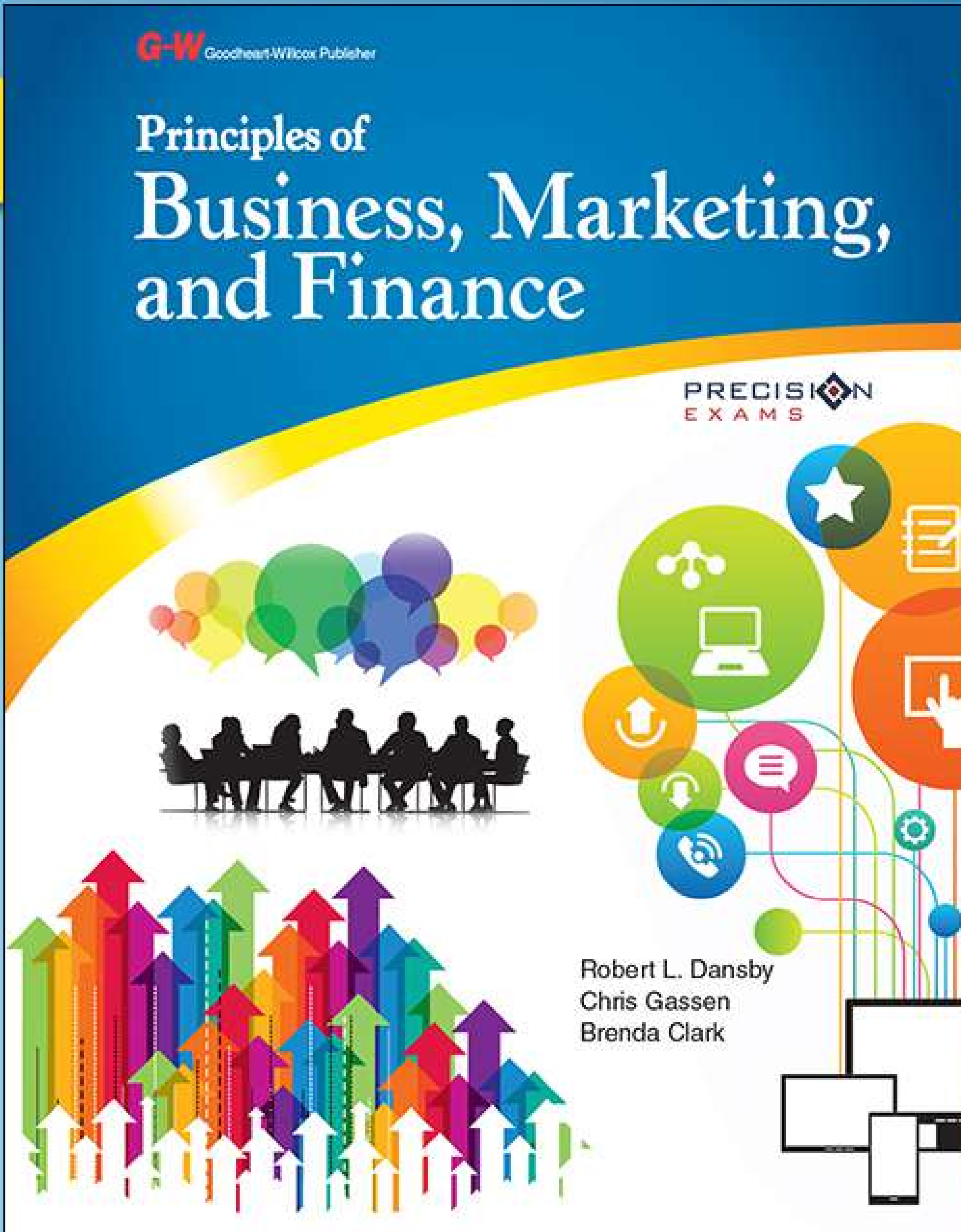


Presentations for PowerPoint

Principles of Business, Marketing, and Finance

G-W PUBLISHER

The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

17

Financial Management

Section 17.1

Basic Accounting Procedures

Objectives

- **Explain** the finance function of business.
- **Identify** types of daily business transactions.
- **List** the components of payroll.
- **Explain** double-entry accounting procedures.

