2.1. Economic and financial concept of equity
2.2. Economic and financial elements
2.3. Balance sheet
2.3.1. Analysis of assets
2.3.2. Analysis of equity
2.3.3. Analysis of liabilities
2.4. Basic accounting equation
2.1. Economic and financial concept of equity

**FINANCIAL RESOURCES**
- Capital (entity’s owner)
- Loans

**ECONOMIC RESOURCES**
- Goods

**PRODUCTION**

**FINANCIAL RESOURCES**
- Capital (entity’s owner)
- Loans

**ECONOMIC RESOURCES**
- Goods

**PRODUCTION**
EQUITY is the difference between property, good, legal rights (entitlements, receivables) and liabilities (economic obligations). Also know as “wealth” or “Owner’s equity”.

REVENUES AND EXPENSES (inflows and outflows of the activity) are the key components in measuring profit or net income. If that is positive its equity increases.

- **POSITIVE INCOME** -> EQUITY INCREASE
- **NEGATIVE INCOME** -> EQUITY DECREASE
2.2. Economic and financial elements

Fundamental Accounting Equation

EQUITY = ASSETS - LIABILITIES

ASSETS = LIABILITIES + EQUITY
2.2. Economic and financial elements

**ASSETS**
- Economic resources
- Will help generate future cash inflows
- Goods, rights, land, buildings, equipment, accounts receivable, cash, inventories, intangible assets

**LIABILITIES**
- Obligations and amounts owed to outsiders relating to loans, debts to suppliers, etc.

**EQUITY**
- Owner’s claim on the organization’s assets
- Equal to assets minus liabilities
2.3. Elements of balance sheet and accounts

ACCOUNT
Represent financial and economic elements

GROUP
ASSETS
LIABILITIES
EQUITY

IN TO

Noelia Vico Román - 1ST YEAR / 2ND SEMESTER – BUSINESS AND ADMINISTRATION DEGREE
EXERCISE 1

On January 1, a person describes his financial situation. He has 400 Euros in a current account in a bank, a credit to a friend that amounts to 20 Euros (it will be returned within two months) and he owns a motorcycle that cost 3,000 Euros, of which 500 will be paid within 14 months. Identify the assets, rights and obligations, determining the net wealth or equity and prepare the Balance Sheet.
**EXERCISE 1**

On January 1, a person describes his financial situation. He has 400 Euros in a current account in a bank, a credit to a friend that amounts to 20 Euros (it will be returned within two months) and he owns a motorcycle that cost 3,000 Euros, of which 500 will be paid within 14 months. Identify the assets, rights and obligations, determining the net wealth or equity and prepare the Balance Sheet.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Bank Account</th>
<th>400</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Motorcycle</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td>Total Tangible Assets</td>
<td>3,400</td>
</tr>
<tr>
<td></td>
<td>Loan:</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Total Legal Rights</td>
<td>20</td>
</tr>
<tr>
<td>Obligations:</td>
<td>Debt to the motorcycle’s supplier:</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>Total Obligations</td>
<td>500</td>
</tr>
</tbody>
</table>

Equity = Assets (Goods, property and rights) – Liabilities (Obligations) = 
= 3,400 + 20 – 500

Equity = 2,920
The opening balance sheet follows:

**Balance Sheet**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>EQUITY AND LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods Rights</td>
<td>3,400 20</td>
</tr>
<tr>
<td></td>
<td>Obligations Equity</td>
</tr>
<tr>
<td></td>
<td>500 2,920</td>
</tr>
<tr>
<td>Total</td>
<td>3,420</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>3,420</td>
</tr>
</tbody>
</table>

The elements of the balance sheet show the financial status of this person. Note that we always keep the left side and the right side in balance.
2.3.1. Assets

<table>
<thead>
<tr>
<th>Fixed Assets or long-lived assets</th>
<th>Accumulated amortisation</th>
<th>Trade receivables</th>
<th>Short-term financial debtors</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Goods, Property, legal rights</td>
<td>• Sistematic allocation of the acquisition cost of long-lived assets.</td>
<td>• Due from clients, customers and other debtors.</td>
<td>• Current investment</td>
<td>• Liquid assets</td>
</tr>
<tr>
<td>• More than one year</td>
<td>• To expense accounts of particular period.</td>
<td>• Will be paid within one year</td>
<td>• Shares in companies, loans to outsiders or employees</td>
<td>• Deposits in current ban accounts and cash</td>
</tr>
<tr>
<td>• Tangible fixed assets: land, plant, buildings, furniture, vehicles</td>
<td>• Implicit and gradual depreciation in their value.</td>
<td>• Also know as Short-term trade debtors</td>
<td>• Will be settle within one year or less</td>
<td>• Micro enterprises</td>
</tr>
<tr>
<td>• Intangible fixed assets: software</td>
<td>• Land is not subject to this</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.3.2. Liabilities

Non Current payables
- Also known as long-term creditors
- Debts due to suppliers, various creditors, banks
- Due after more than one year

Trade payables
- Also known as short-term trade creditors
- Due to goods and service suppliers, employees, or other trade creditors
- Must be settled within a year or less

Current payables
- Also known as short-term financial creditors
- Loans, and other financial
- Due in a year time or less
### 2.3.3. Equity

#### Capital
- Fund provided for the long-term financing of an enterprise by its owner
- Investors become the owners, the ownership interest is represented in shares

#### Profit and Loss
- Earnings (net income) for the accounting period of a company.
- Retained earnings not distributed to shareholders are called reserves.
The elements of the balance sheet show the financial status of this person. Note that we always keep the left side and the right side in balance.