

Chapter 17: Managing Business Finances

I-Summary: This chapter discusses the managing of business finances. A financial plan is a set of documents that list financial facts about a new business. Financial plans identify needed assets and estimate the capital required for a new venture. A new business has start-up expenses and operating expenses. Financial plans explain how businesses will keep financial records. Financial forecasts estimate the financial outlook of a business. To remain competitive every company needs to grow. Financial statements show financial conditions of a business and budgets help guide its future. The systematic process of recording and reporting financial positions is known as accounting. All accountants follow generally accepted accounting principals. Assets are the property and other valuables owned by a business. Liabilities are creditors' claims to assets. An owner's claim to the assets of a business is known as owner's equity. The accounting equation states that the assets of a business equal the liabilities added to the owner's equity. Financial statements include income statements, balance sheets, and statements of cash flow. Today, a majority of companies use computer programs to organize financial statements.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

Question 1

Which is NOT identified by a financial plan?

- a. cash
- b. equipment
- c. debt
- d. inventory

Question 2

Which is NOT considered a part of start-up expenses?

- a. advertising
- b. insurance
- c. legal permits
- d. payroll

Question 3

Which term refers to something that helps guide a business as it operates throughout the year?

- a. budget
- b. financial plan
- c. financial forecast
- d. financial expansion

Question 4

Which term is a creditor's claim to assets?

- a. liability
- b. accounts payable
- c. equity
- d. asset

Question 5

Which shows the incoming and outgoing money of a business?

- a. balance sheet
- b. financial outlook
- c. statement of cash flow
- d. financial statement

Answer Key

1. The correct answer is C, debt. A financial plan identifies the needed assets of a business. Debt is a liability.

2. The correct answer is D, payroll. Payroll is considered an operating expense.

3. The correct answer is A, budget. Financial statements describe financial conditions of a business. A budget helps guide a business.

4. The correct answer is A, liability. Liabilities are creditor's claims to the assets of a business.

5. The correct answer is C, statement of cash flow. A statement of cash flow is a financial statement that shows the outgoing and incoming money during an accounting period.