Breakthrough
Business
Finance
Training

It's a Breeze
Academy of Finance

Practical Business Finance

Family of Offerings

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SABFOUNDATION
THOLOANA
ENTERPRISE PROGRAMME

FETOLA

How hard was it learning to speak your home language?

Eeeeasy . . .

How hard is it learning to speak a second language?

Uuurghhh . . .

Finance is EASY !

You just never learn to speak it when you were growing up

Copyright

INVITATION

to be in the

PRESENT MOMENT

WHAT is Accounting?

Copyright

How would you sort out these messes?

1: Group stuff

2: Put into “containers”

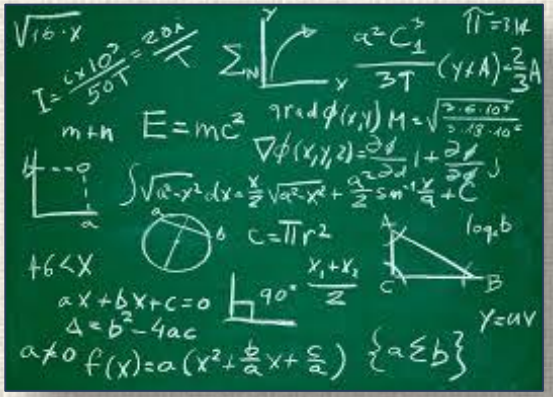
Copyright

Accounting is exactly the same...

It is just a "glorified filing system"

Copyright

It is built on a disarmingly simple LOGIC



and has <u>NOTHING</u> to do with MATHS or NUMBERS

So it's completely irrelevant if you <u>struggle</u> with Maths, or are <u>great</u> at Maths

Copyright

In the beginning.....

Kushim's tablet: 3400 – 3000 BC

1. When did humans start trading?

2. And when did humans start keeping written Financial Records?

Copyright

In the beginning.....

The earliest known recorded name of a person in writing, "Kushim", appears on clay tablets from the Uruk period (3400 – 3000 BC). The tablets were used to record barley transactions and are written in the archaic Sumerian pictographic script called Uruk III. The tablets contain pictograms that represent: A sheaf of barley, a brick building with a chimney, a sheaf inside a vessel, and dots and lines that represent numbers.

Kushim's tablet: 3400 – 3000 BC

1. When did humans start trading?
2. And when did humans start keeping written Financial Records?

Copyright

The breakthrough INNOVATION
- and unchallenged success -
of the
DOUBLE-ENTRY
ACCOUNTING FILING SYSTEM
(invented about only 600 years ago)
is that it enables us to keep track of

TWO Fundamental Financial Stories at the same time....

Spoiler Alert! It's NOT the
Balance Sheet and Income Statement

Copyright

Think of it like a COIN

The Story of ....

WHAT YOU HAVE

ASSETS

Valuable Stuff

The INSEPARABLE Story of ....

EXPLANATIONS: How did you fund this Valuable Stuff?

LIABILITIES

Owe

1 **Lenders**

Statement

EQUITY

The portion of the Assets Funded by Investors

2 **Capital Contributions**

Shareholders Statement

3 **Profits from trading**

Invoices & Receipts

The total **Value** of the **"Valuable Stuff"** (ASSETS)

=

The total **Value** of the **EXPLANATIONS of how you funded this Valuable Stuff** (LIABILITIES + EQUITY)

Copyright

Think of it like a COIN

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The total **Value** of the **EXPLANATIONS of how you funded this Valuable Stuff** (LIABILITIES + EQUITY)

Copyright

Think of it like a COIN

Let's apply the Knowledge

The Accounting Equation

The Story of		The INSEPARABLE Story of		
WHAT YOU HAVE	=	**EXPLANATIONS: How did you fund this Valuable Stuff?**		
ASSETS	=	**LIABILITIES**	+	**EQUITY**
Valuable Stuff		*Owe*		*The portion of the Assets Funded by Investors*
500,000	=	200,000	+	300,000
		1 Lenders		2 Capital Contributions: 200,000 / 3 Profits from trading: 100,000

The total **Value** of the **"Valuable Stuff"** (ASSETS) = The total **Value** of the **EXPLANATIONS of how you funded this Valuable Stuff** (LIABILITIES + EQUITY)

Copyright

Think of it like a COIN

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500,000	=	200,000	+	300,000
		1 Lenders		2 Capital Contributions: 200,000
				3 Profits from trading: 100,000

There are ONLY 5 categories to "file" accounting information into

(yes only five, always was, ever since the beginning of time)

Copyright

SABFOUNDATION THOLOANA ENTERPRISE PROGRAMME

Think of it like a COIN

The Accounting Equation

The Story of		The INSEPARABLE Story of		
WHAT YOU HAVE	=	**EXPLANATIONS: How did you fund this Valuable Stuff?**		
ASSETS *Valuable Stuff*	=	**LIABILITIES** *Owe*	+	**EQUITY** *The portion of the Assets Funded by Investors*
500,000	=	200,000	+	300,000
		1 Lenders		2 Capital Contributions: 200,000 / 3 Profits from trading: 100,000

= **INCOME** 500,000 − **EXPENSES** 400,000

- Assets ✔
- Liabilities ✔
- Equity ✔
- Income ✔
- Expenses ✔

There are ONLY 5 categories to "file" accounting information into

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Copyright

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Think of it like a COIN

Key Learnings

1. **The FIVE ELEMENTS of Accounting**
   Assets, Liabilities, Equity, Income, Expenses
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= **INCOME** 500,000 - **EXPENSES** 400,000

Assets ✓
Liabilities ✓
Equity ✓
Income ✓
Expenses ✓

Copyright

SABFOUNDATION THOLOANA ENTERPRISE PROGRAMME

What makes a NUMBER a Number and not a LETTER ?

"Category Formation"
is one of our brain's
8 Core Cognitive Capacities

1. The ability to organise information, concepts and skills into categories, and
2. Forms the cognitive basis for higher-level abilities (applying, analysing, and evaluating those concepts and skills).

Categories are the basis of language and organisation of the world !!

OMG !

What if the difficulty so many people experience with Finance and Accounting is rooted in a CATEGORISATION problem ??

Copyright

ONE COIN – TWO STORIES

The Accounting Equation

The Story of		The INSEPARABLE Story of		
WHAT YOU HAVE	=	**EXPLANATIONS: How did you fund this Valuable Stuff?**		
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= INCOME 500,000 – EXPENSES 400,000

"Accounting is just a glorified Filing System"

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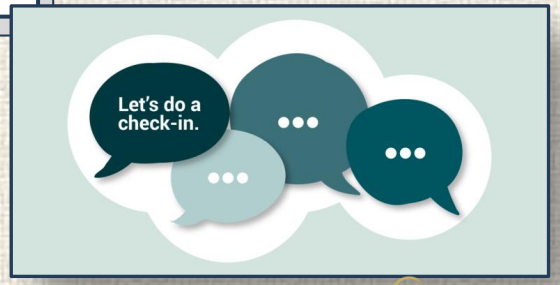

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The Accounting Equation

The Story of	The INSEPARABLE Story of		
WHAT YOU HAVE	**EXPLANATIONS: How did you fund this Valuable Stuff?**		
ASSETS	**LIABILITIES**	**EQUITY**	
Valuable Stuff	*Owe*	*Obligation to Investors*	
		Capital Contributions	**Profit from trading**
500k	200k	200k	300k
$ Million	$ Million		
$ Zillion	$ Zillion		

= 500k = 200k + 200k + 300k

Profit from trading = **INCOME** − **EXPENSES**

500k − 400k

Copyright

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ASSETS		**LIABILITIES**		**EQUITY**		
Valuable Stuff	=	*Owe*	+	*Obligation to Investors*		
				Capital Contributions	**Profit from trading**	
500k	=	200k	+	200k	300k	100k

= **INCOME** - **EXPENSES**

500k 400k

So our Filing System is now in place. Where do we ***REPORT*** on this information?

BALANCE SHEET

*The **Financial Position** of the Business;*
*always at a **point in time***

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ONE COIN – TWO STORIES

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The Accounting Equation

The Story of .... | **The INSEPARABLE Story of ....**

WHAT YOU HAVE | **EXPLANATIONS: How did you fund this Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

500k

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

200k

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions (in cash or kind)	*Accumulated Profits since day 1 of Trading*
	Less: Dividends

200k 300k 100k

=

INCOME
500k

-

EXPENSES
400k

BALANCE SHEET

*The **Financial Position** of the Business;*
*always at a **point in time***

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ONE COIN – TWO STORIE

The Accountin

The Story of ....

