



A GUIDE TO FINANCIAL STATEMENTS

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PROJECT LEAD FOR THE FINANCIAL EDUCATION FOR FUTURE
ENTREPRENEURS (FEFE) PROJECT





A Guide to Financial Statements: Objectives

By the end of this session you will be able to:

- **Define the 5 fundamental elements of a set of financial statements**
- **Explain the purpose of the statement of financial position and statement of profit or loss**
- **Define the key items within the statement of financial position and statement of profit or loss**



A Guide to Financial Statements: Contents

- **The 5 elements of financial statements:**
 - **Assets**
 - **Liabilities**
 - **Equity**
 - **Income**
 - **Expenses**
- **The primary financial statements:**
 - **The statement of financial position**
 - **The statement of profit or loss**



The Elements of Financial Statements

Folders - 6 Folders (Including Introduction)

Last Modified: Aug 06, 2018 at 09:02 PM

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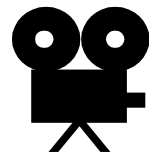
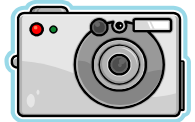


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The Primary Financial Statements

- The 2 primary financial statements are:
 - The statement of financial position (or balance sheet)
 - provides information regarding the financial status of the business at a point in time
 - The statement of profit or loss (or income statement):
 - provides information regarding the financial performance of a business during a period of time

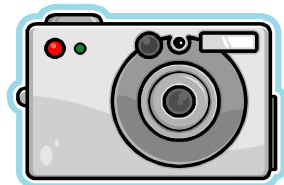




The Statement of Financial Position

Provides information regarding the financial status of the business at a point in time:

- 1. Assets: resources controlled by the business from which a future economic benefit is expected to flow**
 - long term (non current) and short term (current)
- 2. Liabilities: existing obligations at the period-end that are expected to result in the transfer of economic benefit**
 - long term (non current) and short term (current)
- 3. Equity: the ownership interest in the business**

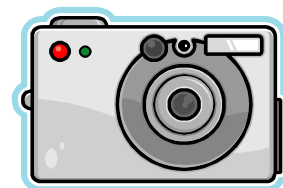
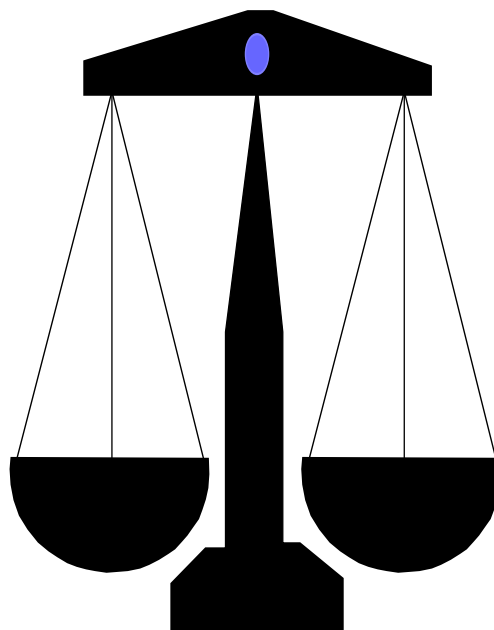




The Accounting Equation

ASSETS = LIABILITIES + EQUITY

ASSETS – LIABILITIES = EQUITY





The Accounting Equation Illustrated

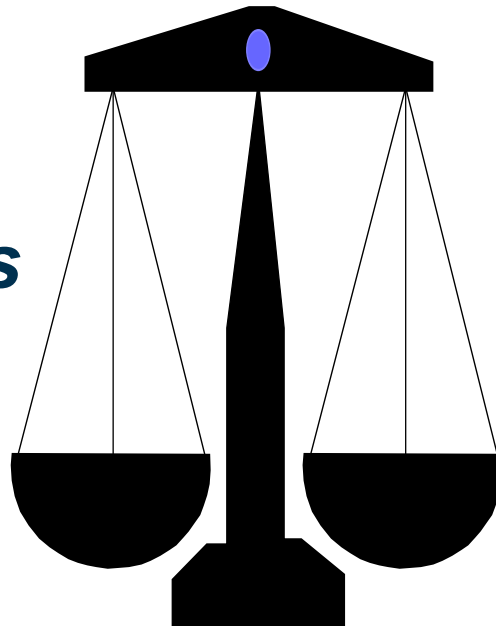
ASSETS = LIABILITIES + EQUITY

£100,000

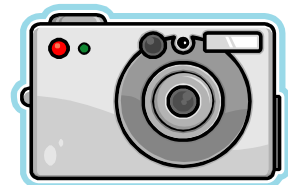
£90,000

£10,000

*What resources
do we control?*



*Where did the
money
come from?*





The FEFE Game Statement of Financial Position

Statement of Financial Position

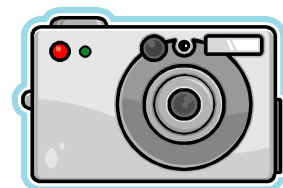
Assets		v\$
Non-Current Assets	+	0
Current Assets	+	86,000
Total Assets		86,000

Liabilities		
Current Liabilities	+	0
Non-Current Liabilities	+	0
Total Liabilities		0

Equity		
Owner's Capital		100,000
Reserves	+	-14,000
Total Equity		86,000

Total Liabilities		86,000
+ Equity		

Close



Match the item on the left with the correct statement of financial position heading on the right:

Retained earnings	Equity
Land and buildings	Non-current assets
A loan due for repayment in three years time	Non-current liabilities
Amounts due to be received from customers	Current assets
Payments due to be paid to suppliers	Current liabilities

The Statement of Financial Position

Quiz - 3 questions

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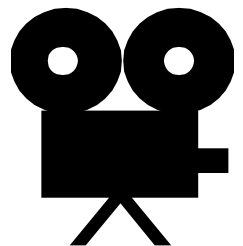


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The Statement of Profit or Loss

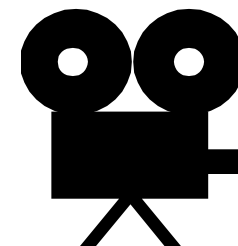
- Provides information regarding the financial performance of the business during a period of time
- Compares *income* earned in the period (e.g. sales revenue) with *expenses* consumed in the period to determine the amount of profit or loss generated
- **Income:**
 - The increase in economic benefit generated by a business in a period that is not input by the owners
- **Expenses:**
 - The reduction in economic benefit during a period that is not a distribution to the owners





The FEFE Game Statement of Profit or Loss

Statement of Profit or Loss	
	V\$
Revenue	16,000
Cost of Sales	-10,000
Gross Profit	6,000
Operating Expenses <input type="checkbox"/>	-19,000
Operating Profit	-13,000
Net Finance Cost	0
Profit before Tax	-13,000
Tax	0
Profit after Tax for Year to Date	-13,000
Profit for the Month	-13,000



Which of the following is the correct definition of income?

- An increase in the economic benefits of a business.
- The value of goods and services sold in the period.
- The amount of cash received in the period from the sale of goods and services.
- An increase in the revenue of a business.

The Statement of Profit or Loss

Quiz - 2 questions

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