Key Terms

- financial planning
- revenue
- expense
- financial management
- accounting
- generally accepted accounting principles (GAAP)
- audit
- business entity
- fiscal period
- budget
- sales forecast budget
- sales forecast
- start-up budget
- operating budget
- cash budget
- source document
- sale on account
- purchase on account
- merchandise
- payroll
- withholding allowance
- dependent
- employee’s earnings record
- payroll register
- gross pay
- account
- chart of accounts
- double-entry accounting
- journal
- journalizing
- ledger
- posting

Essential Question

What are the basic accounting procedures business should practice?

Finance

- Finance function includes all activities involving money
- **Financial planning** is the process of setting financial goals and developing plans to reach them
  - SMART goals
- **Revenue** is the earnings that a business receives for the goods and services it sells

Finance

- Three core goals of successful businesses:
  - Pay debts
  - Provide return for investors
  - Finance future growth
- Control expenses
  - **Expenses** are the costs involved in operating a business
- **Financial management** is a process used to manage the financial resources of a business

Finance

- **Accounting** is the system of recording business transactions and analyzing, verifying, and reporting the results
- **Generally accepted accounting principles (GAAP)** are the rules, standards, and practices businesses follow to record and report financial information
  - **Audit** is a review of the financial statements of a business and the accounting practices that were used to produce them

Finance

- **Business entity** is an organization that exists independently of the owner's personal finances
- **Fiscal period** is the period of time for which a business summarizes accounting information and prepares financial statements; *accounting period*
- *Cash-basis accounting:* Revenue not recorded until cash is received
- *Accrual-basis accounting:* Revenues and expenses recorded when they occur

Finance

- **Budget** is a financial plan that reflects anticipated revenue and shows how it will be allocated in the operation of the business
  - *Cost control:* Monitoring costs to stay within planned budget
  - *Discrepancy:* Difference between budgeted amount and actual amount
- **Sales forecast budget** is projected sales units and revenue dollars for the period
  - **Sales forecast:** Prediction of future sales based on past sales

Finance

- **Start-up budget** is a budget created in the planning stages for a new business
  - Information in pro forma statements created for business plan
- **Operating budget** is a projection of the sales revenue that will be earned and the expenses that will be incurred during a future period of time
  - Usually covers 12 months
- **Cash budget** is used to estimate the amount of money coming into and going out of the business

Accounting Transactions

- *Business transaction* is any activity that affects the business
- Accounting equation

  assets = liabilities + owner's equity
- **Source documents** are records that prove a business transaction occurred
- Daily accounting transactions:
  - Sales
  - Purchases
  - Expenses

Accounting Transactions

- Cash received by business at time of sale is *cash sale*
  - Includes bank-issued credit and debit card sales
- **Sale on account** is a transaction for which cash for the sale is received at a later date
  - Customer account is an *account receivable*; assets
- **Purchase** on account is a transaction for which merchandise purchased is paid to the vendor at a later date
  - Vendor account is an *account payable*; liabilities

Accounting Transactions

- **Merchandise** is an item, or items, bought with the intention of reselling to customers
- Expenses are costs in operating business
  - Cash, checks, or credit cards are used to pay

Payroll

- **Payroll** is a list of all employees working for the business and their earnings, benefits, taxes withheld, and other deductions
- Payroll is largest expense for businesses
- Two components:
  - Employee records
  - Employer records

Payroll

- Requires accurate information for each employee
  - Personal information
  - **Withholding allowance** is an amount of income that is not subject to income taxes
  - **Dependent** is an individual who relies on someone else for financial support
  - **Employee's earnings record** is an individual record maintained for each employee

Payroll

- Law requires accurate records of employee earnings and payments
  - **Payroll register** is a summary of the earnings, payroll deductions, and net pay for all employees recorded for each payroll period
- Employees earn wage or salary
- **Gross pay** is amount of income earned before taxes and other deductions are withheld
- Paycheck withholdings
  - FICA taxes
  - Income taxes
  - Employee benefits

