Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Financial Management**

**Chapter 12 Notes**

**Video – Financial Reporting for Business**

Before Watching the Video

*Using your textbook, define the following terms:*

* **assets** –
* **liabilities** –
* **owner’s equity** –
* **revenue** –
* **expenses** –

While Watching the Video

*Answer the following questions while you watch the video.*

1. When transactions are recorded they can be categorized into:

* cash r\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ purchases
* credit \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* credit \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* sales \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and allowances
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ returns and allowances
* general \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. List one advantage of using computers to record accounting information.
2. What accounting package (software) does Paul Spano, franchise owner from Video Ezy use?
3. Why are cash transactions important to a business?
4. What are the three main headings in a statement of cash flows?
5. What are two things a business can a business do to improve cash flow?
6. How is profit calculated?
7. List two operating expenses:
8. How is net profit calculated?
9. What are the two groups of assets?
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assets
   2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assets
10. What is the importance of assets to a business?
11. Give two examples of liabilities:
12. Define current liabilities.
13. What are the three components of owner’s equity?
14. What are drawings and what effect do they have on owner’s equity?
15. State the accounting equation.

**12.1 – Financial Planning**

FINANCIAL PLANNING

* **Beginning a Business**
  + Many new businesses fail due to poor \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + Consult an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_!
  + Many \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to answer.
* **Ongoing Operations**
  + Every \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costs money. Without careful \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, these costs can grow to a level where the business income cannot cover the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + Basic financial equation:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_

* + Both \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ AND \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ should be concerned with costs
    - Profitability is directly linked to the number of \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and their \_\_\_\_\_\_\_\_\_\_\_.
      * Reduce \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and control \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
      * Increase sales and income with better \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and more customer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **Business Expansion**
  + Successful businesses \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to serve more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, reach unserved markets, and sell new \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + Expansion costs \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_!
    - New \_\_\_\_\_\_\_\_\_\_\_\_\_\_ will hopefully be greater than the \_\_\_\_\_\_\_\_\_\_\_\_\_ to expand.
    - Research, new \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ /\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, marketing, etc.
  + All expansion must be well \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and often takes a great deal of \_\_\_\_\_\_\_\_\_\_ (and $$)

developing business budgets

* **Budgeting:**
  + **Budget** -   
    - **Main Purposes:**

2. * + **Sources of Information:**
       - Established businesses
       - New businesses
       - Other sources -
     + **Types of Budgets:**
       - **­­­­­­­­­­­­­­­­­­­­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  – *plans income and expenses form the beginning of a new business or a major business expansion until its profitable*
         * includes
       - **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  - *financial plan for the ongoing operations of the business for a specific period*
         * covers
       - **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  - *estimate of the actual money received and paid out for a specific period*
         * shows if

**12.2 – Financial Records and Financial Statements**

FINANCIAL records

* **Financial Records** -   
  + **Types of Records:**

1. **Asset Records** -
2. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ -** identify the amount assets have decreased in value due to their age and use
3. **Inventory Records** -
4. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ -** identify the companies from which credit purchases were made and amount purchase, paid, and owed
5. **Accounts Receivable Records** -
6. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** - list all cash received and spent by the business
7. **Payroll Records** -
8. **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** - show all taxes collected, owed, and paid

FINANCIAL statements

* **Financial Statements** -   
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – *summarizes the revenues, costs, and expenses incurred during a specific period of time*
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – *a report of assets, liabilities, and owner’s equity*
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – *shows how changes in balance sheet accounts and income affect cash and cash equivalents*

Sample Financial Statements:

Marty Foxey owns and operates Foxey’s Fishing. The store is located in a large regional town and has a reputation for stocking a wide range of fishing equipment and accessories. The business has grown over the past 12 months so Marty purchased two vans so he could deliver to customers on location.

