

Managing Business Finances

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 17.1 *Financial Management*

- **Identify** the six reasons for creating a financial plan.
- **Explain** what a budget is and how it is used.

▶ Section 17.2 *Accounting*

- **Explain** the purpose of accounting.
- **Describe** how property rights are measured.
- **Define** the three components of the accounting equation.
- **Describe** the three main financial statements used by businesses.

Ask

STANDARD **Venture Capital** & POOR'S

Q: I want to expand my small bookstore. How do I find money to grow my business?

A: There are two ways to get the money you need: go into debt or raise equity capital. It can be difficult for a small business to raise equity capital, so ask yourself if you can get by on loans. Lenders like small businesses such as yours, especially if you have a track record of success and can offer some collateral, such as equity in your home. If you are thinking about raising equity capital, consider how much you need, how fast you think you can grow your business, and how much ownership in your business you are willing to give up. Equity investors are usually looking for high growth and high returns over a short period of time, say four to five years. Many small businesses look for angel investors, who are wealthy individuals willing to back an ongoing business in return for big payoffs down the road. Venture capitalists often look for larger companies requiring millions of dollars in investments.

Mathematics Portia borrowed \$51,750 for five years at 6% interest. She is paying the loan back at the rate of \$1,000 per month. How much interest will she pay in all?

CONCEPT **Calculating Interest** To calculate interest you will pay on a loan when you are making the same payment every month, multiply the payment amount by the number of payments, then subtract the amount of the original loan.



● **Managing Money** All businesses use accounting and record keeping to manage finances. **Why do you think it is important for businesses to keep track of their money?**

Financial Management

Reading Guide

Before You Read

Consider how a financial plan helps the entrepreneur or business manager.

Read to Learn

- Identify the six reasons for creating a financial plan.
- Explain what a budget is and how it is used.

The Main Idea

A financial plan outlines the essential financial facts about a new business or venture. Businesspeople use a financial plan to help them make decisions about the future. This plan shows the amount of money a business will need to start and operate. It also explains how the business will acquire money to expand.

Key Concepts

- The Purpose of the Financial Plan
- Budgets

Vocabulary

Key Terms

financial plan
capital
financial forecast
budget

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

project require
expand predict

Graphic Organizer

In a figure like the one below, list the six items an effective financial plan identifies, describes, or explains.

An Effective Financial Plan	
1.	
2.	
3.	
4.	
5.	
6.	



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries

NCTE 8 Use information resources to gather information and to create and communicate knowledge

Mathematics

Number and Operations Understand numbers, ways of representing numbers, relationships among numbers, and number systems

The Purpose of the Financial Plan

When starting a new business or **project** at an existing firm, managers must determine if it is likely to be financially viable. A **financial plan** is a set of documents that outline the essential financial facts about the new venture. It is a road map that can be used to guide a company into the future. A financial plan can also be used to attract investors. Lenders and investors provide money to businesses with sound financial plans. An effective financial plan

- identifies the assets that need to be purchased.
- describes the amount of money a business needs to start and operate.
- describes the expenses the business will incur and explains how a business will cover its expenses.
- describes how the business will document and report financial records.
- forecasts finances to project future profitability.
- explains how the business will acquire money to grow or **expand**.



Explain How is a financial plan like a road map?

BusinessWeek Reader and Case Study

I Am My Own Accountant

Doing your own taxes isn't as crazy as it sounds.

Here's one way to give your business an annual checkup: Do your own taxes. Sure, it's probably easier to take all the paperwork to a professional tax preparer or your certified public accountant. But think about it. Who has to collect and organize all that paperwork? Who has to come up with on-the-spot answers to all the questions about your business? What most tax guys do is fill out the forms and do the math. And to do that, they simply plug your data into their tax software. Then they plug your bill—\$1,000 to \$3,000 for most small corporations—into their accounting software.

Of course, there are going to be times when your taxes are too complicated to fathom yourself, or you don't have time to tackle them. Maybe you just don't have the confidence to file

your own return. After all, part of what we pay tax preparers for is their wisdom and experience. Still, consider giving tax software a try: The time you spend working through your finances will go a long way toward preparing you for that interview with your CPA.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

Try doing your own taxes. First, research tax forms and instructions for your state and for federal income tax. If there is an "EZ" form available, use that one. Fill out the income tax form. Write an e-mail to your teacher about what you learned about filing your taxes.