The Il

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EXPLANATIONS: H

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=

LIABILITIES

Owe

Current	Non-Current
Creditors	Long-term Loans

500k = 200k

BALANCE S

*The **Financial Position** of th*

*always at a **point in***

Balance Sheet
For XYZ Company (Pty) Ltd
As at 29 February 2024

Assets	
Current Assets	
Cash	R11 874
Accounts receivable	
Inventory	
Prepaid expenses	
Short-term investments	
Total current assets	**R11 874**
Non-Current Assets	
Property, plant, and equipment	R1 208
Vehicles	R15 340
Land & Buildings	R750 000
Total non-current assets	**R766 548**
Total Assets	**R778 422**
Liabilities and Owner's Equity	
Current Liabilities	
Accounts payable	R8 060
Short-term loans	
Income taxes payable	R3 145
Total current liabilities	**R11 205**
Non-Current Liabilities	
Long-term debt	R3 450
Other	
Total non-current liabilities	**R3 450**
Owner's Equity	
Owner's capital	R759 378
Retained earnings	R4 389
Other	
Total owner's equity	**R763 767**
Total Liabilities and Owner's Equity	**R778 422**

rnings

of Accounting

ity, Income, Expenses

plain how these

ach other:

ties + Equity

+ Profit

- Expenses

EXPENSES

400k

Copyright

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Owner's capital	R759 378
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Total owner's equity	**R763 767**
Total Liabilities and Owner's Equity	**R778 422**

E q u a t i o n

ARABLE Story of ....

id you fund this Valuable Stuff?

EQUITY

Obligation to Investors

Capital

Actual Contributions (in cash or kind)

200k

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

100k

300k

=

INCOME

500k

−

EXPENSES

400k

E T

ness;

Key Learnings

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Assets, Liabilities, Equity, Income, Expenses

2. Three equations explain how these elements relate to each other:

Assets = Liabilities + Equity

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ONE COIN – TWO STORIES

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The Accounting Equation

The Story of	The INSEPARABLE Story of		
WHAT YOU HAVE	**EXPLANATIONS: How did you fund this Valuable Stuff?**		
ASSETS	=	**LIABILITIES**	+
Valuable Stuff		*Owe*	
Current: Bank; Debtors; Inventory (Stock)		**Current**: Creditors	
Non-Current: Plant & Equipment; Vehicles; Land & Buildings		**Non-Current**: Long-term Loans	

EQUITY	=	**INCOME**	-	**EXPENSES**
Obligation to Investors				
Capital: *Actual Contributions (in cash or kind)*				
Retained Earnings: *Accumulated Profits since day 1 of Trading* *Less: Dividends*				

Lower ⟷ *Higher*

THEIR Appetite for Risk

DISCUSS: What determines whether a Funder would prefer to be a Lender or Investor in any particular situation?

BALANCE SHEET

*The **Financial Position** of the Business;*
*always at a **point in time***

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ASSETS
Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions (in cash or kind)	*Accumulated Profits since day 1 of Trading* *Less: Dividends*

=

INCOME - **EXPENSES**

Lower ⟷ *Higher*

Interest | *Profit*

THEIR Appetite for Risk

DISCUSS: What is the nature of the **REWARD** that each of these groups of funders is entitled to?

BALANCE SHEET

*The **Financial Position** of the Business;*
*always at a **point in time***

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Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

500k

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

200k

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions (in cash or kind)	*Accumulated Profits since day 1 of Trading*
	Less: Dividends

200k 300k 100k

=

INCOME

Trading Income	*Other Income*
Sales	Grant

500k

−

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

400k

BALANCE SHEET

*The **Financial Position** of the Business;*
*always at a **point in time***

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Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

500k

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

200k

+

EQUITY
Obligation to Investors

Capital

Actual Contributions (in cash or kind)

200k

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

100k

300k

=

INCOME

Trading Income	*Other Income*
Sales	Grant

500k

−

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

400k

BALANCE SHEET
*The **Financial Position** of the Business;*
*always at a **point in time***

INCOME STATEMENT
*The **Profit Story**;*
*always over a **period of time***

Copyright

ONE COIN

T h e t i o n

The Story of .... f ....

WHAT YOU HAVE s Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Building

500k

UITY
to Investors

Retained Earnings
Accumulated Profits since day 1 of Trading
Less: Dividends

100k

=

INCOME

Trading Income	*Other Income*
Sales	Grant

500k

−

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

400k

00k

Income Statement
For XYZ Company (Pty) Ltd
For the Period 1 March 2023 to 29 February 2024

Revenue	
Sales	R3 052 800.00
Less Discounts	-R10 000.00
Net Sales	**R3 042 800.00**
Cost of Goods Sold	
Any meaningful items, e.g.	
Materials	R356 934.00
Labour	R345 000.00
Flights	R356 934.00
Accomodation	R345 000.00
etc	R100 000.00
Cost of Goods Sold	R1 503 868.00
Gross Profit	**R1 538 932.00**
Operating Expenses	
Advertising	R23 000.00
Bad debts	R45 000.00
Depreciation	R29 000.00
Insurance	R12 000.00
Maintenance and repairs	R33 567.00
Office supplies	R15 788.00
Rent	R250 000.00
Salaries and wages	R450 000.00
Travel	R28 000.00
Utilities	R33 000.00
Web hosting and domains	R18 000.00
Other	R16 192.00
Total Operating Expenses	R953 547.00
Operating Profit	**R585 385.00**
Income tax	R135 000.00
Net Profit (after Tax)	**R450 385.00**

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INCOME STATEMENT
*The **Profit Story**;*
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Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

+

EQUITY
Obligation to Investors

Capital

Actual Contributions (in cash or kind)

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

=

INCOME

Trading Income	*Other Income*
Sales	Grant

−

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

500k = 200k + 200k 300k 100k 500k 400k

Scenario: You're at a business networking event; you walk up to someone you want to meet, and say .....

Hello !

BALANCE SHEET
How are you?

INCOME STATEMENT
What do you do?

Copyright

WHY Accounting?

Copyright

WHY Accounting?

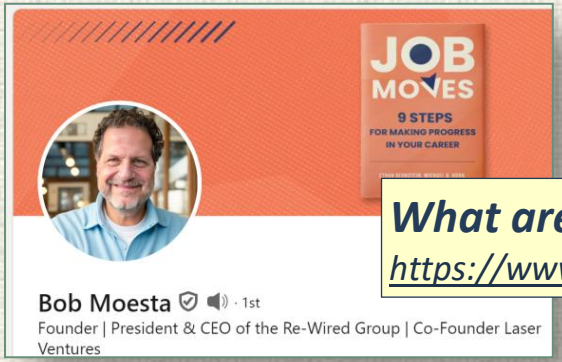
Simply put, ACCOUNTING helps us:

1 At least to be....

Compliant

2 But more importantly to....

Run a Better Business



What are your "Jobs To Be Done"
https://www.linkedin.com/in/bobmoesta/

What's on your "Critical Path" that is being messed up because of Accounting / Finance?

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Our Layered WHY

It's a Breeze

The Vision

Thriving societies, built on fairness, prosperity and peace

The African Imperative

"More Entrepreneurs, More Predictably Successful, More Quickly"

Our Working Goal

Every African Entrepreneur Financially Literate & Functional

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SABFOUNDATION THOLOANA ENTERPRISE PROGRAMME

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500k

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-ter Loa

200k

=

+

EQUITY
Obligation to Investors

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

100k

=

INCOME

Trading Income	*Other Income*
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500k

−

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Directly Related to Sale	Indirectly Related to Sale

400k

BALANCE SHEET
*The **Financial Position** of the Business;*
*always at a **point in time***

*always over a **period of time***

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Our Learning Journey

- Value Creation: Detail
- Value Creation: an Overview
- The Business Activities: Practical Application
- The Debit & Credit System
- The Logic of Accounting
- The Language of Finance: Overview

Copyright

Our Learning Journey

Every African Entrepreneur
Financially Literate & Functional

Decisions

Conversations

Confidence

Competence

Outcomes

Copyright

Our Learning Journey

Every African Entrepreneur Financially Literate & Functional

- Value Creation: Detail
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2. **Three equations** explain how these elements relate to each other:

Assets = Liabilities + Equity

Equity = Capital + Profit - Expenses

T h e A c c o u n t i n g E q u a t i o n

The Story of ….

WHAT YOU HAVE

The INSEPARABLE Story of ….

EXPLANATIONS: How did you fund this Valuable Stuff?

ASS

Valuabl

Current	N
Bank	
Debtors	
Inventory (Stock)	Lar

50

EXPENSES

ost of ales	*Operating Expenses*
rectly lated Sale	Indirectly Related to Sale

400k

Practical Exercise

Let's see how this model works by recording 8 transactions into our "Glorified Filing System"….

