

4.01 Understand Financial Planning

1. Name 4 reasons that a business does financial planning:

1. _____
2. _____
3. _____
4. _____

2. What are the 3 phases of business:

1. _____ 2. _____ 3. _____

3. Name 3 types of budgets:

1. _____ 2. _____ 3. _____

4. Match the activity with the step in the budget preparation process.

Prepare a list

Gather information

Create budget

Communicate budget

- | | |
|-------|--|
| _____ | Albert researches cost data from prior financial data. |
| _____ | Susan makes a list of all the places she has spent money. |
| _____ | Ron talks with employees and explains they are using too much electricity. |
| _____ | Julie speaks with her spouse about saving money for vacation. |
| _____ | Jill decides how much she can spend on groceries each month. |

5. Determine whether the company has made a profit or loss.

M&M's Fishing Tackle Store revenue for this year is \$62,934. The store manager has determined that the total expenses equal \$81,000.

- Will this business net a profit or loss? _____
- How much of a profit loss? _____

Ralph's Bakery has noticed a significant increase of revenue this year with a total of \$169,322. The manager has also determined that the total expenses equal \$147,539.

- Will this business net a profit or loss? _____
- How much of a profit loss? _____

The Good Tooth Dentist made \$467,325 in revenue. The manager determined that the total expenses equal \$598,000.

- Will this business net a profit or loss? _____
- How much of a profit loss? _____

PBF Study Guide 4.01, 4.02 Financials and Banking

The Coffee Cafe made \$32,382 in revenue. The manager determined that the total expenses equal \$27,553.

- Will this business net a profit or loss? _____
- How much of a profit loss? _____

6. Match the following vocabulary word with its definition.

Asset	Note	Depreciation	Inventory	Stock	Accounts Payable
Payroll	Revenue	Cash Records	Tax Records		Accounts Receivable

- | | |
|-------|--|
| _____ | A promise to pay a specified amount at a certain time. |
| _____ | A list of cash holdings accumulated by the business. |
| _____ | A list of taxes paid by the business. |
| _____ | A detailed list of all the items in stock. |
| _____ | Items of value owned by a business. |
| _____ | A decrease in value of an asset over time. |
| _____ | The merchandise that can be sold. |
| _____ | Wages paid to employees and taxes paid on their behalf. |
| _____ | Income that a company receives from its business activities. |

7. Match the term with its financial category.

Asset	Liability	Sales	Expense
_____	A vehicle	_____	Building
_____	Accounts Payable	_____	Taxes Payable
_____	Sales – Goods	_____	Sales – Service
_____	Inventory	_____	Land
_____	Utilities	_____	Accounts Receivable
_____	Rent	_____	Advertising
_____	Notes Payable	_____	Vehicle Repair
_____	Cash	_____	Sales Returns & Allowance

7. List the three items that appear on the Balance Sheet.

8. List the three items that appear on an Income statement.

9. Review the financial statement and answer the questions.

The ProfitCo Company Balance Sheet July 31, 20xx

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	\$22,225	Accounts Payable	\$18,250
Accounts Receivable	42,200	Payroll Taxes Payable	1,900
Inventory	98,200	Interest Payable	23,525
Notes Receivable	5,340	Line of Credit Payable	5,700
Total Current Assets	\$167,965	Total Current Liabilities	\$49,375
Long-Term Assets		Long-Term Liabilities	
Vehicles	68,500	Long-Term Notes Payable	85,200
Furniture and Fixtures	21,450	Mortgage Payable	120,600
Equipment	33,000	Total Long-Term Liabilities	\$205,800
Buildings	320,000	Total Liabilities	\$255,175
Land	82,500	Owners Equity	\$438,240
Total Long-Term Assets	\$525,450	Total Liabilities & Owners Equity	\$693,415
Total Assets	\$693,415		

What are the total liabilities: _____

What are total long-term assets: _____

How much inventory does this company own? _____

How much in taxes does this company owe? _____

Does this company have a loan on a building? _____

How do you know? _____

What is the value of this company? _____

How much cash does this company have? _____

Does this company own any cars or trucks? _____

How do you know? _____

What type of financial statement is this? _____

When was this financial statement prepared? _____

10. What is the equation to calculate the value of the business? _____

11. Review the financial statement and answer the questions.

The ProfitCo Company
Income Statement
For the 6-month Period Ending December 31, 20xx

Revenue		
Sales – Goods	\$1,289,650	
Sales- Service	80,263	
Sales returns and allowance	-20,200	
Net Sales		\$1,349,713
Cost of Goods Sold		-325,650
Total Revenue		\$1,024,063
Expenses		
Utilities expense	\$ 32,050	
Marketing expense	282,954	
Rent expense	52,445	
Computer expense	38,220	
Postage expense	22,900	
Wages expense	184,908	
Total Expenses		\$613,477
Net Income		\$410,586

