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BA130 MODULE 6 ACTIVITY SHEETS
(Chapters 17, 18, 19, 20)

Please use your chapter PowerPoints to find the answers for the questions below.

Chapter 17

1. What is accounting?

- Accounting -- Recording, classifying, summarizing and interpreting of financial events and transactions in an organization to provide interested parties needed financial information.

2. List the areas of accounting.

- Outputs, processing, and inputs

3. What is managerial accounting?

- Managerial Accounting -- Provides information and analysis to managers inside the organization to assist them in decision making.

4. What is financial accounting?

- Financial Accounting -- Financial information and analyses are generated for people primarily outside the organization. Outside users are interested in these questions

5. What is a private accountant? What is a public accountant?

- Private Accountants -- Work in a single firm, government agency, or nonprofit organization.
- Public Accountants -- Provide accounting services to individuals or businesses.

6. List the steps in the accounting cycle.

- Analyze source documents, record transactions in journals, transfer journal entries to ledger, take a balance, prepare financial statements, and analyze financial statements

7. What is the difference between bookkeeping and accounting?

- Bookkeeping is the recording of business transactions and Accounting is Recording, classifying, summarizing and interpreting of financial events and transactions in an organization to provide interested parties needed financial information.

8. What are the financial statements?

- Financial Statement -- A summary of all the financial transactions that have occurred over a particular period.

9. What is the fundamental accounting equation?

- **Fundamental Accounting Equation -- The basis for the balance sheet.**

10. What is a balance sheet?

- Balance Sheet -- The financial statement that reports a firm's financial condition at a specific time.

10. What is an income statement?

- **Income Statement -- The financial statement that shows a firm's bottom line - that is, its profit after costs, expenses, and taxes.**

11. Define revenue and gross margin (gross profit).

- Revenue is the monetary value a firm received for goods sold, services rendered or other payments. **Gross Profit (or Gross Margin)** -- How much a firm earned by buying (or making) and selling merchandise.

13. What is a statement of cash flow?

- **Statement of Cash Flows** -- Reports cash receipts and cash disbursements related to the three major activities of a firm:

14. Define ratio analysis. List four categories of ratios.

- **Ratio Analysis** -- The assessment of a firm's financial condition using calculations and financial ratios developed from the firm's financial statements.

- **Liquidity ratios**

- **Leverage ratios**

- **Performance ratios**

- **Activity ratios**

Chapter 18

1. Define finance.

- Finance -- The function in a business that acquires funds for a firm and manages them within the firm.

2. Define financial management.

- Financial Management -- The job of managing a firm's resources to meet its goals and objectives.

3. Define financial managers.

- Financial Managers -- Examine financial data and recommend strategies for improving financial performance.

4. List the three steps involved in financial planning.

- Forecasting the firm's short-term and long-term financial needs.
- Developing budgets to meet those needs.
- Establishing financial controls to see if the company is achieving its goals.

5. Define short-term forecast and cash flow forecast.

- Short-Term Forecast -- Predicts revenues, costs and expenses for a period of one year or less.
- Cash-Flow Forecast -- Predicts the cash inflows and outflows in future periods, usually months or quarters.

6. Define long-term forecast.

- Long-Term Forecast -- Predicts revenues, costs, and expenses for a period longer than one year and sometimes as long as five or ten years

7. Define budget.

- Budget -- Sets forth management's expectations for revenues and allocates the use of specific resources throughout the firm.

8. List the types of budgets established in a firm's financial plan.

- **Capital budget**

- **Cash budget**
- **Operating budget**

9. Define operating budget.

- Operating (Master) Budget -- Ties together all the firm's other budgets and summarizes its proposed financial activities.

10. List the two type of financing.

- Debt financing and Equity financing

11. Define debt financing.

- Debt Financing -- The funds raised through various forms of borrowing that must be repaid

12. Define equity financing.

- Equity Financing -- The funds raised from within the firm from operations or through the sale of ownership in the firm (such as stock).

