

The Financial Position

Study Unit 2

Study Unit 2: The Financial Position

What do the users want to know about your financial position?

Financial Position information

- Where did the money come from to fund your business?
 - Did you get loans / finance / credit from banks or suppliers? (Liabilities)
 - Did the owners contribute / invest money (Equity)
- What did you do with the money that came in?
 - Purchase machines to make your product? (Assets)
 - Keep it in the bank? (Assets)

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The Basic Accounting Equation

Accounting Equation

- Money doesn't come from nowhere... and doesn't just disappear
- You need to keep track of where the money comes from, and where it goes!
- Just because you spend it, doesn't mean there's nothing to record!

Accounting Equation

- What belongs to you as the owner? Your financial position?
 - Anything the business owns
 - Less: anything the business owes
- Example:
 - Just because you have a R300 000 car, doesn't mean it's completely yours! If you were financed by the bank... it's not entirely yours!
 - So... what would be yours then?

Accounting Equation

- Example 1:
 - Your R300 000 car was financed by the bank and you still owe the full amount
 - If you sell the car for it's R300 000 value... then what belongs to you?
 - You have to pay the bank first, before you can think about what's yours! You get what's left!!

Accounting Equation

- Example 2:
 - Your R300 000 car was financed by the bank and you owe R200 000 on it
 - If you sell the car for R250 000... then what belongs to you?
 - After you've paid the bank, you get what's left, so your portion would be R50 000

Accounting Equation

- We use the Statement of Financial Position elements to express this
 - Assets; Liabilities; Equity

- Your financial position looks like this:

What you own - What you owe = Your share

Assets - Liabilities = Equity

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Assets: Current & Non-Current

Current vs non-Current

- Assets
 - Machinery
 - Inventory
 - Debtors
 - Cash
- When / how are the Assets realised?

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Liabilities: Current & Non-Current

Current vs non-Current

- Liabilities
 - Mortgages / Bonds
 - Long-term loans
 - Creditors
- When / how are the liabilities settled?