Payroll

PAYROLL REGISTER

PERIOD ENDED: January 17, 20-- DATE OF PAYMENT: January 23, 20--

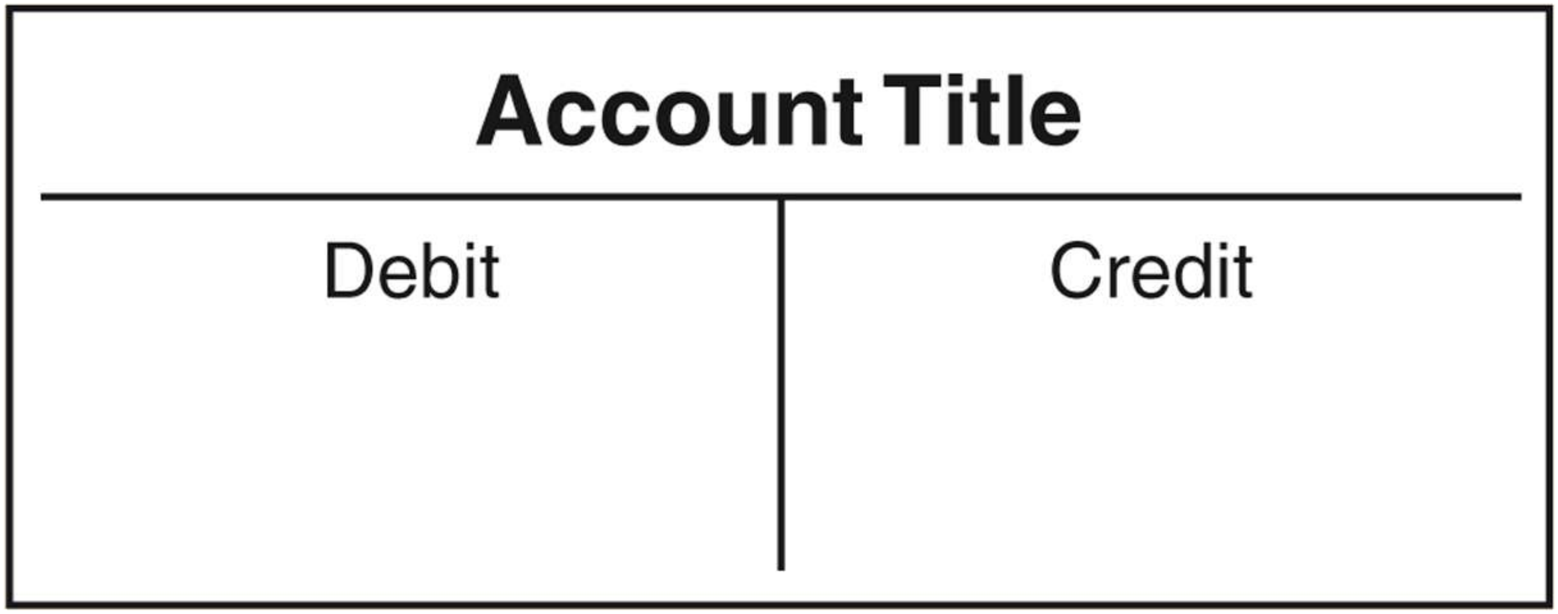
	EMPL. NO.	EMPLOYEE'S NAME	MARITAL STATUS	NO. OF ALLOW-ANCES	EARNINGS 1 REGULAR	2 OVERTIME	3 TOTAL	DEDUCTIONS 4 FEDERAL INCOME TAX	5 SOC. SEC. TAX	6 MEDICARE TAX	7 HEALTH INSURANCE	8 OTHER	9 TOTAL	10 NET PAY	CHECK NO.	
1	203	Daniels, Bill	M	2	820.00	85.00	905.00	76.93	27.15	13.57	28.00		145.65	759.35	3900	1
2	228	Emery, Ethan	S	2	475.00		475.00	40.38	14.25	7.12	28.00		89.75	385.25	3901	2
3	266	Guerin, Kim	S	1	800.00	150.00	950.00	80.75	28.50	14.25	20.00		143.50	806.50	3902	3
4	267	Ramirez, Lupe	M	4	625.00	50.00	675.00	57.38	20.25	10.12	45.00		132.75	542.25	3903	4
5	235	Rogachevsky, Scott	M	3	520.00		520.00	44.20	15.60	7.80	45.00		112.60	407.40	3904	5
6	222	Sanders, Renee	S	1	750.00		750.00	63.75	22.50	11.25	20.00		117.50	632.50	3905	6
7																7
8																8
9																9
10																10
		TOTALS			3,990.00	285.00	4,275.00	363.39	128.25	64.11	186.00		741.75	3,533.25		

Double-Entry Accounting

- **Account** is an individual record that summarizes information for a single category
- A list of all accounts in the business is called the **chart of accounts**
- *Debit* is left side of an account
- *Credit* is right side of an account

Double-Entry Accounting

- Recording the debit and credit parts of a transaction is called **double-entry accounting**



