicity in its design makes it easy to view balances of the three major components with company assets on one side, and liabilities and owners' equity on the other side. Shareholders' equity is the net balance between total assets minus all liabilities and represents shareholders' claims to the company at any given time.
- Assets are listed by their liquidity or how soon they could be converted into cash. Liabilities are sorted by how soon they are to be paid.

# THE INTERACTION OF ASSETS AND LIABILITIES ON THE BALANCE SHEET AND ON INTERNATIONAL EQUIVALENTS UNDER THE INTERNATIONAL ACCOUTING STANDARDS (IAS)

- IAS 1 Presentation of Financial Statements sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows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