

ARE YOU LITERATE IN FINANCE

WHAT IS FINANCIAL LITERACY?

Financial Literacy means so many things to so many people. It is said to be the ability to make appropriate decisions in managing personal finances.

It is also defined as the set of skills and knowledge that allow you to understand the **financial principles** you need to know to make **informed financial decisions**, and the **financial products** that impact your **financial well-being**. It is all about how money works.

Literacy in finance enables us to make quality decision with regard to our daily life styles. The very essence of our being. It engenders a successful life.

FINANCIAL FACILITIES

A financially literate person must understand the relevance and benefits of financial products. They include the various types of bank accounts, mortgage facilities, retirement savings plans and basic investments like stocks, bonds and mutual funds.

The average person should understand the basic financial concepts like compound interest, investment return, risk, and diversification. It should allow a discourse on wealth creation strategies and other financial issues.

A good knowledge in finance should enable us to make good financial decisions about saving, spending and managing debt throughout our life. It is also pertinent in investment in education, working life, buying a house, starting a family and retirement planning. In all these, money (the currency of finance) is the bottom line

Financial literacy helps to understand and interpret financial information. Financial information is the end product of all financial services. It is most invariably captured in the financial statement which encompasses the income statement, statement of financial position and cash flow statement.

INCOME STATEMENT

The statement of income details information about the income or revenue of the business activity as against the expenses incurred in earning the revenue. The difference between the two variables (income v expenses) should result in a profit or a loss. A very good indicator of financial performance.

THE STATEMENT OF FINANCIAL POSITION

The Statement of financial position indicates the assets and liabilities of the business entity at any particular point in time. This statement reports the financial wealth, worth or well-being of the entity. It gives the financial position of the enterprise

Financial literacy means understanding the financial report and the elements in the financial statement. It is also beneficial to interpret them effectively within the context of the business environment and thereby aid decision making.

INTERPRETATION OF ACCOUNTS

Financial literacy is brought to life when one is able to interpret financial reports for quality decision making. It is only **applied** knowledge which is power.

Interpretation of accounts requires the comparison of items in the financial statement (statement of financial position and statement of income) to arrive at a ratio which leads to better appreciation of the financial report. Issues of concern in this regard are profitability, liquidity, management efficiency, long term solvency and return on investment.

FINANCIAL LITERACY WEEK

The architects and promoters of Financial Literacy month in Ghana should not restrict the occasion to workshops on financial instruments and banking facilities. This opportunity should be broadened to accommodate financial accounting, reporting and financial management. This would increase financial literacy and thereby lead to quality business decisions, growth and development.

CHALLENGES

Due financial illiteracy, many people are failing to plan ahead. They are also taking on financial risks without realising it.

Problems of debt are severe for most entrepreneurs and many more people would be affected during economic downturn.

One way of assessing financial literacy is to look at how well people are managing their saving, spending and borrowing choices.

THE WAY FORWARD

The best way of addressing the challenges of poverty is to gain financial knowledge. Financial literacy has the propensity to offer financial independence. Get a life! Get financial literate!

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