B A L A N C E S H E E T

*The **Financial Position** of the Business;*
*always at a **point in time***

INCOME STATEMENT

*The **Profit Story**;*
*always over a **period of time***

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The Logic of Accounting

1. The Model
2. Eight transactions
3. The Accounting (Filing) System

WHAT YOU HAVE | **EXPLANATIONS Where did the funding come from?**

ASSETS = **LIABILITIES** + **EQUITY**

Valuable Stuff
- Inventory
- Equipment
- Debtors
- Vehicles
- Bank
- Land&Build

Owe
- Creditors *(Short Term)*
- Loans *(Long Term)*

Investors' Share
- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*
Sales	Grant	Directly Related	Indirectly Related

BALANCE SHEET | **INCOME STATEMENT**

1								
2								
3								
4								
5								
6								
7								
8								

Balance: 0 = 0 + 0 + 0

Assets = Explanations

Key Learnings

1. The FIVE ELEMENTS of Accounting
Assets, Liabilities, Equity, Income, Expenses

2. Three equations explain how these elements relate to each other:

Assets = Liabilities + Equity

Equity = Capital + Profit

Profit = Income - Expenses

The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?										
ASSETS *Valuable Stuff*		=	**LIABILITIES** *Owe*		+	**EQUITY** *Obligation to Investors*			=	**INCOME**		− **EXPENSES**
Current	Non-Current		Current	Non-Current		Capital	Retained Earnings			*Trading Income*	*Other Income*	*Cost of Sales* / *Operating Expenses*
Bank	Plant & Equip		Creditors	Long-term Loans		*Actual Contributions*	*Accumulated Profits*			Sales	Grant	Directly Related / Indirectly Related
Debtors	Vehicles											
Inventory	Land & Build											

Tx 1	BALANCE SHEET						INCOME STATEMENT				
1	Brother invests	Bank			Capital		No				
2											
3											
4											
5											
6											
7											
8											
Balance:		**1 000**	=	**0**	+	**1 000**					
		Assets	=	Explanations							

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The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?									
ASSETS *Valuable Stuff*		=	**LIABILITIES** *Owe*		+	**EQUITY** *Obligation to Investors*		=	**INCOME**		− **EXPENSES**
Current	Non-Current		Current	Non-Current		Capital	Retained Earnings		*Trading Income*	*Other Income*	*Cost of Sales* / *Operating Expenses*
Bank	Plant & Equip		Creditors	Long-term Loans		*Actual Contributions*	*Accumulated Profits*		Sales	Grant	Directly Related / Indirectly Related
Debtors	Vehicles										
Inventory	Land & Build										

Tx 2	BALANCE SHEET					INCOME STATEMENT				
1	Brother invests	Bank			Capital	No				
2	Aunty Loan (2,000)	Bank		Loan		No				
3										
4										
5										
6										
7										
8										
Balance:		**3 000**	=	**2 000**	+	**1 000**				
		Assets	=	Explanations						

The Logic of Accounting

WHAT YOU HAVE | **EXPLANATIONS — How did you fund this Valuable Stuff?**

ASSETS = LIABILITIES + EQUITY

Valuable Stuff

Current	Non-Current
Bank	Plant & Equip
Debtors	Vehicles
Inventory	Land & Build

Owe

Current	Non-Current
Creditors	Long-term Loans

Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits*

= INCOME − EXPENSES

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*
Sales	Grant	Directly Related	Indirectly Related

Tx 3		BALANCE SHEET				INCOME STATEMENT				
1	Brother invests	Bank ↑			Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No				
3	Buy truck	Bank ↓	Vehicles. ↑			No				
4										
5										
6										
7										
8										
Balance:		**3 000**	=	**2 000**	+	**1 000**				

Assets = Explanations

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The Logic of Accounting

WHAT YOU HAVE | **EXPLANATIONS — How did you fund this Valuable Stuff?**

ASSETS = LIABILITIES + EQUITY

Valuable Stuff

Current	Non-Current
Bank	Plant & Equip
Debtors	Vehicles
Inventory	Land & Build

Owe

Current	Non-Current
Creditors	Long-term Loans

Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits*

= **INCOME** − **EXPENSES**

Trading Income	Other Income	Cost of Sales	Operating Expenses
Sales	Grant	Directly Related	Indirectly Related

Tx 4		BALANCE SHEET				INCOME STATEMENT				
1	Brother invests	Bank			Capital	No				
2	Aunty Loan (2,000)	Bank		Loan		No				
3	Buy truck	Bank	Vehicles.			No				
4	Move some furniture	Bank					Sales			
5										
6										
7										
8										
Balance:		**4 000**	=	**2 000**	+	**2 000**				

Assets = Explanations

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The Logic of Accounting

WHAT YOU HAVE | **EXPLANATIONS — How did you fund this Valuable Stuff?**

ASSETS = LIABILITIES + EQUITY

Valuable Stuff

Current	Non-Current
Bank	Plant & Equip
Debtors	Vehicles
Inventory	Land & Build

Owe

Current	Non-Current
Creditors	Long-term Loans

Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits*

= INCOME − EXPENSES

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*
Sales	Grant	Directly Related	Indirectly Related

Tx 5		BALANCE SHEET				INCOME STATEMENT				
1	Brother invests	Bank ↑			Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No				
3	Buy truck	Bank ↓	Vehicles. ↑			No				
4	Move some furniture	Bank ↑				↑ ←	Sales ↑			
5	Buy fuel	Bank ↓				↓ ←			Fuel ↑	
6										
7										
8										
Balance:		**3 000**	=	**2 000**	+	**1 000**				

Assets = Explanations

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The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?									
ASSETS *Valuable Stuff*		=	**LIABILITIES** *Owe*		+	**EQUITY** *Obligation to Investors*		=	**INCOME**		− **EXPENSES**
Current	Non-Current		Current	Non-Current		Capital	Retained Earnings		*Trading Income*	*Other Income*	*Cost of Sales* / *Operating Expenses*
Bank	Plant & Equip		Creditors	Long-term Loans		*Actual Contributions*	*Accumulated Profits*		Sales	Grant	Directly Related / Indirectly Related
Debtors	Vehicles										
Inventory	Land & Build										

Tx 6		BALANCE SHEET					INCOME STATEMENT				
1	Brother invests	Bank ↑				Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑			No				
3	Buy truck	Bank ↓	Vehicles. ↑				No				
4	Move some furniture	Bank ↑					↑ ←	Sales ↑			
5	Buy fuel	Bank ↓					↓ ←				Fuel ↑
6	Loan repayment	Bank ↓		Loan ↓			No				
7											
8											
Balance:		**2 000**	=	**1 000**	+	**1 000**					
		Assets	=	Explanations							

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The Logic of Accounting

WHAT YOU HAVE			EXPLANATIONS How did you fund this Valuable Stuff?								
ASSETS *Valuable Stuff*		=	LIABILITIES *Owe*		+	EQUITY *Obligation to Investors*					
Current	Non-Current		Current	Non-Current		Capital	Retained Earnings	=	INCOME	-	EXPENSES
Bank	Plant & Equip		Creditors	Long-term Loans		*Actual Contributions*	*Accumulated Profits*		*Trading Income* / *Other Income*		*Cost of Sales* / *Operating Expenses*
Debtors	Vehicles								Sales / Grant		Directly Related / Indirectly Related
Inventory	Land & Build										

Tx 7		BALANCE SHEET					INCOME STATEMENT				
1	Brother invests	Bank ↑				Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑			No				
3	Buy truck	Bank ↓	Vehicles. ↑				No				
4	Move some furniture	Bank ↑					↑	Sales ↑			
5	Buy fuel	Bank ↓					↓				Fuel ↑
6	Loan repayment	Bank ↓		Loan ↓			No				
7	Swap debt for equity			Loan ↓		Capital ↑	No				
8											
Balance:		**2 000**	=	**0**	+	**2 000**					
		Assets	=	Explanations							

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The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?									
ASSETS *Valuable Stuff*		=	**LIABILITIES** *Owe*		+	**EQUITY** *Obligation to Investors*		=	**INCOME**		− **EXPENSES**
Current	Non-Current		Current	Non-Current		Capital	Retained Earnings		*Trading Income*	*Other Income*	*Cost of Sales* / *Operating Expenses*
Bank	Plant & Equip		Creditors	Long-term Loans		*Actual Contributions*	*Accumulated Profits*		Sales	Grant	Directly Related / Indirectly Related
Debtors	Vehicles										
Inventory	Land & Build										

Tx 8		BALANCE SHEET					INCOME STATEMENT				
1	Brother invests	Bank ↑				Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑			No				
3	Buy truck	Bank ↓	Vehicles. ↑				No				
4	Move some furniture	Bank ↑					↑	Sales ↑			
5	Buy fuel	Bank ↓					↓				Fuel ↑
6	Loan repayment	Bank ↓		Loan ↓			No				
7	Swap debt for equity			Loan ↓		Capital ↑	No				
8	Pay dividend	Bank ↓					Dividends ↓				
Balance:		**1 000**	=	**0**	+	**1 000**					
		Assets	=	Explanations							

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The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?		
ASSETS = *Valuable Stuff*		**LIABILITIES** + *Owe*		**EQUITY** *Obligation to Investors*
Current	Non-Current	Current	Non-Current	Capital
Bank	Plant & Equip	Creditors	Long-term Loans	*Actual Contributions*
Debtors	Vehicles			Retained Earnings
Inventory	Land & Build			*Accumulated Profits*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*
Sales	Grant	Directly Related	Indirectly Related

BALANCE SHEET | **INCOME STATEMENT**

1	Brother invests	Bank ↑			Capital ↑	No			
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No			
3	Buy truck	Bank ↓	Vehicles. ↑			No			
4	Move some furniture	Bank ↑				↑	Sales ↑		
5	Buy fuel	Bank ↓				↓			Fuel ↑
6	Loan repayment	Bank ↓		Loan ↓		No			
7	Swap debt for equity			Loan ↓	Capital ↑	No			
8	Pay dividend	Bank ↓				Dividends ↓			
Balance:		**1 000**	=	**0**	+	**1 000**			