Double-Entry Accounting

- **Journal** is a form used to record business transactions in chronological order
  - **Journalizing** is the process of recording business transactions in a journal
- *Special journals* record only one type of transaction
  - *Cash receipts journal*
  - *Cash payments journal*
  - *Sales journal*
  - *Purchases journal*
- *General journal* used for any transaction that cannot be recorded in special journals

Double-Entry Accounting

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT (1)	GENERAL CREDIT (2)	
1	Mar	1	Cash			100 00		1
2			Sales				100 00	2
3			Receipt 101					3
4								4
5								5
6								6

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Double-Entry Accounting

- **Ledger** is a group of accounts
- *Subsidiary ledgers* are individual accounts for customers and vendors
- Transactions recorded in journals are transferred to the general ledger
  - The transfer of information from journals to the ledger is called **posting**

Section 17.1 Review

1. The finance function of business includes what types of activities?

   The finance function of business includes all activities that involve money.

2. State the accounting equation.

   assets = liabilities + owner’s equity

3. What is the first step in recording a transaction?

   The first step in recording a transaction is to identify which accounts are affected.

Section 17.1 Review

4. What are subsidiary ledgers?

   Individual accounts for customers and vendors are called *subsidiary ledgers*.

5. After transactions are recorded in the journals, where is the information transferred?

   After transactions are recorded in the journals, the information is transferred to the general ledger and the subsidiary ledgers. By posting to the ledgers, the business can obtain specific information about each account in the business.

Section 17.2

Financial Records

Objectives

- **State** the importance of financial statements for a business.
- **Explain** why financial statement analysis is performed.

Key Terms

- accounting cycle
- stakeholder
- balance sheet
- cash flow statement
- income statement
- financial ratio
- working capital
- current asset
- current liability
- current ratio
- debt ratio
- net profit ratio
- operating ratio

Essential Question

How do business owners use financial statements to make decisions?

Financial Statements

- Financial statements report information for business
  - Created on regular basis
- **Accounting cycle** is the sequence of steps businesses follow to record, summarize, and report financial information
- Financial statements give stakeholders updates about the status of the business
  - **Stakeholders:** People with interest in the business

Financial Statements

- Pro forma statements created with applying for funding
  - **Balance sheet** reports the assets, liabilities, and owner's equity
  - **Cash flow statement** reports how cash moves in to and out of a business
  - **Income statement** reports business revenue and expenses for a specific time period; shows net income or net loss
  - *Owner's equity statement* summarizes changes in owner's equity during fiscal period

Financial Statement Analysis

- Process of *financial statement analysis* reviews financial statements to analyze performance of business
- **Financial ratios** evaluate overall financial condition of the business by showing relationships between selected figures on financial statements
  - Identify business areas that are strong and others that need improvement

Financial Statement Analysis

- Balance sheet shows financial strength of a business
  - **Working capital** is difference between current assets and current liabilities

    current assets – current liabilities = working capital
  - **Current asset** is cash or any asset that will be exchanged for cash or used within one year
  - **Current liability** is a short-term debt that must be paid within one year

Financial Statement Analysis

- Balance sheet (continued)
  - **Current ratio** shows relationship of current assets to current liabilities

    current assets ÷ current liabilities = current ratio
  - **Debt ratio** shows percentage of dollars owed compared to assets owned

    total liabilities ÷ total assets = debt ratio

Financial Statement Analysis

- *Profit margin ratios* indicate progress toward company goals and industry standard
  - **Net profit ratio** illustrates how much profit is generated per dollar of sales

    net income ÷ sales = net profit ratio
  - **Operating ratio** shows relationship of expenses to sales

    expenses ÷ sales = operating ratio

Section 17.2 Review

1. When are financial statements completed for a business?

   Financial statements are used to report information for the business. They are completed at the end of the accounting cycle.

2. Which financial statement provides the financial condition of the business on a specific date?

   The balance sheet gives a snapshot of the financial condition of the business for a specific date.

3. What purpose does the owner's equity statement serve?

   The *owner's equity statement* summarizes changes in the owner's equity during a fiscal period.

Section 17.2 Review

4. List three financial ratios that are calculated from the balance sheet.

   By analyzing the balance sheet, a business can determine its working capital, current ratio, and debt ratio.

5. List two financial ratios that are calculated from the income statement.

   Two financial ratios that are calculated from the income statement are the net profit ratio and the operating ratio.