ETHICS in Business

Recognizing Bribes

- **Critical Reading** Life is full of important decisions. Think about the kinds of decisions you make as you read the question below.

You work as the purchasing agent for a small chain of restaurants. One of your duties is deciding where to purchase supplies, staples, and food items, such as coffee. A coffee purveyor you have bought from in the past sends you a free case of coffee beans just as you are making the purchasing decision about which coffee supplier to use for the next quarter. The coffee came with a message thanking you for purchasing from him in the past and suggesting that you try some of their new coffee blends.

- **Decision Making** Would you consider the case of coffee a bribe? Explain how you would make the determination.

As You Read

Think about the start-up expenses you would have if you wanted to start a graphic arts business from home.

Identifying Business Assets

A financial plan identifies the assets needed for the business or project. Cash, equipment, buildings, supplies, inventory, and land are examples of assets. Business owners and managers must make purchasing decisions carefully. They should research their options before buying business assets. They can analyze and compare the price of each item. The information obtained might show that buying used items instead of new ones, or renting them, would be best.

Determining Needed Capital

A financial plan estimates the amount of capital the business will need. **Capital** is money supplied by investors, banks, or owners of a business. *Start-up capital* is the money used to pay for the various assets and expenses of a new venture or business. A new business has no track record to prove that it will survive. For that reason, it may have a hard time attracting investors. Major sources of start-up capital for entrepreneurs are personal resources—friends, family, and others. These resources can include savings, loans, and investments.

Describing Start-Up and Operating Expenses

A new business or venture has start-up expenses and operating expenses. Start-up expenses often **require** a large amount of cash. Start-up expenses include the cost of business assets as well as remodeling costs, security deposits, advertising, insurance, supplies, and legal permits and licenses. Operating expenses include payroll, rent, utility bills, delivery charges, and bank fees.

Describing Financial Records Management

A financial plan explains how a business will manage its records. It describes who will maintain the financial records and why. Some business owners maintain their own records. Others hire professionals for that purpose. A financial plan also describes any legal agreements that influence the way records are kept. For an existing business that is starting a new venture, the person who maintains the accounting records would probably keep the records regarding the new project. There are different types of accounting software available to businesses.

Forecasting Future Finances

A financial plan includes financial forecasts. A **financial forecast** is an estimate of a business's financial outlook for each of the next few years. The forecast should consider business conditions in the future, including changes in the economy. A financial forecast might show that a new business or venture will not make money in the first year. It is best to be conservative when preparing financial forecasts. Keep estimates for income low and estimates for expenses high.



● **Financing Expansion** This business is expanding its space. **What types of financial materials does a business need to submit to creditors to get the money to finance a building expansion?**

As You Read

Think about a business that you have seen go through an expansion.

Describing Growth Financing

Every company needs to grow in order to remain competitive. Planned growth can be very rewarding. Unplanned growth can be chaotic. Investors and lenders want to know that a business has thoughtfully developed strategies to finance controlled growth. The financial plan should explain the company's plans for financial growth.

Budgets

Financial statements indicate the financial condition of a firm in a past period. However, a budget helps guide its future. A **budget** is a plan specifying how money will be used or spent during a particular period. Budgeting helps business owners **predict** how much money the business will need. It also helps to control spending. To avoid financial problems, business owners and financial managers sometimes need to compare the business's budget to its actual income and expenses.

There are three main types of budgets. A start-up budget is a plan for your income and expenses from the time you start a business to estimated time it will make a profit. A cash budget is a plan for the actual money the business owner spends on a daily, weekly, or monthly basis. An operating budget is a plan for the amount expected to be spent and earned over a given period of time, usually six months or a year.

Section 17.1

After You Read

Review Key Concepts

1. What is the purpose of the financial plan?
2. What does an effective financial plan do?
3. Why do business owners use a budget?