Assets = Explanations

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The Logic of Accounting

WHAT YOU HAVE | **EXPLANATIONS — How did you fund this Valuable Stuff?**

ASSETS = LIABILITIES + EQUITY

ASSETS *Valuable Stuff*		LIABILITIES *Owe*		EQUITY *Obligation to Investors*					
Current	Non-Current	Current	Non-Current	Capital	Retained Earnings	= INCOME		− EXPENSES	
Bank	Plant & Equip	Creditors	Long-term Loans	*Actual Contributions*	*Accumulated Profits*	*Trading Income*	*Other Income*	*Cost of Sales*	*Operating Expenses*
Debtors	Vehicles					Sales	Grant	Directly Related	Indirectly Related
Inventory	Land & Build								

BALANCE SHEET | **INCOME STATEMENT**

1	Brother invests	Bank ↑			Capital ↑	No			
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No			
3	Buy truck	Bank ↓	Vehicles. ↑			No			
4	Move some furniture	Bank ↑				↑ ← Sales ↑			
5	Buy fuel	Bank ↓				↓ ← Fuel ↑			
6	Loan repayment	Bank ↓		Loan ↓		No			
7	Swap debt for equity			Loan ↓	Capital ↑	No			
8	Pay dividend	Bank ↓				Dividends ↓			

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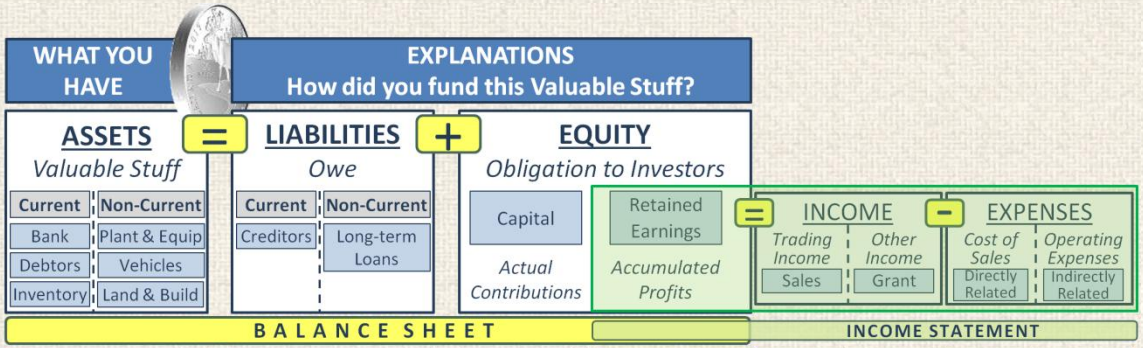
The Logic of Accounting



1	Brother invests	Bank ↑			Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No				
3	Buy truck	Bank ↓	Vehicles. ↑			No				
4	Move some furniture	Bank ↑				↑	Sales ↑			
5	Buy fuel	Bank ↓				↓		Fuel ↑		
6	Loan repayment	Bank ↓		Loan ↓		No				
7	Swap debt for equity			Loan ↓	Capital ↑	No				
8	Pay dividend	Bank ↓				Dividends ↓				

Key Learnings

1. **The FIVE ELEMENTS of Accounting**
   Assets, Liabilities, Equity, Income, Expenses
2. **Three equations** explain how these elements relate to each other:
   - **Assets** = Liabilities + Equity
   - **Equity** = Capital + Profit
   - **Profit** = Income - Expenses
3. Transactions have at least 2 effects

*Single effect

DISCUSS:
Consider the number of ***effects*** a single transaction can have on our Accounting System ….

1	How many ***effects*** were there for each of our 8 example transactions?	***TWO***
2	Could it be possible to have ***only ONE effect*** for a single transaction?	***IMPOSSIBLE***
3	Could it be possible to have ***more than TWO effects*** for a single transaction?	***ABSOLUTELY***

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The Logic of Accounting

1 Coin - 2 Stories

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?		
ASSETS	=	**LIABILITIES**	+	**EQUITY**
Valuable Stuff		*Owe*		*Obligation to Investors*
Current: Bank, Debtors, Inventory		Current: Creditors		Capital
Non-Current: Plant & Equip, Vehicles, Land & Build		Non-Current: Long-term Loans		*Actual Contributio*

BALANCE SHEET

1	Brother invests	Bank				Capital			
2	Aunty Loan (2,000)	Bank		Loan					
3	Buy truck	Bank	Vehicles.						
4	Move some furniture	Bank							
5	Buy fuel	Bank							Fuel
6	Loan repayment	Bank		Loan					
7	Swap debt for equity			Loan		Capital			
8	Pay dividend	Bank							

EXPENSES: *Cost of Sales* (Directly Related); *Operating Expenses* (Indirectly Related)

Key Learnings

1. **The FIVE ELEMENTS of Accounting**
   Assets, Liabilities, Equity, Income, Expenses
2. **Three equations** explain how these elements relate to each other:
   Assets = Liabilities + Equity
   Equity = Capital + Profit
   Profit = Income - Expenses
3. Transactions have at least 2 effects
4. There will ALWAYS be a common-sense way to place the 2+ effects of every single financial transaction, into 1 or more of the 5 containers, with the unavoidable outcome that the 2 sides remain equal

"There has been no need to mention Debits and Credits!!"

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Our Learning Journey

Every African Entrepreneur Financially Literate & Functional

- Value Creation: Detail
- Value Creation: an Overview
- The Business Activities: Practical Application
- The Debit & Credit System
- The Logic of Accounting
- The Language of Finance: Overview

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The Debits and Credits System

DEBIT "by Nature"	CREDIT "by Nature"
WHAT YOU HAVE	EXPLANATIONS Where did the funding come from?

ASSETS = *Valuable Stuff*: Inventory, Equipment, Debtors, Vehicles, Bank, Land&Build

LIABILITIES + *Owe*: Creditors, Loans

EQUITY *Investors' Share*: Capital (*Actual Contributions*); Retained Earnings (*Accumulated Profits*)

CREDIT "by Nature"	DEBIT "by Nature"
INCOME (*Trading Income*, *Other Income*)	**EXPENSES** (*Cost of Sales*, *Operating Expenses*)

BALANCE SHEET | INCOME STATEMENT

1	Brother invests	Bank ↑		Capital ↑	No				
2	Aunty Loan (2,000)	Bank ↑	Loan ↑		No				
3	Buy truck	Bank ↓ Vehicles. ↑			No				
4	Move some furniture	Bank ↑			↑ ← Sales ↑				
5	Buy fuel	Bank ↓			↓ ← Fuel ↑				
6	Loan repayment	Bank ↓	Loan ↓		No				
7	Swap debt for equity		Loan ↓	Capital ↑	No				
8	Pay dividend	Bank ↓			Dividends ↓				

Key Learnings

1. **The FIVE ELEMENTS of Accounting**
   Assets, Liabilities, Equity, Income, Expenses
2. **Three equations** explain how these elements relate to each other:
   - **Assets** = Liabilities + Equity
   - **Equity** = Capital + Profit
   - **Profit** = Income - Expenses
3. Transactions have at least 2 effects
4. There will ALWAYS be a common-sense way to place the 2+ effects of every single financial transaction, into 1 or more of the 5 containers, with the unavoidable outcome that the 2 sides remain equal

1	The 5 *Elements* are assigned to be ***DEBIT*** *or* ***CREDIT*** *"*by Nature"
2	A *Transaction* is ALWAYS made up of at least one ***DEBIT*** and one ***CREDIT*** *"effect"*
Then a	**SAME** Nature & Effect: value goes **UP**
b	**OPPOSITE** Nature & Effect: value goes **DOWN**

"So how does the Debits and Credits System work?"

