

Chapter 17

Financial Management

Answer Key

Part 1: Content Review

Matching

1. D
2. C
3. B
4. G
5. I
6. J
7. F
8. A
9. E
10. H

Multiple Choice

1. B
2. C
3. A
4. D
5. C
6. B
7. A
8. D
9. C
10. B

Completion

1. fiscal period
2. sales forecast budget
3. start-up budget
4. double-entry accounting
5. sale on account
6. gross pay
7. withholding allowance
8. current asset
9. current liability
10. owner's equity

Part 2: Concept Review

Open Response

- GAAP are rules, standards, and practices businesses follow to record and report financial information. By following GAAP, all businesses prepare statements and reports according to the same standards.
- Under cash-basis accounting, revenue is not recorded until cash is received and expenses are not recorded until cash is spent. Under accrual-basis accounting, revenues and expenses are recorded when they occur. Most businesses use accrual-basis accounting.
- Financial statements are used to report information for a business at the end of an accounting cycle. Businesses, investors, and lenders use financial statements. Businesses use them to determine profitability, help plan future business activities, and prepare tax returns. Investors use them to see how their investments are doing. Lenders use financial statements because they want to know if their loans will be repaid on time.
- Financial ratios evaluate the overall financial condition of a business by showing the relationship between selected figures on financial statements. By analyzing them, owners can identify areas in which the business is strong and where improvements need to be made. Financial ratios provide a benchmark of company performance that can be compared to earlier years of the business. Ratios are also a good way to show comparisons with competitors in the same industry.
- Great Outdoors is bigger in terms of sales and assets. However, Big Sky is performing better. Big Sky has a higher current ratio and net profit ratio. It also has a lower debt ratio and operating ratio.

	Big Sky Camping Supplies	Great Outdoors Camping
Current Ratio	$\$53,000/\$19,000 = 2.8:1$	$\$245,000/\$169,000 = 1.5:1$
Debt Ratio	$\$105,000/\$168,000 = .63:1$	$\$789,500/\$1,035,800 = .76:1$
Net Profit Ratio	$\$55,000/\$212,000 = .26:1$	$\$85,000/\$578,900 = .15:1$
Operating Ratio	$\$157,000/\$212,000 = .74:1$	$\$493,000/\$578,900 = .85:1$

Part 3: Math Skills

Number Sense

- First, add $\$2,000 + \$1,000 = \$3,000$
Then, add $\$100 + \$200 + \$350 = \650
Combine these two sums to find the total: $\$3,650$
Yes. The total of these items will be within budget.
- No. The answer is incorrect because good number sense tells you the space cannot be 720 feet long. You incorrectly entered a multiplication operation instead of a division operation. The correct answer is 5 feet.
- No. You know that milk costs nearly \$3 a gallon, so three gallons will cost about \$9. This means the cost of two boxes of cereal and four cans of tuna would need to total less than \$1, which is unlikely. There is probably a problem with the scanner or the prices in the computer.
- It depends on how many tires you need. If you need three or fewer tires, Quality Tire is better. If you need a full set of four tires, Discount Wheels is better. Four tires at Quality Tires will total \$800, but only \$750 at Discount Wheels when the fourth is free.
- The one-pound package (16 ounces) is the better value. It is four times larger than a four-ounce bag, but only about three times the price.

Part 4: Communication Skills

Reading Questions

1. The Marco Company or company representative.
2. To inform employees and applicants to the Marco Company of the company's policy regarding substance abuse.
3. Student responses may vary. The writer expects the reader to be informed on the details and definitions of the company's substance abuse policy.