

Chapter 12 Study Guide Financial Management

Part 1 True or False

Directions Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

- | | |
|---|----------|
| 1. Most start-up businesses can be opened with a minimum of expenditures. | 1. _____ |
| 2. Financial records provide detailed information about the financial activities of a company. | 2. _____ |
| 3. Owners' equity is the value of the business after liabilities are subtracted from assets. | 3. _____ |
| 4. An income statement usually covers a five-year period. | 4. _____ |
| 5. The income that a business receives over a period of time is called profits. | 5. _____ |
| 6. When expenses are greater than income, a net loss occurs. | 6. _____ |
| 7. Financial performance ratios compare a company's financial elements to its competitors. | 7. _____ |
| 8. With direct deposit, net pay is transferred electronically into the employee's bank account. | 8. _____ |

Answers

Part 2 Identifying Financial Records

Directions In the Answers column, write the letter that represents the word, or group of words, that correctly identifies each type of financial record.

- | | | |
|---|-------------------------|-----------|
| 9. The type and number of products on hand for sale | A. asset records | 9. _____ |
| 10. Credit purchases made by customers | B. depreciation records | 10. _____ |
| 11. The amount assets have decreased in value due to age or use | C. inventory records | 11. _____ |
| 12. Information on employees, their compensation, and benefits | D. accounts receivable | 12. _____ |
| 13. The buildings and equipment owned by the business | E. accounts payable | 13. _____ |
| 14. All taxes collected, owed, and paid | F. cash records | 14. _____ |
| 15. Companies from which credit purchases were made | G. payroll records | 15. _____ |
| | H. tax records | |

Answers

Part 3 Unscramble

Directions Unscramble the following vocabulary words that were discussed in Chapter 12. **Answers**

- | | |
|----------------------------|-----------|
| 16. yalplor | 16. _____ |
| 17. tasess | 17. _____ |
| 18. tubdeg | 18. _____ |
| 19. nablaccheets (2 words) | 19. _____ |
| 20. neverue | 20. _____ |
| 21. tilebiliais | 21. _____ |
| 22. pexnesse | 22. _____ |

Part 4 Activities

23. Financial statements are reports that summarize the financial performance of a business. The balance sheet lists the assets, liabilities, and owner's equity of the business. In the balance sheet below, some information is missing. Complete the balance sheet by calculating the missing amounts.

Countryside Bicycle Shop
Balance Sheet
December 31, 20xx

<i>Assets:</i>		<i>Liabilities:</i>	
Cash	\$38,425	Accounts payable	\$30,070
Accounts receivable	<u> </u>	Notes payable	\$28,695
Supplies	\$12,675	Loans payable	<u> </u>
Equipment	<u>\$16,300</u>	Total liabilities:	\$71,415
		<i>Owner's Equity:</i>	<u> </u>
Total Assets:	<u>\$82,200</u>	Total liabilities and owner's equity:	<u> </u>

24. Visit the website of a publicly held company, such as P&G or Hewlett-Packard, and view the most recent annual report. What type of financial information is provided in the company's annual report? What is the value to investors of having this kind of information? Can you tell from the annual report how the company is performing?
25. A company's income statement reports revenues, expenses, and net income or loss from the business operations for a specified period of time, usually six months or one year. Review the income statement for The Unique Boutique women's clothing store and answer the questions below.

The Unique Boutique
Income Statement
For the 6-month Period Ending June 30, 20xx

<i>Operating Revenue</i>		<i>Operating Expenses</i>	
Cash sales	\$15,825	Salaries and wages	\$12,500
Credit/charge sales	<u>\$18,940</u>	Advertising	\$875
Total operating revenue	\$34,765	Rent	\$2,000
		Utilities	\$750
		Supplies	\$695
		Other	<u>\$350</u>
		Total operating expenses	\$17,170

Did the Unique Boutique earn a profit or a loss during this period? How much?

Chapter 16 Study Guide Money Management and Financial Planning

Part 1 Yes or No

Directions Indicate your answer to each of the following questions by placing a check mark on the line under *yes* or *no* at the right.

	Yes	No
1. Is a balance sheet a record of assets and liabilities at a point in time?	_____	_____
2. Is the difference between assets and liabilities called your cash flow?	_____	_____
3. Are variable expenses for the same amount each time?	_____	_____
4. Are earnings from dividends, interest, and rent considered investment income?	_____	_____
5. Is the most popular retirement income plan the individual retirement account (IRA)?	_____	_____
6. Does the Internal Revenue Service provide taxpayers with tax information and tax preparation assistance?	_____	_____
7. Does estate planning include the distribution of your property at death?	_____	_____
8. Is an annuity a series of regular payments made to a retired worker under a plan?	_____	_____

Part 2 Short Answer

Directions In the Answers column, write the word or words that best describes each statement below.

	Answers
9. The amount of a paycheck after taxes and other payroll deductions	9. _____
10. Report of your current financial condition and a strategy for your financial future	10. _____
11. An amount that reduces taxable income	11. _____
12. The sum of a person's wages, salary, commissions, fees, tips, and bonuses	12. _____
13. Costs that occur on a regular basis, such as rent or mortgage payments	13. _____

Part 3 Asset or Liability?

Directions Identify each of the following items as an asset or a liability by placing a check mark in the correct column.

	Asset	Liability
14. Computer	_____	_____
15. Checking account	_____	_____
16. Balance on store charge account	_____	_____
17. Car loan	_____	_____
18. Stereo system	_____	_____
19. Class ring	_____	_____
20. Tax refund	_____	_____

Part 4 Activities

21. Do you sometimes wonder where your money goes? Prepare a personal cash flow statement and maintain it for a period of time, such as a month, by recording your cash inflows (income) and outflows (expenditures). Make sure you keep careful records of all expenditures. At the end of the month, review your cash flow statement. If you discover that you are spending more than you are earning, what are some positive changes you can make to improve your net cash flow?
22. Many people contribute to individual retirement accounts (IRAs) while they are employed in order to provide themselves with an income when they retire. Conduct research to learn more about traditional IRAs and Roth IRAs. How do they differ? What are the advantages and disadvantages of each type of plan? What is the best way for an individual to choose between the two types of IRAs? In addition to library and Internet research, you may find it helpful to talk to a financial planner who can explain the advantages and disadvantages of each of the two types of IRAs. Using presentation software, create an informative presentation to share what you have learned.
23. You spend money every day, but do you plan ahead for the things you want to accomplish? To plan for your financial future, it is important to set both short-term and long-term goals. For each of the following situations, indicate whether it is likely to involve setting a short-term or a long-term goal by placing a check mark in the correct column.

	Short-Term	Long-Term
1. Buying a new sweater	_____	_____
2. Saving for a class trip to Washington, D.C.	_____	_____
3. Buying a new car	_____	_____
4. Having your coat dry cleaned	_____	_____
5. Saving money to attend college in two years	_____	_____
6. Going to a concert with friends	_____	_____
7. Setting aside money to go to the movies	_____	_____
8. Saving for a down payment on a condominium	_____	_____
9. Backpacking across Europe with friends	_____	_____
10. Buying a new outfit for the spring dance	_____	_____