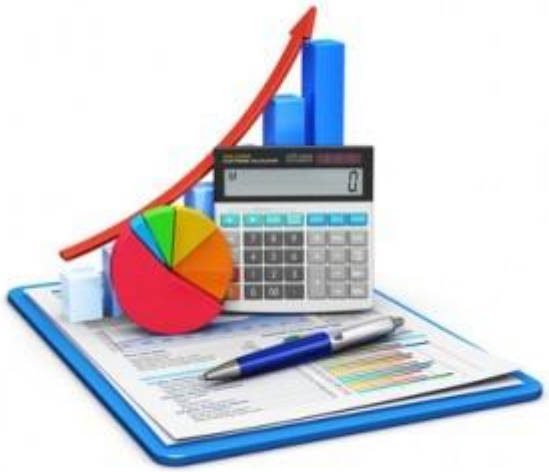
UNIT 2
MANAGING FINANCIAL RESOURCES AND DECISIONS



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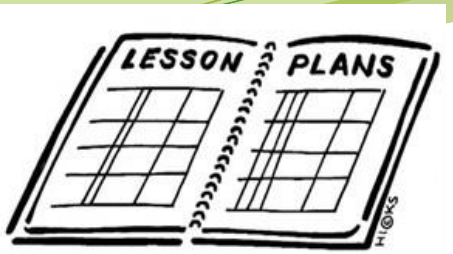
MANAGING FINANCIAL RESOURCES AND DECISIONS

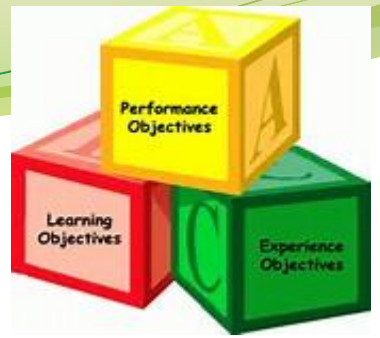
- **LO 4: Be able to evaluate the financial performance of a business.**



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:
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- AC 4.1: Discuss the main financial statements

OVERVIEW

- The purpose of financial statements is to communicate. Financial statements tell you and others the state of your business. The three most commonly prepared financial statements for a business are a balance sheet, an income statement, and a cash flow statement.

PROFIT AND LOSS ACCOUNT

- The profit and loss account and income statement are two terms that really mean the same thing. Profit (or loss) may be considered in two ways, which both give the same result. The profit and loss account shows the change in wealth of the business over a period. The wealth of the business is the amount it is worth to the owners, the shareholders.

PROFIT AND LOSS ACCOUNT

- The accumulation of the total change in wealth since the business began, up to a particular point in time, is reflected within the equity section of the balance sheet under the heading ‘retained profits’. The profit and loss account measures the change in the balance sheet from one ‘pause’ to another. An increase in equity is a profit and a decrease in equity is a loss.

THE BALANCE SHEET

- A balance sheet (also known as a statement of financial position) is a formal document that follows a standard accounting format showing the same categories of assets and liabilities regardless of the size or nature of the business. The balance sheet you prepare will be in the same format as IBM's or General Motors'.

THE BALANCE SHEET

- Accounting is considered the language of business because its concepts are time-tested and standardized. Even if you do not utilize the services of a certified public accountant, you or your bookkeeper can adopt certain generally accepted accounting principles (GAAP)or the International Accounting Standards (IAS) to develop financial statements. A balance sheet is a statement of a firm's assets, liabilities and net worth.
- **The key to understanding a balance sheet is the simple formula:**
- **Assets = Liabilities + Net Worth**

THE CASHFLOW STATEMENT

- A Cash flow statement shows inflow and outflow of cash and cash equivalents from various activities of a company during a specific period. The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.

THE CASHFLOW STATEMENT

- This information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.

REFERENCES

- Bond, E. "How To Prepare And Analyze A Balance Sheet". www.zionsbank.com. N.p., 2016. Web. 8 Nov. 2016.

- "The Profit And Loss Account". novellaqalive2.mhhe.com/.../free/0077114213/346246/Sample_Chapter.pdf. N.p., 2016. Web. 8 Nov. 2016.

- "Cash Flow Statement". www.ncert.nic.in. N.p., 2016. Web. 8 Nov. 2016.