**Chapter 12 Study Guide** Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Part One – Vocabulary**

*Match each term to its definition by writing the letter corresponding to each term next to the appropriate definition below. Write your answer in the space provided.*

accounts payable records

accounts receivable records

balance sheet

budget

cash budget

depreciation records

expenses

federal income tax

gross pay

income statement

Medicare tax

net pay

operating budget

payroll

revenue

Social Security tax

start-up budget

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ The financial record of employee compensation, deductions, and net pay.
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ The money received by a business from the sale of products or services.
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A tax that funds old age, survivors, and disability insurance.
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A report of assets, liabilities, and owner’s equity on a particular date.
5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A budget planning the income and expenses from the beginning of a new business until it is profitable.
6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ An employee’s take home pay; the amount on the paycheck.
7. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A tax that funds hospital insurance.
8. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ The costs incurred to run a business, like payroll, rent, and utilities.
9. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Documents and files identifying the amount assets have decreased in value due to their age and use.
10. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Items identifying customers that made purchases using credit and the status of each account.
11. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A tax that funds national defense, health care, and job security, for example.
12. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A budget planning the ongoing operations of a business.
13. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A report of revenue, expenses, and net profit/loss for a specific period of time.
14. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A detailed plan outlining the financial needs of an individual, family, or business.
15. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ An employee’s earnings before deductions.
16. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Items that identify the companies from which credit purchases were made and the amount purchased, paid, and owed.
17. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A budget planning for the actual money received and paid out for a specific period of time.

**Part Two – Application**

*Complete each problem below.*

1. Complete the balance sheet below by calculating the missing amounts.

**Bobby’s Boda Boda’s**

**Balance Sheet**

**December 31, 2013**

*Assets:* *Liabilities:*

Cash $20,000 Accounts Payable $ 9,000

Accounts Receivable 7,000 Loans Payable 15,000

Supplies \_\_\_\_\_\_\_ Total Liabilities \_\_\_\_\_\_\_\_\_\_\_\_

Equipment 35,000 *Owner’s Equity:* 40,000

Total Assets: $ Total Liabilities & Own. Eq. $

1. Complete the income statement below by calculating the missing amounts. Also, circle the appropriate term to show whether this company had a profit or loss this year.