Academic Skills

4. **Mathematics** When big companies create financial statements, they often shorten large numbers by omitting zeroes and adding a caption such as "all numbers in billions." Another way is to use scientific notation. What is 55 billion (55,000,000,000) expressed in scientific notation?

CONCEPT **Scientific Notation** In scientific notation, a number is expressed as the product of two factors. One is a number between one and ten, and the other is a power of 10.



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Accounting

Reading Guide

Before You Read

Think about the reasons companies create and maintain financial records.

Read to Learn


- Explain the purpose of accounting.
- Describe how property rights are measured.
- Define the three components of the accounting equation.
- Describe the three main financial statements used by businesses.

The Main Idea

Accounting provides financial information about an organization. It also helps guide business decisions regarding operations and finances. Balance sheets, income statements, and statements of cash flows show the financial position of a business.

Key Concepts

- Accounting for Business
- Property Ownership and Control
- Financial Statements

 Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Vocabulary

Key Terms

- | | |
|---|-------------------------|
| accounting | liabilities |
| generally accepted accounting principles (GAAP) | accounts payable |
| property assets | owner's equity |
| current assets | accounting equation |
| accounts receivable | financial statements |
| fixed assets | income statement |
| equity | balance sheet |
| | cash flows |
| | statement of cash flows |

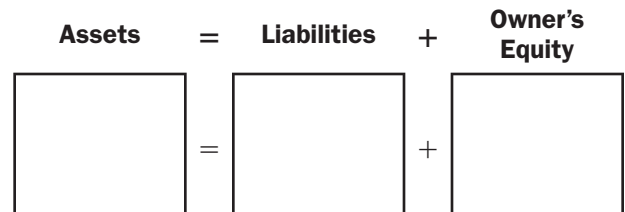
Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- | | |
|-----------|----------|
| converted | release |
| generate | formulas |

Graphic Organizer

On a figure like the one below, define the components of the accounting equation.



Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

Science

Content Standard F Students should develop understanding of science and technology in local, national, and global challenges

Accounting for Business

Operating a business costs money. Imagine that you are planning to open a restaurant someday. You will need to buy or rent a building, equipment, and furniture. You will need to hire employees. You will also need to buy food and supplies. Before and after your business opens, you will need to keep track of the money that you spend and receive. This aspect of business is called accounting.

Accounting is the systematic process of recording and reporting the financial position of a person or an organization. The accounting system is designed to collect, record, and report financial transactions that affect the operation of a business. Small businesses usually hire an independent accountant. An *accountant* maintains and reviews business records. However, many larger companies hire accounting firms to manage or audit their financial records. An *audit* is a review of accounting records and procedures. The biggest accounting firms are known as the “Big Four.” PricewaterhouseCoopers®, Deloitte Touche Tohmatsu®, Ernst & Young®, and KPMG® are accounting firms that operate worldwide.



Accounting Software

There are software categories for all levels of accounting, from home use to high-end corporate use. Do you think people who are not accountants can produce accurate financial records by using accounting software?

Science / TechTRENDS

EDI

Short for electronic data interchange, EDI is a convenient way for businesses and others to transfer large amounts of data using the Internet. EDI is poised to revolutionize the health-care industry because of the Health Insurance Portability and Accountability Act (HIPAA), which was passed by Congress in 1996. HIPAA requires that health-care providers, insurance companies, and others use EDI to simplify and reduce the high cost of administering health care. Those costs are huge: An average of 26¢ of each health-care dollar is spent on administrative overhead, including such tasks as enrolling individuals in health plans, paying health insurance premiums, checking eligibility, obtaining authorization to refer patients to specialists, processing claims, and notifying providers about the payment of claims. Since EDI offers a standard format for trading partners to use, it allows partners to exchange information and transact business in a fast and cost-effective way.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can research different applications of EDI. Write a paragraph about the advantages and disadvantages of EDI in at least two different applications.

Because it is so vital to the communication of financial information, accounting is often called the “language of business.” This is because it is a way of communicating how well a business is doing. Just as a foreign language has different words and meanings, accounting has its own terminology.

Everyone involved in a business should understand some of the basics of accounting. A business manager, an employee of a firm, or an investor can use this information to gauge the health of the firm that they are working for or in which they want to invest.