**Balance Sheet**

*The following figures are provided for the 12 months ending June 30, 20--. Use these figures to prepare a Balance Sheet.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts Payable (creditors) | 21,922 |  | Fixtures & Fittings | 7,200 |
| Accounts Receivable (debtors) | 17,885 |  | Loans (short-term, due within 12 mo.) | 12,000 |
| Capital | 145,775 |  | Loans (long-term) | 22,000 |
| Cash at Bank | 4,157 |  | Investments (stocks) | 22,455 |
| Drawings | 50,000 |  | Vans | 100,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Foxey’s Fishing** | | | |
| **Balance Sheet** | | | |
| **June 30, 20--** | | | |
| **Current Assets:** | | **Current Liabilities:** | |
|  |  |  |  |
|  |  |  |  |
|  |  | **Non-Current Liabilities:** | |
| **Non-Current Assets:** | |  |  |
|  |  | *Total Liabilities* |  |
|  |  | **Owner’s Equity:** | |
| *Total Assets* |  |  |  |
|  | |  |  |
| *Net Owner’s Equity* |  |
| *Total Liabilities & Owner’s Equity* |  |

**Profit and Loss Statement**

*The following figures are provided for the 12 months ending June 30, 20--. Use these figures to prepare a Profit and Loss Statement.*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounting Fees | 1,050 |  | Electricity | 240 |
| Advertising | 9,700 |  | Interest on Loan | 650 |
| Cash Sales | 142,000 |  | Rent | 16,800 |
| Cost of Sales | 110,525 |  | Telephone | 3,000 |
| Credit Sales | 79,050 |  | Wages | 46,000 |

|  |  |
| --- | --- |
| **Foxey’s Fishing** | |
| **Profit and Loss Statement** | |
| **For Year Ended June 30, 20--** | |
| **Revenue** | |
|  |  |
|  |  |
| *Total Sales* |  |
| **Less: Cost of Sales** | |
|  |  |
| **Gross Profit** |  |
| **Less: Expenses** | |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
| *Total Expenses* |  |
| **Net Profit** |  |

**Cash Flow Statement**

*The following Cash Flow Statement has been provided containing 6 significant errors. Circle and correct each error.*

|  |  |
| --- | --- |
| **JTz Bicycle Superstore** | |
| **Cash Flow Statement** | |
| **For Year Ended June 30, 20--** | |
| **Cash Flow from Operating Activities** | |
| Cash Inflow from Operating Activities: | |
| Cash Sales | 142,000 |
| Receipts from Debtors | 85,772 |
| Credit Sales | 44,000 |
| *Total Cash Inflow from Operating Activities* | 271,772 |
| Cash Outflow from Operating Activities: | |
| Payments to Creditors | (74,225) |
| Rent | (16,800) |
| Advertising | (9,700) |
| Wages | (46,000) |
| Purchase of Van | (34,000) |
| Telephone | (3,000) |
| Accounting Fees | (1,050) |
| Electricity | (240) |
| *Total Cash Outflow from Operating Activities* | (185,015) |
| ***Net Cash Flow from Operating Activities*** | ***86,757*** |
| **Cash Flow from Investing Activities** | |
| Loan | 34,000 |
| ***Net Cash Flow from Investing Activities*** | ***34,000*** |
| **Cash Flow from Financing Activities** | |
| Loan | (12,000) |
| Interest on Loan | (650) |
| Drawings | (50,000) |
| ***Net Cash Flow from Financing Activities*** | ***(62,650)*** |
| **Owner’s Equity** | |
| Net Increase in Cash | 58,107 |
| Bank Balance, beginning | 24,050 |
| Bank Balance, ending | 82,157 |
| Add Net Profit | 505 |
| ***Total Owner’s Equity*** | ***82,662*** |