**Marilyn’s Music**

**Income Statement**

**For the Year Ending December 31, 2013**

*Revenue:*

Cash Sales $20,000

Credit/Charge Sales 11,000

Total Revenue$

*Expenses:*

Salaries and Wages $21,000

Advertising 2,000

Rent 18,000

Utilities 3,000

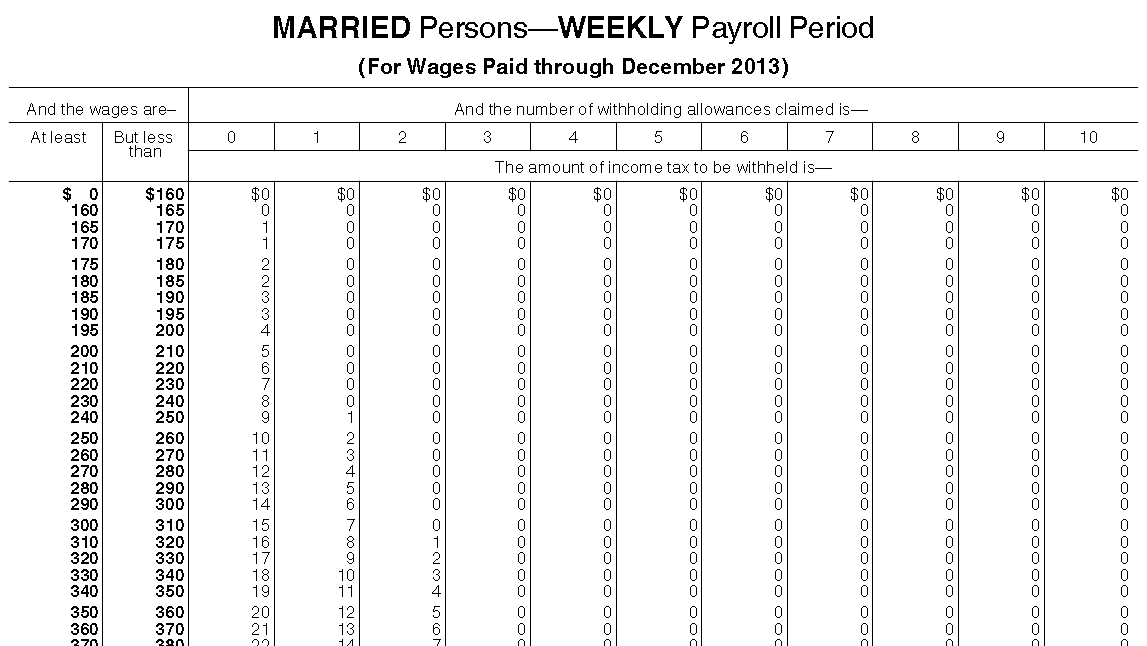
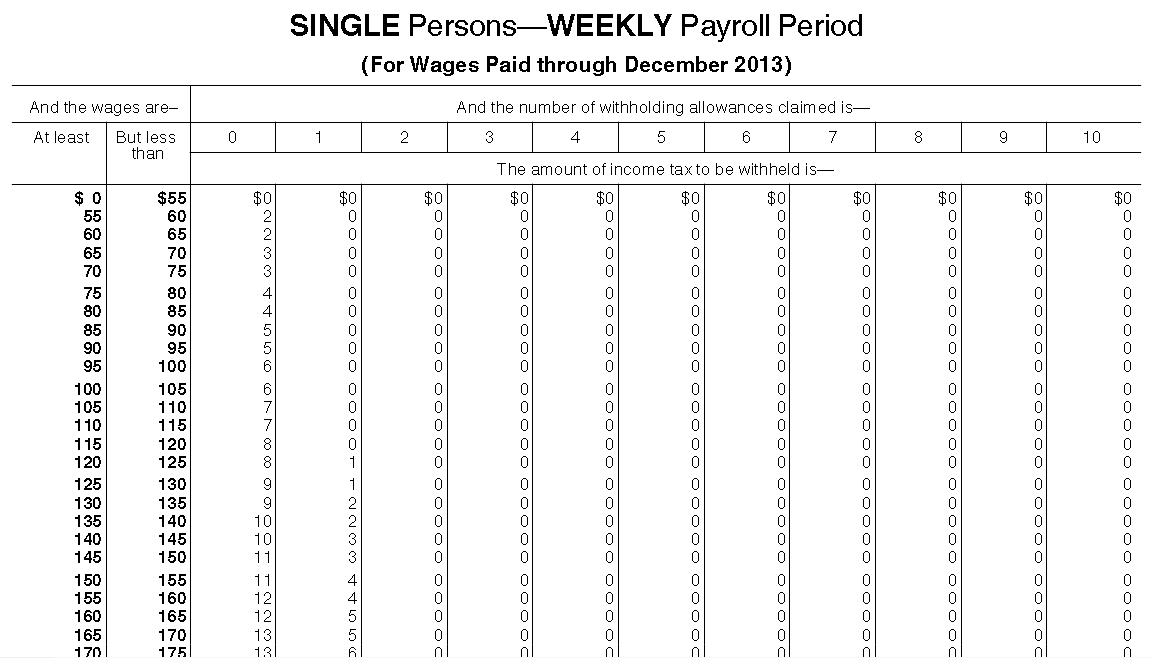
Total Expenses $

*Profit / Loss:* $

*(circle profit or loss)*

1. Complete the Payroll Table below. Use the attached Federal Withholding tables to find the Federal Income Tax, 6.2% to calculate Social Security Tax, and 1.45% to calculate Medicare Tax.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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** | **TOTAL DEDUC.** |
| Alex | Married | 2 | $11.50 | 30 |  |  |  |  |  |  |
| Ali | Single | 1 | $12.00 | 14 |  |  |  |  |  |  |



**Part Three – Matching**

Match each of the descriptions below to the four financial performance ratios. You will use each ratio more than once.

1. current ratio
2. debt to equity ratio
3. return on equity ratio
4. net income ratio
5. \_\_\_\_\_ total sales   
    net income
6. \_\_\_\_\_ current assets   
    current liabilities
7. \_\_\_\_\_ net profit   
    owner’s equity
8. \_\_\_\_\_ total liabilities   
    owner’s equity
9. \_\_\_\_\_ Tells you how much the business is relying on money borrowed from others rather than the money provided by the owners.
10. \_\_\_\_\_ Shows the rate of return on the owners are getting on the money they invested in the company.
11. \_\_\_\_\_ Shows how much profit is being made by each dollar of sales for that period.
12. \_\_\_\_\_ Tells you if the business can pay its debts when they become due.
13. \_\_\_\_\_ Should be at least 1:1 (aka, the current assets should be at least the same or greater than the current liabilities).
14. \_\_\_\_\_ Banks want to see this ratio no higher than 2:1. In other words, the total liabilities should be no more than two times that of the owner’s equity.
15. \_\_\_\_\_ Should be compared to that of past periods and competing companies.
16. \_\_\_\_\_ Should be compared to possible rates of return on savings or other investments.