Rules for Accountants

All accountants use the same set of rules, called **generally accepted accounting principles**, or **GAAP** (pronounced *gap*), to prepare reports. These rules provide a way to communicate financial information to others. *Financial reports* are summarized information about the financial status of a business. Each company sets up an accounting system according to its specific needs, but all businesses follow GAAP.



Reading Check

Identify What is an accounting system designed to do?

Property Ownership and Control

The right to own property is basic to a free enterprise system. **Property** is anything of value that is owned or controlled. When you own an item of property, you have a legal right or financial claim to it. Businesses also own and control property. One of the purposes of accounting is to provide financial information about property and rights to it. In accounting, property and financial claims are measured in dollar amounts. Dollar amounts measure both the cost of the property and the *property rights*, or *financial claims* to the property.

Financial Claims in Accounting

Assets are property and other items of value owned by a business. They are either current or fixed. **Current assets** are assets that are either used up or **converted** to cash during the normal cycle of the business. The normal cycle is usually one year. Cash, supplies, merchandise, and accounts receivable are all current assets. **Accounts receivable** is the total amount of money owed to a business. It represents money to be received in payments after goods or services are sold on credit. **Fixed assets** are items of value that will be held for more than one year. These include equipment and buildings. The accounting term for the financial claims to all assets is equity. **Equity** is the present value of an asset less all claims against it.



Questionable Accounting

Some companies have gotten into legal trouble for committing accounting fraud. Fraud is the crime of intentionally deceiving others for financial gain or some other benefit. *Why is it important for companies to be truthful in their financial records?*

As You Read

Think about the types of property you own now and might want to own in the future.



Handling Money

Financial institutions expect their tellers to keep an organized work area, verify deposits, give correct change, and keep their cash drawer balanced. Proper money handling helps banks practice theft control. *How does it affect the accounting process?*

When people or businesses buy property and agree to pay for it later, they are buying on *credit*. The business or person selling the property is called the *creditor*. **Liabilities** are creditors' claims to the assets of a business. They are the debts of a company. Liabilities are measured by the amount of money a business owes its creditors. They include accounts payable. **Accounts payable** represents the short-term liabilities that a business owes to creditors. **Owner's equity** is an owner's claim to the assets of the business. It is also referred to as the owner's *capital* in the business. It is measured by the dollar amount of the owner's claims to the total assets of the business.

The Accounting Equation

The accounting equation ensures that all accounting records will be correct. The **accounting equation** is a rule that states that assets must always equal the sum of liabilities and owner's equity. As a result, both sides of the equation must always balance. The accounting equation is expressed as follows:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

The assets side of the equation shows the value of everything that the business owns or possesses. The other side shows the rights to those assets. Liabilities are the rights that creditors have to the assets. Owner's equity shows the rights that the owner has to the assets. For example, if a company's assets are worth \$100,000 and liabilities against those assets are \$40,000 (the amount owed creditors), then the owner has \$60,000 in rights to the assets that the business possesses.



Reading Check

Explain What is the accounting equation?

As You Read

Think about the types of financial decisions you have had to make.

Financial Statements

The accounting system is designed to **generate** financial statements and reports. **Financial statements** are documents that summarize the changes resulting from business transactions that occur during an accounting period. An *accounting period* is the period of time reflected by an accounting report.

Financial statements provide information that business owners use to make financial decisions. Even small sole proprietorships might prepare financial statements, but these documents are usually for the owner's use only. However, the federal government requires corporations to **release** their financial records to the public. Stockholders, employees, banks, and investment companies use financial statements to learn about the financial condition of a business. They can compare recent statements with

earlier ones and evaluate the business's growth or decline. The main financial statements used are income statements, balance sheets, and statements of cash flows.

Income Statement

At the end of an accounting period, you want to know how much money your business made or lost. You will want to know your total revenue in sales and where the money went. This information is reported on the income statement. The **income statement** is a report of the revenue, expenses, and *net income* or *net loss* over an accounting period. It is sometimes called a *profit and loss statement*. If a restaurant's total revenue, or earnings, is greater than its total expenses, it has a net income. If expenses are greater than revenue, then it has a net loss. Managers use income statements to see if revenues have increased or decreased from one period to another.