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The Logic of Accounting

WHAT YOU HAVE		EXPLANATIONS How did you fund this Valuable Stuff?		
ASSETS = *Valuable Stuff*		**LIABILITIES** + *Owe*		**EQUITY** *Obligation to Investors*
Current	Non-Current	Current	Non-Current	Capital
Bank	Plant & Equip	Creditors	Long-term Loans	*Actual Contributions*
Debtors	Vehicles			Retained Earnings
Inventory	Land & Build			*Accumulated Profits*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*
Sales	Grant	Directly Related	Indirectly Related

BALANCE SHEET | **INCOME STATEMENT**

1	Brother invests	Bank ↑			Capital ↑	No			
2	Aunty Loan (2,000)	Bank ↑		Loan ↑		No			
3	Buy truck	Bank ↓	Vehicles. ↑			No			
4	Move some furniture	Bank ↑				↑	Sales ↑		
5	Buy fuel	Bank ↓				↓			Fuel ↑
6	Loan repayment	Bank ↓		Loan ↓		No			
7	Swap debt for equity			Loan ↓	Capital ↑	No			
8	Pay dividend	Bank ↓				Dividends ↓			
Balance:		**1 000**	=	**0**	+	**1 000**			

Assets = Explanations

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Business Activities Worksheet

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** *"*by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**

WHAT YOU HAVE = **EXPLANATIONS: How did you fund this Valuable Stuff?**

ASSETS — *Valuable Stuff* — Debit *"by Nature"*
- Current: Cash & Cash Equ.; Debtors (A/R); Inventory / Stock
- Non-Current: Plant & Equip.; Vehicles; Land & Buildings

LIABILITIES — *Owe* — Credit *"by Nature"*
- Current: Creditors (A/P)
- Non-Current: Long-term Loans

EQUITY — *Obligation to Investors* — Credit *"by Nature"*
- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits*

INCOME — Credit *"by Nature"*

EXPENSES — Debit *"by Nature"*

BALANCE SHEET | **INCOME STATEMENT**

Tx	Description	Account	Up / Down	Dr / Cr	Account	Up / Down	Dr / Cr	Up / Down	Dr / Cr	Profit Impact (none; +ve or -ve)	Acc	Up / Down	Dr / Cr	Acc	Up / Down	Dr / Cr	Cash Flow Impact: Impact (none; future; +ve or -ve)	Cash Flow Impact: Category (Operating; Investing; Financing)
1	Brother invests	Bank	↑	Dr				↑	Cr	No							+ve	Financing
2	Aunty Loan	Bank	↑	Dr	Loan	↑	Cr			No							+ve	Financing
3	Buy truck	Bank	↓	Cr						No							-ve	Investing
		Vehicles.	↑	Dr														
4	Move some furniture	Bank	↑	Dr						↑	Sales	↑	Cr				+ve	Operating
5	Buy fuel	Bank	↓	Cr						↓				Fuel	↑	Dr	-ve	Operating
6	Loan repayment	Bank	↓	Cr	Loan	↓	Dr			No							-ve	Financing
7	Swap debt for equity				Loan	↓	Dr	↑	Cr	No							None	
8	Pay dividend	Bank	↓	Cr						Div ↓ Dr							-ve	Financing

Business Activities

	SETTING THINGS UP
1	Obtain some Equity funding for the business
2	Obtain some Debt funding
3	Buy an asset for cash (any asset)
4	Buy an asset on credit (any asset)
	DAY-TO-DAY ACTIVITIES
5	Cash purchase (not an asset)
6	Credit purchase (not an asset)
7	Cash sale (service item; no inventory)
8	Cash sale (inventory item)
9	Credit sale (service item; no inventory)
10	We pay the creditor from (6)
11	The debtor from (9) makes a payment
12	Take deposit from a customer for a special order stock item
13	Pay a supplier up front for the special order item for the customer
14	The supplier delivers the special order item to us
15	Our customer collects the special order item
16	A customer returns something
17	We return something to a supplier for credit

	MONTHLY-TYPE ACTIVITIES
18	Interest on loans
19	Depreciation / Amortisation
20	Expense accruals (know cost amount that will be charged by supplier but you have not yet received the invoice) and provisions (cost amount is unknown so you have to estimate)
21	Loan repayment
	LESS OFTEN / ANNUAL
22	Debt / equity swops
23	Dividends (declared and paid in cash)
24	Dividends (declared but not paid out)
25	Disposal of a Fixed (Non-Current) Asset (at book value)
26	Disposal of a Fixed (Non-Current) Asset (at a profit)
27	Disposal of a Fixed (Non-Current) Asset (at a loss)
	OTHER
28	VAT on purchases
29	VAT on sales
30	Paying VAT owed to SARS

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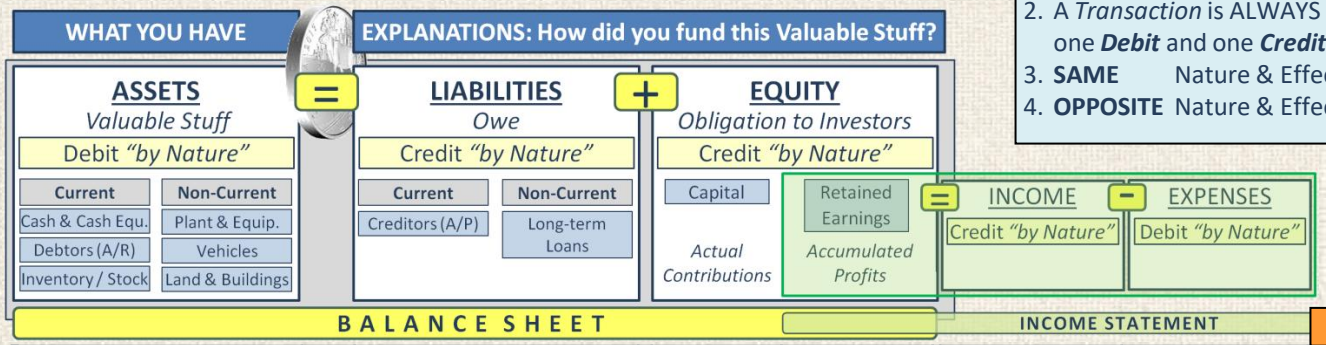
Business Activities Worksheet (Answers 1 – 7)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** *"*by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**



Tx	Description	Account; Dr/Cr; Up/Down		Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)
1	Equity funding	Bank Dr Up			Cr Up	No			+ (Financing)
2	Debt funding	Bank Dr up		Loan Cr Up		No			+ (Financing)
3	Buy Asset cash	Bank Cr Down *Asset* Dr Up				No			- (Operating / Investing)
4	Asset on credit	*Asset* Dr Up		*Asset* Finance Cr Up		No			None now; - in future
5	Cash purchase	Bank Cr Down				Down		*Expense*Dr Up	- (Operating)
6	Credit purchase			Creditors Cr Up		Down		*Expense*Dr up	None now; - in future
7	Cash sale (service item)	Bank Dr Up				Up	Sale Cr Up		+ (Operating)

Copyright

Business Activities Worksheet (Answers 8 – 12)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** **"**by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**

WHAT YOU HAVE | **EXPLANATIONS: How did you fund this Valuable Stuff?**

ASSETS = **LIABILITIES** + **EQUITY**

ASSETS		LIABILITIES		EQUITY		INCOME	EXPENSES
Valuable Stuff		*Owe*		*Obligation to Investors*			
Debit *"by Nature"*		Credit *"by Nature"*		Credit *"by Nature"*		Credit *"by Nature"*	Debit *"by Nature"*
Current	Non-Current	Current	Non-Current	Capital	Retained Earnings		
Cash & Cash Equ.	Plant & Equip.	Creditors (A/P)	Long-term Loans	*Actual Contributions*	*Accumulated Profits*		
Debtors (A/R)	Vehicles						
Inventory / Stock	Land & Buildings						

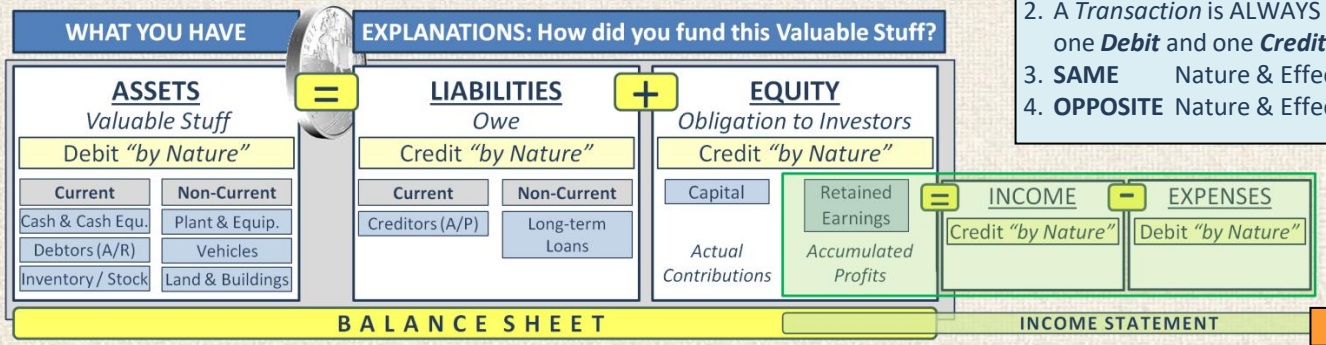
BALANCE SHEET | **INCOME STATEMENT**

Tx	Description	Account; Dr/Cr; Up/Down	Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)
8	Cash sale (inventory item)	a. Bank Dr Up (@ Selling Price) b. Inv. Cr Down (Cost)			Yes	a. Sales Cr Up (Selling)	b. CoS Dr Up (Cost)	+ (Operating)
9	Credit sale	Debtors Dr up			Yes	Sales Cr Up		None now; + in future
10	Creditor payment	Bank Cr Down	Creditor Dr Down		No			- (Operating)
11	Debtor payment	Bank Dr Up Debtor Cr Down						+ (Operating)
12	Receive Customer deposit	Bank Dr Up	Deferred Income / Unearned income / Income Received in Advance Cr Up		No			+ (Operating)

Business Activities Worksheet (Answers 13 – 16)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** *"*by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**