What is the total revenue for this business? _____

What was the total of sales that were returned to the business? _____

How much did this company spend in cost of goods? _____

Have they made a profit so far this year? _____ How much? _____

What were the total expenses? _____

How much did this company spend on advertising? _____

How much did this company spend on utilities? _____

12. What is the equation to calculate the profit of a business?

13. What is the purpose of the current ratio? _____

14. What is the purpose of the debt to equity ratio? _____

15. What is the purpose of the return on equity ratio? _____

16. What is the purpose of the net income ratio? _____

PBF Study Guide 4.01, 4.02 Financials and Banking

17. Calculate the ratios for the companies below:

Company Name	Amount	Current Ratio	Debt to Equity Ratio	Return on Equity Ratio	Net Income Ratio
Cupcake Bakery					
Assets	\$11,500				
Liabilities	\$6,000				
Owner's Equity	\$5,500				
Total Sales	\$49,000				
Net Income/Profit	\$18,000				
Al's Rootbeer Stand					
Assets	\$116,450				
Liabilities	\$52,300				
Owner's Equity	\$64,150				
Total Sales	\$69,302				
Net Income/Profit	\$22,493				

Which company has the most favorable current ratio? _____

Is either company at risk for having too much debt to assets? _____ If so which one? _____

Which company has the most favorable debt to equity ratio? _____

Which company is relying most on creditors outside of the business as compared to their owner's ability to pay?

Which company has the most favorable return on equity ratio? _____

Based upon the return on equity ratio, would you rather invest in Cupcake Bakery or Al's Rootbeer Stand? And why?

Which company has the most favorable net income ratio? _____

4.02 Understand the Banking System

18. Match the bank description.

Commercial Bank Savings & Loan Mutual Savings Credit Union

- _____ Owned by the depositors and specialize in savings.
_____ Not-for profit and serve only members who are the depositors.
_____ Banks that offer different services including savings, loans, and checking.
_____ Specialize in savings and home loans but are now similar to banks.

19. Classify the following financial institutions.

Depository Non-Depository

- _____ Consumer finance company
_____ Pawnshop
_____ Credit Union
_____ Mortgage company
_____ Commercial Bank
_____ Savings and Loan
_____ Investment company
_____ Check-cashing outlet
_____ Mutual Savings
_____ Life Insurance company

20. What does FDIC stand for? _____

21. What does NCUA stand for? _____

22. What kind of financial institutions does the FDIC insure? _____

23. What kind of financial institutions does the NCUA insure? _____

24. What is the maximum amount of insurance provided by the FDIC or the NCUA?

25. Describe the characteristics you would be reviewing if you were interested in opening up a bank account.

Services Offered: _____

Safety: _____

Convenience: _____

Fees and Charges: _____

Restrictions: _____

26. Match the type of payment with its description.

Checking Account	Electronic Payment	Certified Check	Cashier's Check
Traveler's Check	Money Orders		

_____ The bank guarantees this check. It is written by the depositor.
_____ Funds are prepaid; it can be purchased at the U.S. Post Office.
_____ An account for which the holder can write checks.
_____ Check drawn by a bank from its own funds and signed by a cashier.
_____ Check that functions like cash; can be used safely while traveling.
_____ Term used for any kind of payment processed without using paper checks.

27. Match the following vocabulary with its definition.

Bank Statement	Check Register	Debit Card	Deposit Slip	Drawee	Drawer
Joint Account	Signature Card	Payee	Stop Payment Order		

_____ The bank who is expected to pay a check when it is presented for payment.
_____ An instruction to a bank by a depositor that it refuse payment on a check.
_____ A booklet used to record account transactions.
_____ A small written form that is used to deposit funds into your account.
_____ A person to whom money is to be paid.
_____ A Card that a customer signs when opening an account.
_____ A bank account shared by two or more individuals.
_____ The person writing the check.
_____ A record summarizing all transactions.
_____ A plastic card that enables the holder to withdraw money or to have the cost of purchases taken directly from the card holder's bank account.

PBF Study Guide 4.01, 4.02 Financials and Banking

28. Label the following endorsements: Blank Special Restrictive

X <i>Pay to the order of</i>
<i>Maria Fernandez</i>
<i>Juan Delgado</i>
DO NOT WRITE BELOW THIS LINE

X <i>For Deposit Only</i>
<i>Chang E. Chen</i>
DO NOT WRITE BELOW THIS LINE

X <i>Marcus Powell</i>
DO NOT WRITE BELOW THIS LINE

29. Describe when it is appropriate to use each endorsement type:

Blank: _____

Special: _____

Restrictive: _____

30. What is the purpose of a bank reconciliation? _____

31. What is an outstanding check? _____

32. What is an outstanding deposit? _____

33. What is the purpose of the Federal Reserve? _____

34. How many districts make up the Federal Reserve? _____

35. List 7 services of the Federal Reserve:

_____	_____
_____	_____
_____	_____
_____	_____