Income statements for different types of business operations vary in content. A service business would have sales, expenses, and net income. A merchandising business would also include the cost of merchandise purchased for resale. **Figure 17.1** shows an income statement.

Figure 17.1 – **Income Statement Using Peachtree Accounting Software**

	Current Month Actual	Current Month Budget	Year to Date Actual	Year to Date Budget
Revenues				
Sales	\$ 175.00	\$ 0.00	\$ 175.00	\$ 0.00
Sales - Aviary	5,628.01	14,583.33	50,153.16	43,749.99
Sales - Books	149.75	5,000.00	7,293.10	15,000.00
Sales - Ceramics	0.00	0.00	0.00	0.00
Sales - Equipment	15,139.29	18,000.00	57,492.78	54,000.00
Sales - Food/Fest	1,006.96	1,000.00	5,204.15	3,000.00
Sales - Furniture	15,000.00	5,000.00	15,000.00	15,000.00
Sales - Hand Tools	729.67	1,500.00	7,058.12	4,500.00
Sales - Landscape Services	7,469.43	6,000.00	16,977.53	18,000.00
Sales - Miscellaneous	0.00	0.00	45.00	0.00
Sales - Nursery	31,200.48	25,000.00	65,042.56	75,000.00
Sales - Pots	5,905.08	500.00	9,469.51	1,500.00
Sales - Seeds	1,457.43	100.00	8,661.39	300.00
Sales - Soil	655.02	2,500.00	9,082.55	7,500.00
Sales - Statuary	0.00	0.00	0.00	0.00
Sales - Topiary	0.00	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	25,500.00	10,000.00
Finance Charge Income	0.00	0.00	0.00	0.00
Sales Returns and Allowances	0.00	0.00	0.00	0.00
Sales Discounts	(122.22)	0.00	(132.12)	0.00
Total Revenues	84,393.90	79,183.33	277,022.73	247,549.99

Financial Information Up-to-date financial information can provide a snapshot of how well a company is doing. **What do the total revenue figures tell you about this company?**

Balance Sheet

A **balance sheet** is a report of the balances in all assets, liability, and owner's equity accounts at the end of an accounting period. It is like a photograph of a business's finances at a specific moment. The balance sheet applies the accounting equation. When added up, the two sides of the equation are equal, or in balance. Managers and investors look at the balance sheet to determine if liabilities (claims against the assets) are increasing too much. The balance sheet can also indicate if there is too much cash available. Too much cash can mean that money is not being used efficiently. Figure 17.2 shows a balance sheet.



Personal Finance

You use accounting every day. At home, your family manages income, expenses, and cash flows. What types of income and expenses would your personal financial statement show? How do you handle your cash flow?

Statement of Cash Flows

The income statement and balance sheet show important financial information. However, neither shows the cash position of a business during an accounting period. **Cash flows** are the money that is available to a business at any given time. The **statement of cash flows** is a financial report that shows incoming and outgoing money during an accounting period (often a month, quarter, or year).

Figure 17.2 — Balance Sheet Using QuickBooks® Software

ASSETS		
Current Assets		
Checking Savings		
Checking		-100,592.73
Savings		13,000.43
Total Checking Savings		-87,592.31
Accounts Receivable		
Accounts Receivable		70,618.00
Total Accounts Receivable		70,618.00
Other Current Assets		
Tools & Equipment		5,000.00
Employee Loans		82.00
Inventory Asset		23,102.54
Retainage		2,401.80
Unapportioned Funds		55,144.40
Total Other Current Assets		80,730.74
Total Current Assets		70,698.43

● **Computerized Accounting** Accounting programs such as QuickBooks can generate financial statements. **Which financial statement is shown here?**

One reason that a cash flow statement is very important is that firms can run out of cash even when they make a profit. In today's world, most things are sold on credit. Credit sales are considered revenue to the firm. Businesses that do not receive credit payments from customers right away may not have cash available to pay bills. Cash flow is very important, especially for a business that wants to borrow money. Lenders and investors expect business loan applicants to be able to show a consistently positive cash flow. This gives lenders more assurance that the loan will be repaid.