13. Define promissory note.

- Promissory Note -- A written contract agreeing to pay a supplier a specific sum of money at a definite time.

14. Define unsecured loan.

- Unsecured Loans -- Don't require collateral from the borrower.

15. Define line of credit.

- Line of Credit -- A given amount of money the bank will provide so long as the funds are available.

Chapter 19

1. Define stocks.

- Stocks -- Shares of ownership in a company

2. What are stock exchanges?

- **Stock Exchange -- An organization whose members can buy and sell (exchange) securities on behalf of companies and individual investors.**

3. Define bonds.

- Bond -- A corporate certificate indicating that an investor has lent money to a firm (or a government)

4. What are the two kinds of stocks?

- Common stock and preferred stock

5. Define stock broker.

- Stockbroker -- A registered representative who works as a market intermediary to buy and sell securities for clients

6. What is the OTC market?

- Over-the-Counter (OTC) Market -- Provides companies and investors with a means to trade stocks not listed on the national securities exchanges.

7. What is NASDAQ?

- NASDAQ -- A telecommunications network that links dealers across the nation so they can exchange securities electronically.

8. What is the SEC?

- Securities and Exchange Commission (SEC) -- The federal agency responsible for regulating the various stock exchanges; created in 1934 through the Securities and Exchange Act.

9. List the five key criteria to consider when selecting investment options.

- **Investment risk**
- **Yield**
- **Duration**
- **Liquidity**
- **Tax consequences**

10. Define mutual fund.

- Mutual Fund -- An organization that buys stocks and bonds and then sells shares in those securities to the public. The fund pools investors' money and buys stocks according to the fund's purpose.

11. Define diversification.

- Diversification -- Buying several different types of investments to spread the risk of investing.

12. What is the Dow?

- Diversification -- Buying several different types of investments to spread the risk of investing.

Chapter 20

1. What is money?

- Diversification -- Buying several different types of investments to spread the risk of investing.

2. What is the money supply?

- Diversification -- Buying several different types of investments to spread the risk of investing.

3. Define M-1 and M-2.

- **M1** -- Money that can be accessed quickly (coins, paper money, travelers' checks, etc.).

4. M2 -- M1 + money that may take a little time to obtain (savings accounts, mutual funds, etc.).

5. Who controls the money supply?

- Federal reserve

6. How does the Federal Reserve control the money supply?
= Under the Federal Reserve Act of 1913, all federally chartered banks had to join the Federal Reserve.

7. List the five major parts of the Federal Reserve System.

The Board of Governors
The Federal Open Market Committee
12 Federal Reserve Banks
3 Advisory Councils
The member banks of the system

8. What institutions make up the banking system?

Commercial banks
Savings and loan associations
Credit unions
Nonbanks

9. Define nonbanks. Give some examples of nonbanks.

- **Nonbanks** -- *Financial institutions that accept no deposits, but offer many of the services provided by regular banks. Nonbanks include*

10. Define commercial bank.

- **Commercial Bank** -- **A profit-seeking organization that receives deposits from individuals and corporations in the form of checking and savings accounts and uses those funds to make loans.**

11. Define S&L.

- Savings and Loan Associations (S&Ls) -- A financial institution that accepts both savings and checking deposits and provides home mortgage loans.

12. Define credit unions.

- **Credit Unions** -- **Nonprofit, member-owned financial cooperatives that offer the full variety of banking services to their members.**

13. Define pension fund.

- a fund from which pensions are paid, accumulated from contributions from employers, employees, or both.

14. List the three major sources of financial protection that the government has to protect your funds.

- **The Federal Deposit Insurance Corporation (FDIC)**
- **The Savings Association Insurance Fund (SAIF)**
- **The National Credit Union Administration (NCUA)**

15. What is a debit card?

- Debit Card -- Serves the same function as a check; it withdraws funds from a checking account.

16. Discuss smart card.

- Smart Card -- A combination of a credit card, debit card, phone card, driver's license, and more.