**12.3 – Payroll Management**

payroll systems

* **Payroll** -   
  + Employer must pay employees \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + **Compensation:**
    - Employees are generally paid \_\_\_\_\_\_\_\_\_\_\_\_\_, salary, or with \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ pay.
    - Most businesses also provide benefits like \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, (un)paid vacation, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ leave, retirement plans, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + **Payroll Taxes:**
    - **Income Taxes** -
    - **Social Security and Medicare Taxes** -
    - **Unemployment Taxes** -

preparing a payroll

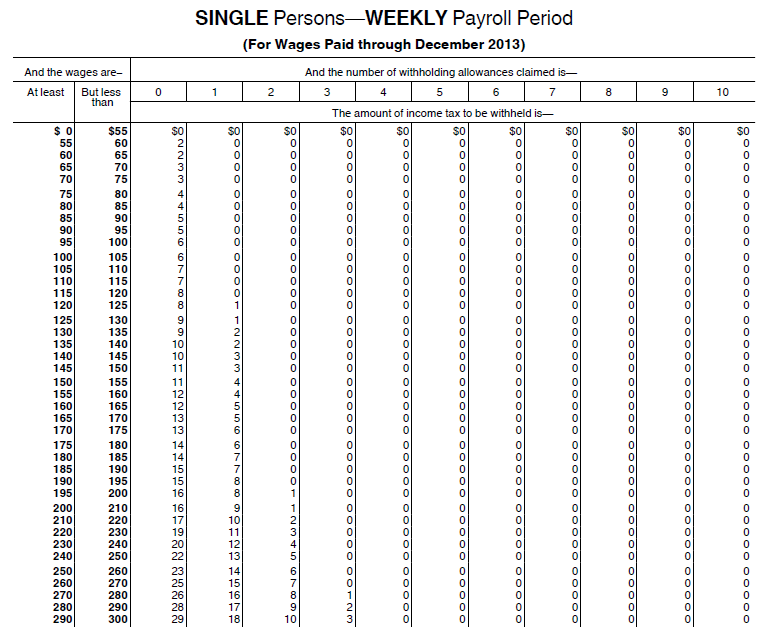
* **Payroll Record** -
  + **Payroll records include:**
    - employee’s name, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, address, etc.
    - \_\_\_\_\_\_\_\_\_\_\_\_\_ information like \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and allowances
    - benefits
    - current and year-to-date earnings (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, gross pay, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_)
  + **Preparing paychecks:**
    - **Earnings Report** -
    - **Direct Deposit** -

Calculating payroll

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Employee Information** | | | **Earnings** | | | **Deductions** | | | | | | **NET PAY** |
| **Name** | **Marital Status** | **Withhold. Allow.** | **Hourly Rate** | **Hours Worked** | **GROSS PAY** | **Federal Income Tax** | **Social Security Tax** | **Medicare Tax** | **Health Insurance** | **Union Dues** | **TOTAL DEDUC.** |
| Jane Doe | Single | 3 | $10.25 | 35 |  |  |  |  | --- | $5.00 |  |  |
| Tim Irvin | Married | 6 | $11.45 | 40 |  |  |  |  | $50.00 | $5.00 |  |  |
| Bob Jones | Single | 4 | $8.75 | 40 |  |  |  |  | $25.00 | --- |  |  |
| Julie Pope | Single | 1 | $9.55 | 20 |  |  |  |  | --- | --- |  |  |
| Zoe Yates | Married | 2 | $10.25 | 38 |  |  |  |  | $50.00 | $5.00 |  |  |

* **Gross Pay** –
  + Gross Pay =
* **Federal Income Tax** –
  + Calculated using the Federal Income Tax Withholding Tables and your \_\_\_\_\_\_\_\_\_\_\_\_\_ status, withholding \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_ pay.
* **FICA** –
  + **Social Security Tax** –
    - calculated as \_\_\_\_% of your gross pay
    - tax base (only taxed on first $\_\_\_\_\_\_\_\_\_\_ of earnings each year)
  + **Medicare Tax** –
    - calculated as \_\_\_\_% of your gross pay
    - no tax base
  + FICA Taxes (Medicare and Social Security) are paid by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* **Net Pay** –
  + Net Pay =

*(Withholding Table for Calculating Payroll)*

* 

*(Withholding Table for Calculating Payroll)*

