

# **The Financial Performance**

## **Study Unit 3**

# Financial Performance information

- What are the results of your financial performance for the year?
  - Income
  - Expenses
  - Profit / Loss

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# **Income & Expenses**

# Income

- Increases in economic benefits during the accounting period
  - In the form of inflows or enhancements of assets
  - Or decreases of liabilities
- Results in an increase in Equity
  - Does NOT include Equity increases from capital contributions

# Expenses

- Decreases in economic benefits during the accounting period
  - In the form of outflows or depletions of assets
  - Or increases of liabilities
- Results in a decrease in Equity
  - Does NOT include Equity distributions

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# **Profit and Equity**

# Profit / Loss

- $\text{Income} - \text{Expenses} = \text{Profit}$
- If Expenses are more than Income, then you will make a Loss

# Effect of Profit on Equity

- Equity is the owners' share of the business
- If you made a profit, then you have a net increase in assets
- This increase will belong to the owners, thus it becomes Equity
- $\text{Equity} = \text{Capital} + \text{Profit}$



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# **Profit and Equity - Example**

# Equity & Profit: Example

- Bob's Electrical Financial Position information at the beginning of the year:

– Assets:	R100 000
– Equity:	R 60 000
– Liabilities:	R 40 000

- The income and expenses for the year:

– Revenue:	R 20 000
– Wages paid:	R 8 000
– General Expenses:	R 2 000