As You Read

Think about how it is possible for a business to run out of cash even though it is making a profit.

Computerized Accounting

Today, most companies use computer programs to simplify their accounting procedures. Computer spreadsheets are important tools for organizing and analyzing such data. A spreadsheet is made up of rows and columns. The columns are identified by letters, and the rows are identified by numbers. As you create a spreadsheet, you enter numbers, labels, and **formulas** into cells. Cells are the small boxes within a spreadsheet. Microsoft Excel is a spreadsheet application that is commonly used in business. Accounting software such as Peachtree Accounting and QuickBooks are programs that help people and businesses manage their finances.

Section 17.2

After You Read

Review Key Concepts

1. How does accounting help a business?
2. Discuss property ownership and control. How are they related to the accounting equation?
3. What are the three main financial statements used in business?

Academic Skills

4. **English Language Arts** Research the three different financial software programs mentioned in the text. Find what is available. Then write a recommendation in the form of a business memo about which would best suit a small business. Compare and contrast the software products.
5. **English Language Arts** *Liability, asset, gross profit, net profit, depreciation, and fiscal year* are all terms used by accountants. Find out what these words mean, and create an accounting glossary with definitions and examples of the terms used in sentences. You might want to expand the list of terms and work with others in a team to create a larger glossary.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 17 Review and Activities

Section 17.1 Summary

Financial Management A financial plan outlines the financial projections about a new firm or venture. Businesses use financial plans to make decisions about the future. Financial plans include the amount of money a business will need to start and operate. They also include financial forecasts. A forecast estimates the financial outlook for a business over the next few years. Financial planning also involves budgeting. A budget is a plan that specifies how money will be used or spent during a particular period.

Section 17.2 Summary

Accounting An accounting system collects, records, and reports financial transactions that affect the operation of a business. Accountants follow a uniform set of rules. These rules provide a consistent way to share financial information. The accounting equation is the basis of accounting. It equates assets to liabilities plus owner's equity. Key documents include the balance sheet, the income statement, and the statement of cash flows.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

financial plan

capital

financial forecast

budget

accounting

generally accepted accounting principles (GAAP)

property

assets

current assets

accounts receivable

fixed assets

equity

liabilities

accounts payable

owner's equity

accounting equation

financial statements

income statement

balance sheet

cash flows

statement of cash flows

Academic Vocabulary

project

expand

require

predict

converted

generate

release

formulas

Review Key Concepts

2. Identify the six reasons for creating a financial plan.
3. Explain what a budget is and how it is used.
4. Explain the purpose of accounting.
5. Describe how property rights are measured.
6. Define the three components of the accounting equation.
7. Describe the three main financial statements used by businesses.

Critical Thinking

8. Why do you think an entrepreneur might realize that he or she could not secure any investors after developing a financial plan?
9. A budget helps businesses determine how money will be spent in a given period. Will a business fail if it does not meet its budget?
10. How can having and extending credit on purchases be both good and bad for business?
11. Why do you think the federal government gets involved in the way businesses create and manage their finances?
12. If a business buys \$4,000 worth of new equipment on credit, which inputs to the accounting equation are affected? Is the accounting equation still in balance?
13. It is important to use financial statements on a regular basis. What might happen to a business that analyzes its finances just twice a year?
14. Why does the income statement provide an incomplete picture of a business?
15. What are some reasons a company might not have enough cash reserves?

Write About It

16. Choose a well-known corporation and research its most current income statement. Write a one-page report describing the income statement. Indicate the accounting period(s) covered.
17. Amy Sullivan has hired you to handle the accounting for her pet-grooming business. Based on the following totals, calculate the assets, liabilities, and owner's equity for the shop: cash: \$200; grooming equipment: \$300; accounts receivable: \$500; accounts payable: \$900; owner's equity: \$100. Prepare a report, giving your opinion of the financial condition of the shop.
18. Accounting standards differ from country to country. Several groups are developing international accounting standards. Write a 200-word essay on the effect these standards might have on business.
19. As an investor in a certain company, would you like to see the accounts receivable on the balance sheet increase, decrease, or stay the same from one year to another? What should the company do to reach that point? Write a letter of two or more paragraphs to a financial manager supporting your answer.