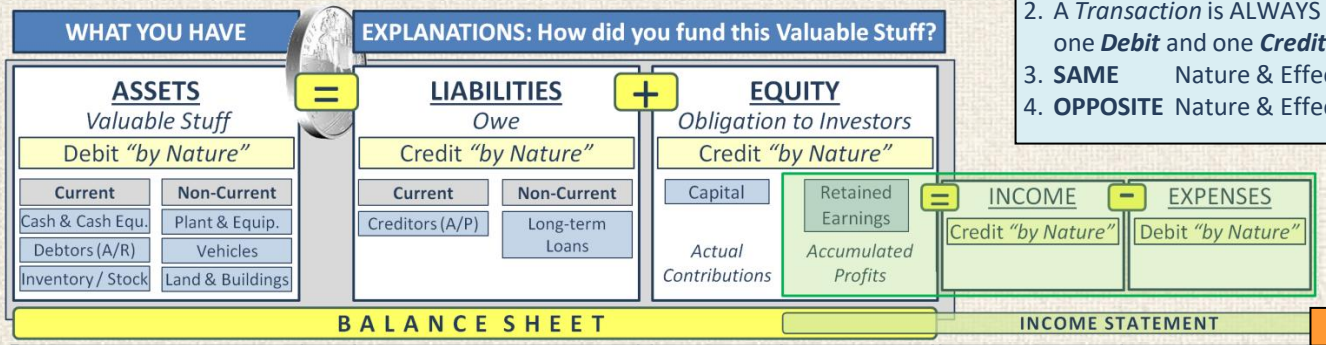
Tx	Description	Account; Dr/Cr; Up/Down	Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)
13	Pay Supplier deposit	Bank Cr Down Prepaid Expenses Dr Up			No			- (Operating)
14	Supplier delivers	Prepaid Expenses Cr Down Inv. Dr Up			No			None
15	Customer collects	b. Inv. Cr Down	a. Deferred Income Dr Down		Yes	a. Sales Cr Up (Selling)	b. CoS Dr Up (Cost)	None
16	Customer return item for cash	a. Bank Cr Down (Sell) b. Inv. Dr Up (Cost)			Yes	a. Sales Dr Down (Sell)	b. CoS Cr Down (Cost)	- (Operating)

Copyright

Business Activities Worksheet (Answers 17 – 20)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** **"**by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**



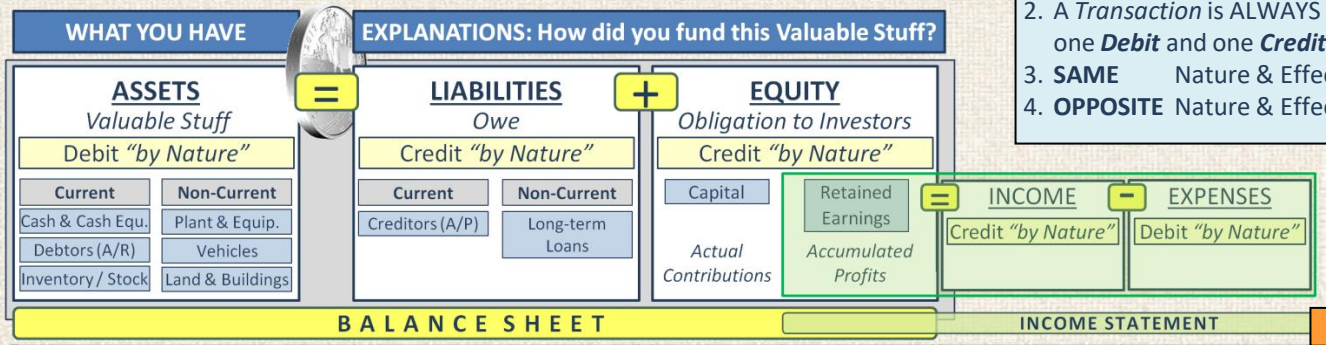
								Cash Flow Impact
17	Return item to supplier for credit	Inv. Cr Down	Creditors Dr Down		No			None
18	Loan interest		Loan Cr up		Yes		Interest Dr Up	None
19	Depreciation (effective impact)	Equipment Cr Down			Yes		Depr Dr Up	None
	Depreciation (actual entries)	(original Equipment acc left alone to keep original cost price)	Equipment Accumulated Depreciation Cr Up		Yes		Depr Dr Up	None
20	Accrual / Provision		Accrual / Provision account Cr Up		Yes		Accrual / Provision Acc Dr Up	None
Tx	Description	Account; Dr/Cr; Up/Down	Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)

Copyright

Business Activities Worksheet (Answers 21 – 25)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** *"*by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
4. **OPPOSITE** Nature & Effect: value goes **DOWN**



Tx	Description	Account; Dr/Cr; Up/Down	Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)
21	Loan repayment	Bank Cr Down	Loan Dr Down		No			- (Financing)
22	Debt / Equity swop		Loan Dr Down	Cr Up	No			None
23	Dividends – cash	Bank Cr Down			Div Dr Down			- (Financing)
24	Dividends – credit		Shareholder Loan Cr Up		Div Dr Down			None
25	Fixed asset sale at book value	Bank Dr up Vehicle Cr Down (at depreciated amount)			No			+ (Investing)

Copyright

Business Activities Worksheet (Answers 26 – 27)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** **"**by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
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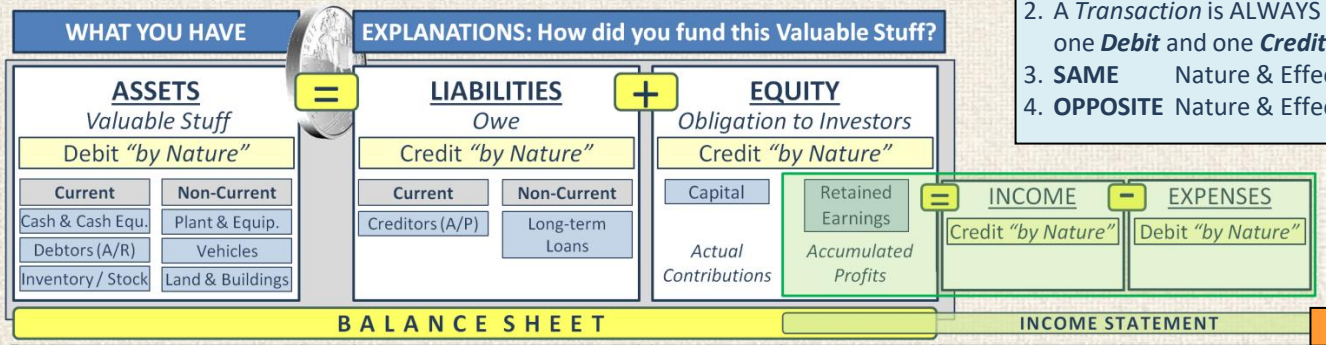

								Cash Flow Impact
26	Fixed asset sale at a profit	Bank Dr up R100k Vehicle Cr Down (at depreciated amount say R80k)			Yes	Other – Profit / Loss on Sales of Fixed Assets Cr Up R20k		+ (Investing)
27	Fixed asset sale at a loss	Bank Dr up R70k Vehicle Cr Down (at depreciated amount say R80k)			Yes	Other – Profit / Loss on Sales of Fixed Assets Dr Down R10k		+ (Investing)
Tx	Description	Account; Dr/Cr; Up/Down		Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down	Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)

Copyright

Business Activities Worksheet (Answers 28 – 30)

The Debit & Credit System Rules

1. All *Accounts* are ***Debit*** or ***Credit*** **"**by Nature"
2. A *Transaction* is ALWAYS made up of at least one ***Debit*** and one ***Credit*** "effect"
3. **SAME** Nature & Effect: value goes **UP**
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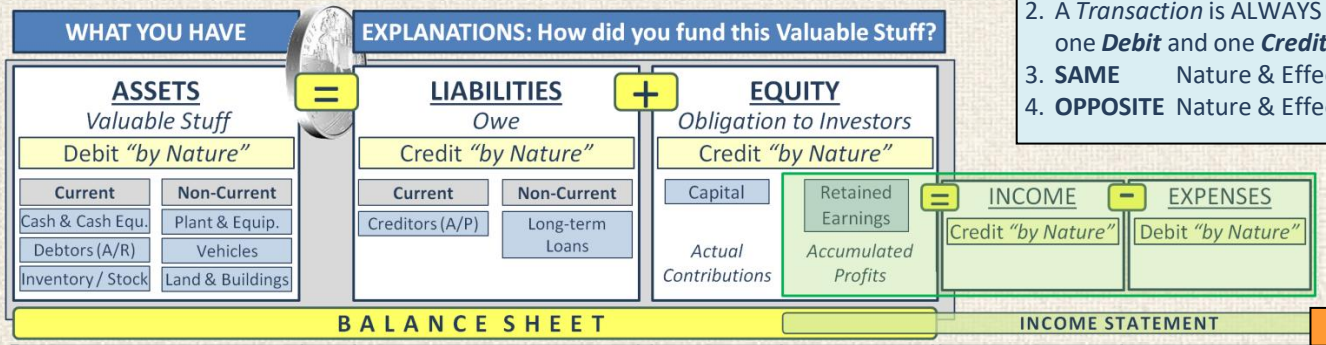

								Cash Flow Impact
28	VAT on Credit Expense	INPUT VAT Dr Up R15 (SARS owes us)	Creditors Cr Up R115		Yes		Exp Dr Up R100	None
29	VAT on credit sale	Debtors Dr Up R230	OUTPUT VAT Cr Up R30		Yes	Sales Cr Up R200		None
30	Pay SARS VAT	Bank Cr Down R15	SARS VAT Dr Down R15		No			- (Operating)
		Different accounting packages / accountants can implement the VAT accounts differently; but the impact is the same in principle						
Tx	Description	Account; Dr/Cr; Up/Down	Account; Dr/Cr; Up/Down	Dr/Cr; Up/Down	Profit Impact (none; + or -)	Account; Dr/Cr; Up/Down		Cash Flow Impact (none; future; + or -); and category (Operating; Investing; Financing)

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Our Learning Journey

Every African Entrepreneur Financially Literate & Functional

- Value Creation: Detail
- Value Creation: an Overview
- The Business Activities: Practical Application
- The Debit & Credit System
- The Logic of Accounting
- The Language of Finance: Overview

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Our Learning Journey

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Copyright

How does a business make money?

