

## CHAPTER

# 17

# Financial Management

## Part 1: Content Review

### Matching

Write the letter of the correct term for each definition on the line provided.

#### Terms

- |                         |                     |
|-------------------------|---------------------|
| A. financial planning   | F. journal          |
| B. financial management | G. accounting cycle |
| C. audit                | H. balance sheet    |
| D. budget               | I. income statement |
| E. payroll              | J. working capital  |

- \_\_\_\_\_ 1. A financial plan that reflects anticipated revenue and shows how it will be allocated in the operation of the business.
- \_\_\_\_\_ 2. A review of the financial statements of a business and the accounting practices that were used to produce them.
- \_\_\_\_\_ 3. A process used to manage the financial resources of a business.
- \_\_\_\_\_ 4. The sequence of steps businesses follow to record, summarize, and report financial information.
- \_\_\_\_\_ 5. Reports the revenue and expenses of a business for a specific time period and shows a net income or net loss.
- \_\_\_\_\_ 6. The difference between current assets and current liabilities of a business.
- \_\_\_\_\_ 7. A form used to record business transactions in chronological order.
- \_\_\_\_\_ 8. The process of setting financial goals and developing plans to reach them.
- \_\_\_\_\_ 9. A list of all employees working for the business and their earnings, benefits, taxes withheld, and other deductions.
- \_\_\_\_\_ 10. Reports the assets, liabilities, and owner's equity.

## Multiple Choice

Place the letter of the correct answer to each question on the line provided.

- \_\_\_\_\_ 1. The system of recording business transactions and analyzing, verifying, and reporting the results is \_\_\_\_\_.  
A. auditing  
B. accounting  
C. financial statement analysis  
D. start-up budgeting
- \_\_\_\_\_ 2. The accounting equation is \_\_\_\_\_.  
A. assets + liabilities = owner's equity  
B. assets + owner's equity = liabilities  
C. assets = liabilities + owner's equity  
D. liabilities – owner's equity = assets
- \_\_\_\_\_ 3. Which of the following is *not* a paycheck withholding?  
A. gross pay  
B. FICA taxes  
C. income taxes  
D. employee benefits
- \_\_\_\_\_ 4. Records that prove a business transaction occurred are \_\_\_\_\_.  
A. journals  
B. special journals  
C. charts of account  
D. source documents
- \_\_\_\_\_ 5. Transferring information from journals to the ledger is \_\_\_\_\_.  
A. auditing  
B. budgeting  
C. posting  
D. journalizing
- \_\_\_\_\_ 6. One of the core goals of successful businesses is to \_\_\_\_\_.  
A. decrease working capital  
B. provide a return for investors  
C. increase the operating ratio  
D. All of the above.
- \_\_\_\_\_ 7. Projections of future business transactions are reported on \_\_\_\_\_.  
A. pro forma statements  
B. cash flow statements  
C. income statements  
D. audited statements
- \_\_\_\_\_ 8. Which of the following is an example of a current asset?  
A. Cash  
B. Inventory  
C. Accounts receivable  
D. All of the above.

Name \_\_\_\_\_

- \_\_\_\_\_ 9. A(n) \_\_\_\_\_ reports how cash moves in to and out of a business.
- A. general ledger
  - B. income statement
  - C. cash flow statement
  - D. pro forma statement
- \_\_\_\_\_ 10. The \_\_\_\_\_ ratio shows the relationship of expenses to sales.
- A. net profit
  - B. operating
  - C. debt
  - D. current

## Completion

*In the space provided, write the word(s) that best completes each of the following statements.*

- \_\_\_\_\_ 1. The period of time for which a business summarizes accounting information and prepares financial statements is a(n) \_\_\_\_\_.
- \_\_\_\_\_ 2. The \_\_\_\_\_ is the projected sales units and revenue dollars for the period.
- \_\_\_\_\_ 3. A(n) \_\_\_\_\_ budget is created in the planning stages of a new business.
- \_\_\_\_\_ 4. Recording the debit and credit parts of a transaction is called \_\_\_\_\_.
- \_\_\_\_\_ 5. A(n) \_\_\_\_\_ is a transaction for which cash for the sale is received at a later date.
- \_\_\_\_\_ 6. The amount of income earned before taxes and other deductions is \_\_\_\_\_.
- \_\_\_\_\_ 7. An amount of income that is not subject to income taxes is a(n) \_\_\_\_\_.
- \_\_\_\_\_ 8. Cash or any asset that will be exchanged for cash or used within one year is a(n) \_\_\_\_\_.
- \_\_\_\_\_ 9. A short-term debt that must be paid within one year is a(n) \_\_\_\_\_.
- \_\_\_\_\_ 10. The \_\_\_\_\_ statement summarizes changes in the owner's equity during a fiscal period.