Technology Applications

Automated Accounting Programs

20. Investigate different accounting software programs and the types of financial documents that can be created using them. Can these programs be used by individuals, businesses, or both? Are they for small or large businesses, or can any business or organization use them? Write a report on your findings.

Business Ethics

Confidentiality

21. Imagine that you were recently hired as the accountant for a well-known music group and have access to personal information. Your friends ask you for details about the band members, such as the amount of money they make and where they live. Your friends say they will not give anyone this information. What should you do?

Chapter 17 Review and Activities

Applying Academics to Business

English Language Arts

22. *Funds, capital, wealth, currency, and cash* are all words having to do with money. Research the meanings of the words and use each in a sentence so that someone unfamiliar with the words could infer their meanings from the context.

Mathematics

23. Three accounting supervisors in a large corporation earn different salaries based on their experience and time on the job. The median base salary is \$76,948, with a range of \$64,494 to \$91,617. Write an inequality comparing the mean and the median.

CONCEPT **Data Analysis: Mean, Median, and Range** The range of a set of data is the difference between the greatest and least number, the median is the number in the middle when all are listed in order from least to greatest, and the mean is the average.

English Language Arts

24. The topic sentence of a paragraph sometimes appears at the beginning. Sometimes it appears in the middle or at the end, and sometimes it is not directly stated in the paragraph, but must be inferred. Take notes from one of the sections by identifying and jotting down the key words and phrases from the topic sentences of each paragraph.

Mathematics

25. Tran, an entrepreneur, wants his computer business to earn \$42,000 in profits. His research shows that the average net profit for his type of business is 15%. If Tran's business earns the average net profit percentage, how much revenue must be generated to deliver that net profit?

CONCEPT **Working with Percents** If you know that a number, x , is a certain percent of an unknown, y , divide x by the percent to find y .

Active Learning

Financial Statements

26. Prepare a personal balance sheet. Price your assets at the cost that you paid for them. Next, use spreadsheet software, such as Excel, to prepare a personal budget for the next six months. Then write a one-page report on your financial goals for the future. Lastly, create separate folders for your balance sheet, personal budget, and goals.

Business in the Real World

Interview a Financial Manager

27. In groups of three or four, interview a financial manager or an accountant for a business. Ask about the business's long-term plans; the way financial forecasting is done and used; the software used for financial management of the firm; and the most common financial mistakes businesses make. As a group, prepare a written report on the interview.

Real LIFE skills

PERSONAL QUALITIES OF ACCOUNTANTS

28. General skills and abilities needed by accountants include the following: aptitude in math; ability to analyze, compare, and interpret data; communication skills; people skills; and a high level of integrity. Write at least two paragraphs indicating whether you have the interests and abilities necessary to pursue this type of career. Discuss ways you think you might overcome any weaknesses.

COOL Business CAREERS

FIND YOUR DREAM JOB

29. Go to the *Introduction to Business* Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the "OOH Search/A-Z Index" link and enter the job category "accountants and auditors." Then write a one-page report about this area of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

THE ACCOUNTING DEPARTMENT'S FUNCTION

30. **Situation** You are an accountant at a movie studio. Your manager asks you for reasons why the company needs such a large accounting department. She wonders if it would cost less to pay an outside accounting firm to perform the same services.

Activity You are called upon to justify the importance of the accounting department's function to the business.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Demonstrate a knowledge of business operations.
- Demonstrate knowledge of the important contributions that accounting makes to the health of the business.
- Organize comments in a logical way.
- Project your voice well and make good eye contact.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which sentence best develops the topic sentence below?

Effective financial managers deserve to earn a high salary.

- A They spend all their time thinking about numbers.
- B Some live lavishly and have lots of expenses.
- C They make even more for their clients.
- D Every financial manager deserves to do well financially.



TEST-TAKING TIP When taking a test, always read the directions before you work on a section. Failing to read directions can cause you to completely misinterpret what the test is asking you to do.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.