PROFIT

Copyright

What is the one thing that can break any business?

CASH FLOW

Copyright

What are shareholders interested in?

RETURN ON INVESTMENT

Copyright

How does a business make money?

PROFIT

2

What is the one thing that can break any business?

CASH FLOW

1

What are shareholders interested in?

RETURN ON INVESTMENT

3

In what order would you prioritise these three metrics?

Copyright

Value-Creation: Overview

WHAT YOU HAVE

EXPLANATIONS
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital
Actual Contributions

Retained Earnings
Accumulated Profits (less Dividends)

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T

INCOME STATEMENT

1 What is the one thing that can break any business?

CASH FLOW

Copyright

Value-Creation: Overview

WHAT YOU HAVE = **EXPLANATIONS** + **How did you fund the Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits (less Dividends)*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW

Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*

Cash Flow Statement

Starting bank Balance	**xxxx**
+ / - Operating Activities	xxxx
+ / - Investing Activities	xxxx
+ / - Financing Activities	xxxx
Ending bank Balance	**xxxx**

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Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW

Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*
Is this helpful? What do you *really* need?	*Cash Flow Forecast*

Cash Flow Forecast

Date	Description	Amount	Balance
Today			x,xxx.xx
dd/mm			
dd/mm			
dd/mm			
			x,xxx.xx

Copyright

Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital
Actual Contributions

Retained Earnings
Accumulated Profits (less Dividends)

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

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Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*
Is this helpful? What do you *really* need?	*Cash Flow Forecast*
What's the difference between Profit and Cash?	*1. Funding received (Loan or Equity)*

Is profit affected?

Is the bank affected?

Copyright

Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW

Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*
Is this helpful? What do you *really* need?	*Cash Flow Forecast*
What's the difference between Profit and Cash?	*1. Funding received (Loan or Equity)* *2. Sales on Credit*

Is profit affected?

Is the bank affected?

Copyright

Value-Creation: Overview

WHAT YOU HAVE		EXPLANATIONS How did you fund the Valuable Stuff?		
ASSETS *Valuable Stuff*	=	**LIABILITIES** *Owe*	+	**EQUITY** *Obligation to Investors*
Current	**Non-Current**	**Current**	**Non-Current**	
Inventory / Stock	Plant & Equip.	Creditors (A/P)	Long-term Loans	
Debtors (A/R)	Vehicles			
Cash & Cash Equ.	Land & Buildings			
				Capital *Actual Contributions*
				Retained Earnings *Accumulated Profits (less Dividends)*

=	INCOME	-	EXPENSES
	Trading Income / *Other Income*		*Cost of Sales* / *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW

Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*
Is this helpful? What do you *really* need?	*Cash Flow Forecast*
What's the difference between Profit and Cash?	*1. Funding received (Loan or Equity)* *2. Sales on Credit* *3. Purchases on Credit*

Is profit affected?

Is the bank affected?

Copyright

Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW

Focus is on . . . **Sales & the Bank**

Where is CF (history) Reported?	*Cash Flow Statement*
What story does the Cash Flow Statement tell?	*Everything going through the bank, grouped in 3 categories*
Which way does the Cash Flow Statement look?	*Backwards*
Is this helpful? What do you *really* need?	*Cash Flow Forecast*
What's the difference between Profit and Cash?	*1. Funding received (Loan or Equity)* *2. Sales on Credit* *3. Purchases on Credit*

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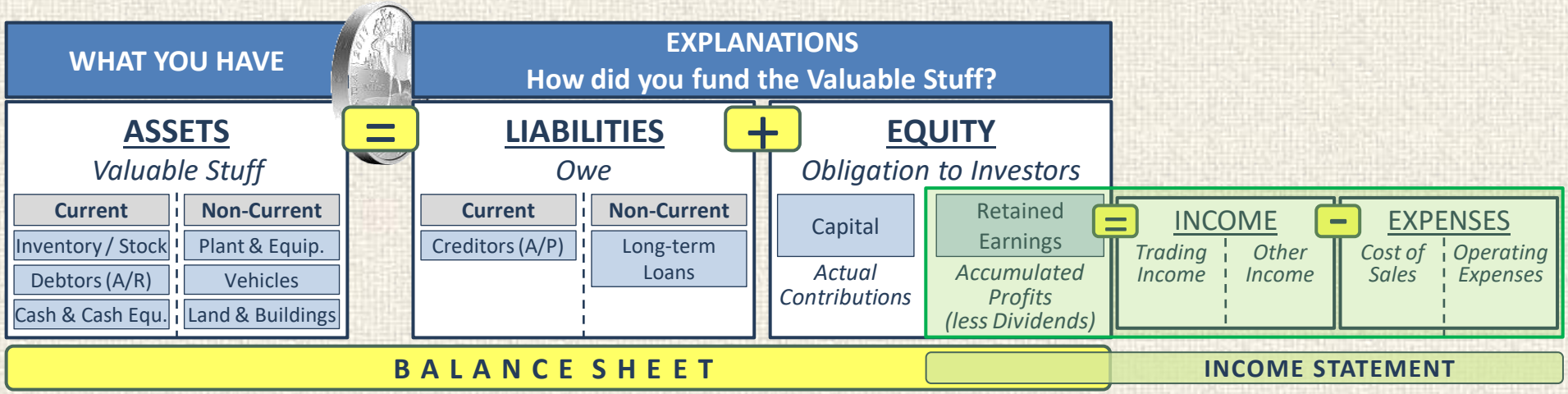
Value-Creation: Overview



2 How does a business make money?

PROFIT

Copyright

Value-Creation: Overview

WHAT YOU HAVE = **EXPLANATIONS** + **How did you fund the Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

Capital

Actual Contributions

Retained Earnings

Accumulated Profits (less Dividends)

= **INCOME**: *Trading Income* | *Other Income*

− **EXPENSES**: *Cost of Sales* | *Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

2 How does a business make money?

PROFIT

How is this calculated? *Income - Expenses*

Where is this Reported? *Income Statement*

What are the 3 layers of Profit in the Income Statement?

	Sales	100
less	Cost of Sales	40
=	**Gross Profit**	**60**
less	Operating Expenses	25
=	**Operating Profit**	**35**
less	Income Tax (20%)	7
=	**Net Profit**	**28**

Copyright

Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

2 How does a business make money?

PROFIT

How is this calculated?	*Income - Expenses*
Where is this Reported?	*Income Statement*
What are the 3 layers of Profit in the Income Statement?	

Focus is on . . . **Profitable Sales (Income Statement)**

	Sales	100
less	Cost of Sales	40
=	**Gross Profit**	**60**
less	Operating Expenses	25
=	**Operating Profit**	**35**
less	Income Tax (20%)	7
=	**Net Profit**	**28**

Copyright

Value-Creation: Overview

WHAT YOU HAVE | **EXPLANATIONS**
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

3 What are shareholders interested in?

RETURN ON INVESTMENT

Copyright

Value-Creation: Overview

WHAT YOU HAVE = **EXPLANATIONS** + **How did you fund the Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

= **INCOME**

Trading Income	*Other Income*

− **EXPENSES**

Cost of Sales	*Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

3 What are shareholders interested in?

RETURN ON INVESTMENT

What does "ROI" mean?	*It's a broad, generic term*
What is the narrower term when we apply "ROI" to a business?	*We replace "Return on **Investment**" wit* *"Return on..**Equity**"*
What does "Return" mean?	***Net Profit**, always for a **full Year***
So "Return on Equity" is then	$\frac{\text{Net Profit}}{\text{Equity}}$

	Sales	100
less	Cost of Sales	40
=	**Gross Profit**	60
less	Operating Expenses	25
=	**Operating Profit**	35
less	Income Tax (20%)	7
=	**Net Profit**	28