Name \_\_\_\_\_

## Part 2: Concept Review

### Open Response

Write your response to each of the following statements or questions in the space provided.  
Use complete sentences.

1. What are generally accepted accounting principles (GAAP)? Why is it important for businesses to follow GAAP?

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2. What is the difference between cash-basis accounting and accrual-basis accounting? Which method do most businesses use?

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3. What is the purpose of financial statements? Who uses them?

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Name \_\_\_\_\_

4. What are financial ratios? What information do financial ratios provide to business owners?

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5. The following table has financial data for two competing retailers of camping supplies. For each retailer, calculate the current ratio, debt ratio, net profit ratio, and operating ratio. Which company is bigger in terms of sales and assets? Which company do you think is performing better?

	<b>Big Sky Camping Supplies</b>	<b>Great Outdoors Camping</b>
<b>Current Assets</b>	\$53,000	\$245,000
<b>Current Liabilities</b>	19,000	169,000
<b>Total Liabilities</b>	105,000	789,500
<b>Total Assets</b>	168,000	1,035,800
<b>Sales</b>	212,000	578,900
<b>Expenses</b>	157,000	493,000
<b>Net Income</b>	55,000	85,000

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Name \_\_\_\_\_

## Part 3: Math Skills

### Number Sense

Business people need to have good number sense. *Number sense* is the ability to use and understand numbers to make judgments and solve problems. A person with good number sense also understands when his or her computations are reasonable in the context of a problem.

*Answer the following questions using good number sense.*

1. A restaurant owner is looking to purchase new kitchen equipment and has a budget of \$5,000 to spend. An oven is priced at \$2,100, a freezer at \$1,200, and an automatic toaster at \$350. Without using a calculator, what is the total for all three items? Will this be within budget?

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2. You are installing cabinetry to fit a space that is 60 inches wide. This measurement needs to be converted from inches to feet to estimate the cost of the cabinets. You use a calculator to divide 60 by 12 (number of inches in a foot). The answer displayed is 720. Is this answer correct? Explain your answer.

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3. Good number sense is needed for those who handle money regularly, such as retail cashiers. Cashiers often use a register that scans the bar code of each item to find its price. A customer checks out with three gallons of milk, two boxes of cereal, and four cans of tuna. None of the items are price marked, but you know that a gallon of milk is always priced at \$2.99. You scan each item and the total price of \$9.79 appears on the cash register monitor. Does this total seem reasonable to you? Explain your answer.

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Name \_\_\_\_\_

4. You are tire shopping for your delivery vehicle and visit two tire stores. Quality Tires will install the tires you need for \$200 each. The same installed tires at Discount Wheels are \$250 each. However, Discount Wheels is advertising that when you buy three tires, the fourth is free. Which tire store has the better buy? Explain your answer.

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5. You want to buy a package of turkey jerky. A four-ounce package is priced at \$2.00. A one-pound package is priced at \$6.29. Which size is the better value for the money? Explain your answer.

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Name \_\_\_\_\_

## Part 4: Communication Skills

### Reading

*Writers tailor their writing specifically for audiences and situations. Read the passage below and focus on the content. After you have read the passage, answer the questions that follow in the space provided.*

#### Substance Abuse Policy

The Marco Company is committed to programs that promote the health and safety of our employees in the workplace and protect our business from unnecessary loss. Consistent with the spirit and intent of this commitment, the Company promotes a drug-free environment and has adopted this substance abuse policy regarding the sale, use, possession, or distribution by its employees of alcohol or chemical substances that may induce dependence or addiction. As a condition of your employment, you are required to abide by this policy. It is a serious violation of Company policy for any employee of the Company in any location or on Company business anywhere:

- to possess, use, sell, offer to sell, or distribute alcoholic beverages, except in cases of company-sponsored functions where the Company can control and monitor the use of alcohol;
- to possess, use, sell, offer to sell, or distribute any illegal drugs or any drugs that have been legally obtained but are used for anything other than their legally intended purpose;
- to be under the influence of alcohol to the point where it impedes your ability to work, drive, interact respectfully with others, or otherwise exhibit satisfactory work performance, motor skills, or speech;
- to be under the influence of illegal drugs;
- to misuse or abuse any drug or other substance, whether legal or illegal.

It is the employee's responsibility to seek diagnosis and treatment for alcohol or drug use before it becomes a disciplinary matter. This substance abuse policy applies to all applicants and employees of the Company. Illegal drug usage and/or chemical dependency and alcohol usage or dependency will not be tolerated.

### Reading Questions

1. Who is the writer of this passage?

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Name \_\_\_\_\_

2. What is the writer's purpose?

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3. Does the writer expect something from the reader? If so, what is it?

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