

FINANCIAL MANAGEMENT – REVIEWER

Meaning of Financial Management

Financial Management is concerned with planning, organizing, directing, and controlling the financial activities of a business. It presents and analyzes the financial performance and financial position of a company.

BASIC FINANCIAL STATEMENTS

1. Balance Sheet (Statement of Financial Position)

Shows the financial position of a business at a specific date.

Accounting Equation:

Assets = Liabilities + Equity

a. Assets – resources owned by the business

- **Current Assets** – can be converted into cash within one year
Examples: Cash, Accounts Receivable, Inventory, Supplies
- **Non-current Assets** – cannot be converted into cash within one year
Examples: Land, Buildings, Equipment

b. Liabilities – obligations or debts of the business

- **Current Liabilities** – due within one year
Examples: Accounts Payable, Notes Payable (short-term)
- **Non-current Liabilities** – due beyond one year
Examples: Long-term Loans, Bonds Payable

c. Equity – owner's claim on assets

- Capital / Net Assets
 - Share Capital / Stocks (for corporations)
 - Retained Earnings
 - Dividends (distribution of profit to owners)
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2. Income Statement (Statement of Profit or Loss)

Shows the financial performance of a business over a period of time.

Key Components: - Revenue / Sales – total sales - Cost of Goods Sold (COGS) – cost of merchandise sold - Gross Profit = Revenue – COGS - Operating Expenses (General & Administrative Expenses) - Earnings Before

Interest and Taxes (EBIT) - Interest Expense - Earnings Before Taxes (EBT) - Tax Expense - Net Income – final profit

Sample Format: - Sales / Revenue - Less: Cost of Goods Sold - Gross Profit - Less: Operating Expenses - Earnings Before Interest and Taxes (EBIT) - Less: Interest Expense - Earnings Before Taxes (EBT) - Less: Tax Expense - Net Income

Notes: - Service income does NOT include cost of goods sold - Merchandise businesses include COGS

Sales Deductions

- Sales Discount
- Sales Returns and Allowances

Net Sales Formula:

Net Sales = Sales – Sales Discount – Sales Returns

3. Statement of Shareholders' Equity

Shows the changes in equity during a period.

Elements: - Issuance of Stocks - Retained Earnings (Net Income) - Correction of Errors - Declaration of Cash Dividends - Distribution of Stock Dividends - Purchase and Sale of Treasury Stocks - Accumulated Other Comprehensive Income

4. Statement of Cash Flows

Shows how cash is generated and used during a period. It explains the inflows and outflows of cash.

Purpose: - Shows where the cash came from and how it was spent - Helps assess liquidity and cash management

Sections: 1. Operating Activities – cash from main business operations 2. Investing Activities – cash from buying/selling assets 3. Financing Activities – cash from owners and creditors

IMPORTANT FORMULAS TO REMEMBER

- Assets = Liabilities + Equity
 - Gross Profit = Sales – Cost of Goods Sold
 - Net Income = Total Revenue – Total Expenses
 - Net Sales = Sales – Discounts – Returns
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QUICK STUDY TIPS

- Memorize the order of Income Statement items
 - Understand the difference between current and non-current accounts
 - Always remember the accounting equation
 - Practice identifying transactions under the correct financial statement
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End of Reviewer