Exercise: Calculate RoE if Net profit is 50,000, and Equity is 250,000

$$\frac{50{,}000}{250{,}000} = 20\%$$

Copyright

Value-Creation: Overview

WHAT YOU HAVE		EXPLANATIONS How did you fund the Valuable Stuff?		
ASSETS *Valuable Stuff*	=	**LIABILITIES** *Owe*	+	**EQUITY** *Obligation to Investors*
Current	**Non-Current**	**Current**	**Non-Current**	Capital
Inventory / Stock	Plant & Equip.	Creditors (A/P)	Long-term Loans	*Actual Contributions*
Debtors (A/R)	Vehicles			Retained Earnings
Cash & Cash Equ.	Land & Buildings			*Accumulated Profits (less Dividends)*

BALANCE SHEET

= **INCOME**: *Trading Income* | *Other Income*

− **EXPENSES**: *Cost of Sales* | *Operating Expenses*

INCOME STATEMENT

3 What are shareholders interested in?

RETURN ON INVESTMENT

Focus is on . . .
The Whole Business

What does "ROI" mean?	*It's a broad, generic term*
What is the narrower term when we apply "ROI" to a business?	*We replace "Return on **Investment**" with . . .* *"Return on **Equity**"*
What does "Return" mean?	***Net Profit**, always for a **full Year***
So "Return on Equity" is then	$\frac{\text{Net Profit}}{\text{Equity}}$

Exercise: Calculate RoE if Net profit is 50,000, and Equity is 250,000

$$\frac{50{,}000}{250{,}000} = 20\%$$

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Value-Creation: Overview

3 **RETURN ON INVESTMENT**
Focus on the Whole Business

2 **PROFIT**
Focus on the Profitable Sales (Income Statement)

1 **CASH FLOW**
Focus on Sales & the Bank

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Our Learning Journey

Every African Entrepreneur Financially Literate & Functional

- Value Creation: Detail
- Value Creation: an Overview
- The Business Activities: Practical Application
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Value-Creation: Detail

WHAT YOU HAVE

EXPLANATIONS
How did you fund the Valuable Stuff?

ASSETS
Valuable Stuff

Current	Non-Current
Inventory / Stock	Plant & Equip.
Debtors (A/R)	Vehicles
Cash & Cash Equ.	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

+

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

=

INCOME
Trading Income | *Other Income*

−

EXPENSES
Cost of Sales | *Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

1 What is the one thing that can break any business?

CASH FLOW (LIQUIDITY)

Tools to help you manage this

- Cash flow forecast
- Aged Debtors Report
- Aged Creditors Report

A common measure of "Liquidity"

Current Ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Industry standard is current assets should be twice current liabilities

What is "solvency"?

A measure of total Liabilities compared to total Assets

If total Liabilities > total Assets you are "insolvent"

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Value-Creation: Detail

WHAT YOU HAVE = **EXPLANATIONS** + **How did you fund the Valuable Stuff?**

Architecture: The deeper layer of ***how*** the business makes money

The numbers are ***what*** it makes

ASSETS
Valuable Stuff

Current	Non-Current
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LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits (less Dividends)*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

2 How does a business make money?

PROFIT-ABILITY

We've seen these *numbers* before

How do we *compare* ourselves?

Express the numbers as a %

		Number	I/S Architecture
	Sales	100	
less	CoS	40	
=	**GP**	**60**	**60%**
less	"Opex"	25	
=	**OP**	**35**	**35%**
Less	Tax (20%)	7	
=	**NP**	**28**	**28%**

$\frac{\text{Gross Profit}}{\text{Sales}}$ GP Margin or %

$\frac{\text{Op. Profit}}{\text{Sales}}$ Op. Margin or %

$\frac{\text{Net Profit}}{\text{Sales}}$ NP Margin or %

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Architecture: The deeper layer of ***how*** the business makes money

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Valuable Stuff

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LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

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Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

2 How does a business make money?

PROFITABILITY

We've seen these *numbers* before

How do we *compare* ourselves?

Express the numbers as a %

Architecture change over time?

Architectures in an *INDUSTRY?*

Unless . . . ?

D for . . . ***DISRUPTION***

PLANNING: *Architecture* 1st; then *Numbers*

		Number	I/S Architecture
	Sales	100	
less	CoS	40	
=	**GP**	**60**	**60%**
less	"Opex"	25	
=	**OP**	**35**	**35%**
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$\frac{\text{Op. Profit}}{\text{Sales}}$ Op. Margin or %

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ASSETS
Valuable Stuff

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Inventory / Stock	Plant & Equip.
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LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

Capital	Retained Earnings
Actual Contributions	*Accumulated Profits (less Dividends)*

= **INCOME** − **EXPENSES**

INCOME		EXPENSES	
Trading Income	*Other Income*	*Cost of Sales*	*Operating Expenses*

B A L A N C E S H E E T | **INCOME STATEMENT**

2 How does a business make money?

PROFITABILITY

Exercise:
Examine the reported numbers for period 1 and 2 and prepare your comments for your Board Meeting tomorrow

	Period1		Period 2	
Sales	100		200	
CoS	40		100	
GP	**60**	60%	**100**	50%

Sales and GP *NUMBERS are much higher, but….*

GP% *is significantly lower*

What could the reasons be?

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Value-Creation: Detail

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ASSETS
Valuable Stuff

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LIABILITIES
Owe

Current	Non-Current
Creditors (A/P)	Long-term Loans

EQUITY
Obligation to Investors

- Capital — *Actual Contributions*
- Retained Earnings — *Accumulated Profits (less Dividends)*

= **INCOME**: *Trading Income* | *Other Income*

− **EXPENSES**: *Cost of Sales* | *Operating Expenses*

BALANCE SHEET | **INCOME STATEMENT**

3 What are share-holders interested in?

RETURN ON EQUITY

What do shareholders (outsiders) want? *Return on Equity*

$$\frac{\text{Net Profit}}{\text{Equity}}$$

3 Levers available to Management (insiders) to impact RoE

Top number *(Net Profit) - as large as possible*

1. ***PROFITABILITY***

Bottom number *(Equity) - as small as possible*

2. ***EFFICIENCY***
   Fewer Assets needs less overall funding
3. ***GEARING***
   Use Debt to fund Assets, rather than Equity

$$\frac{\text{Net Profit}}{\cancel{\text{Sales}}} \times \frac{\cancel{\text{Sales}}}{\cancel{\text{Assets}}} \times \frac{\cancel{\text{Assets}}}{\text{Equity}} = \frac{\text{Net Profit}}{\text{Equity}}$$

Profitability	Efficiency	Gearing
	Bang for Buck	Wise use of Debt

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ONE COIN – TWO STORIES

Key Learnings

1. **The FIVE ELEMENTS of Accounting**
   Assets, Liabilities, Equity, Income, Expenses
2. **Three equations** explain how these elements relate to each other:

Assets = Liabilities + Equity

Equity = Capital + Profit

Profit = Income - Expenses

The Accounting Equation

The Story of .... | **The INSEPARABLE Story of ....**

WHAT YOU HAVE | **EXPLANATIONS: How did you fund this Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

+

EQUITY
Obligation to Investors

Capital

Actual Contributions (in cash or kind)

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

=

INCOME

Trading Income	*Other Income*
Sales	Grant

-

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

Company A

1 000 000

300k	700k

400k	
300k	100k

600k		
100k	Prev 200k	Curr 300k

Company B

1 000 000

600k	400k

600k	
300k	300k

400k		
100k	Prev 200k	Curr 100k

Gearing / Leverage	Liquidity	Profit-ability	Efficiency
↓	↓	↑	↑
↑	↑	↓	↓

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Resources

Adventure Finance	https://www.linkedin.com/in/aunniepatton/ https://www.adventure.finance/
Investopedia	https://www.investopedia.com/ https://www.investopedia.com/financial-term-dictionary-4769738
Investopedia Du Pont	https://www.investopedia.com/terms/d/dupontanalysis.asp
Corporate Finance Institute	https://corporatefinanceinstitute.com/
Money Savvy Humans	https://www.linkedin.com/in/kathryn-main-sa/ https://www.moneysavvyhumans.co.za/
Side Hustles	https://www.linkedin.com/in/willemgous/ https://thehumanentrepreneur.org/

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WHAT YOU HAVE | **EXPLANATIONS: How did you fund this Valuable Stuff?**

ASSETS
Valuable Stuff

Current	Non-Current
Bank	Plant & Equipment
Debtors	Vehicles
Inventory (Stock)	Land & Buildings

500k

=

LIABILITIES
Owe

Current	Non-Current
Creditors	Long-term Loans

200k

+

EQUITY
Obligation to Investors

Capital

Actual Contributions (in cash or kind)

200k

Retained Earnings

Accumulated Profits since day 1 of Trading

Less: Dividends

100k

300k

=

INCOME

Trading Income	*Other Income*
Sales	Grant

500k

−

EXPENSES

Cost of Sales	*Operating Expenses*
Directly Related to Sale	Indirectly Related to Sale

400k

BALANCE SHEET
*The **Financial Position** of the Business;*
*always at a **point in time***

INCOME STATEMENT
*The **Profit Story**;*
*always over a **period of time***

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Breakthrough
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It's a Breeze
A c a d e m y o f F i n a n c e

Practical Business Finance

F a m i l y o f O f f e r i n g s

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Thank You

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