

Managing Business Finances

● Learning Objectives

After completing this chapter, you'll be able to:

1. Explain the three important aspects of financial planning.
2. Name the responsibilities of a financial manager.

Learning Objectives

After completing this chapter, you'll be able to:

- 3. Identify different types of budgets for managing business finances.**
- 4. Describe the types of financial records businesses use.**

● **Why It's Important**

Every large or small business has to have a financial plan, a budget, and financial records to manage its financial resources.

Key Words

financial plan

asset

financial forecast

accounting

financial manager

budget

continued

Key Words

fiscal year

owner's equity

income statement

balance sheet

Aspects of Financial Management

Managing the finances of a business involves putting together a financial plan, budgeting, and keeping track of income and expenses.

Figure
17.1

WHAT'S YOUR FINANCIAL ID?

a. I like meeting people.	k. I have perseverance.
b. I'm friendly.	l. I'm persuasive.
c. I try to avoid conflict.	m. I'm cautious.
d. I like to spend time alone.	n. I'm ambitious.
e. I like to talk.	o. I like to feel in control.
f. I'm sensitive.	p. I like to plan.
g. I'm interested in other people.	q. I like organization.
h. I'm upbeat.	r. I like to be the center of attention.
i. I'm enthusiastic.	s. I let other people do what they want.
j. I like to be active.	

Score 3 points for each of these character traits: a, b, e, g, h, i, j, k, l, n, or r.

Individualist: If you scored 6–12 points, you might enjoy a career and hobbies that give you independence.

Communicator: If you scored 15–21 points, you might enjoy activities where you're a team player working toward a common goal.

Persuader: If you scored 24–30 points, consider a career in sales or another field where you can influence people.

Your personality can help guide your future. On a piece of paper, write ten characteristics that best describe you. Find out if you're a persuader, a communicator, or an individualist. How will this influence your financial future?

Take this financial quiz to see.

Financial Planning

A **financial plan** is an outline of your expenses, needs, and goals, and how you expect to meet them.

Financial Planning

You need a financial plan to tell you how much money you'll need to start out and to operate your business once it's running.

Financial Planning

You also need the financial plan to explain how you're going to cover expenses.

Financial Planning

An entrepreneur starting a new business must also plan for finances.

The entrepreneur must find adequate funding.

Assets Needed

Identifying your assets is the first step in a financial plan.

Any property or item of value that your business owns is an **asset**.

Assets Needed

Researching your options is important before buying any major asset.

Analyze and compare the price of each different item.

Purchasing Assets

Purchasing your assets is the second step in your financial planning.

Determine the method you will use to purchase the items.

Purchasing Assets

If you're working with limited resources, you need to make decisions based upon your needs and how you'll pay for them, whether with cash or credit.

Accounting Requirements

Recognizing the financial records you need to keep is the third important step in financial planning.

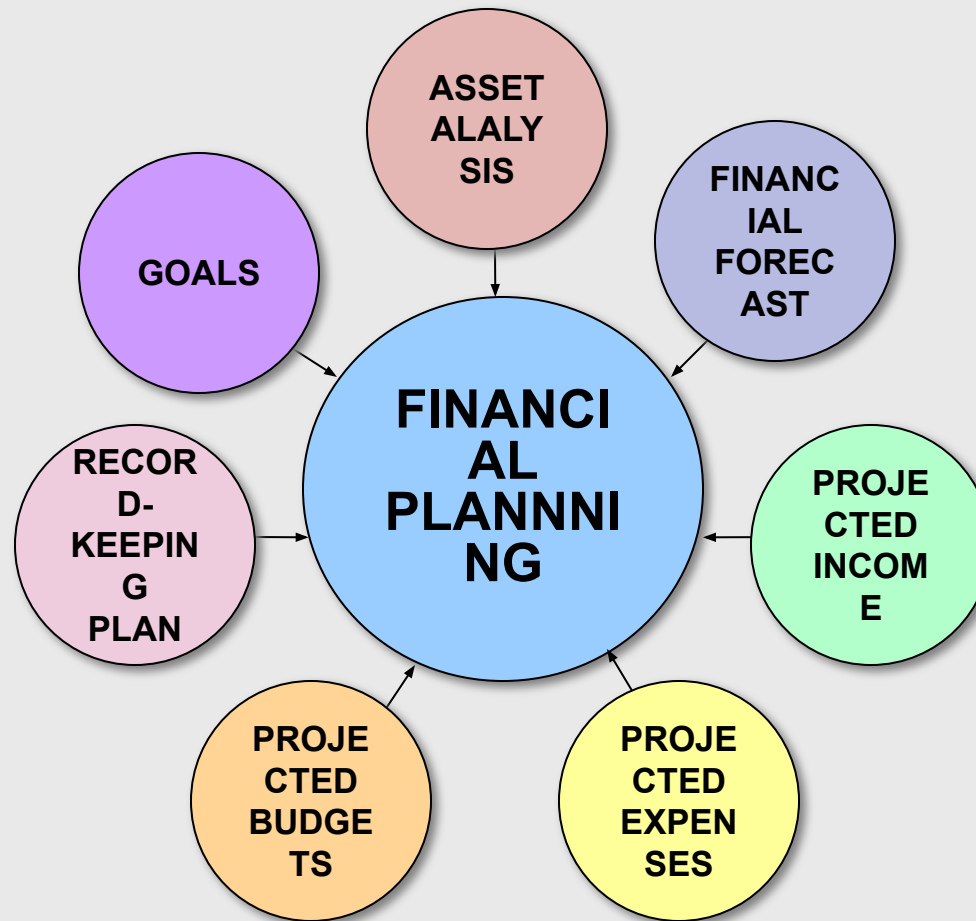
Accounting Requirements

A **financial forecast** is an estimate of what business conditions will be like in the future.

A forecast includes planning for changes in the economy that might affect your business.

Graphic Organizer

Elements of Financial Planning





Fast Review

1. Why is financial planning important to a business?
2. What are examples of assets?

continued



Fast Review

3. Describe the three steps of a financial plan.

Accounting

Accounting is the systematic process of recording and reporting the financial position of a business.

Accounting

The **financial manager** is the person in charge of a business's financial planning, funding, and accounting.

Accounting

Three important functions of a financial manager are:

- Managing funds and making sure the business is meeting its financial obligations.

continued

Accounting

- Finding resources for additional funds.
- Planning long-range financial goals.

Budgeting

A **budget** is a written plan of what you expect your income and expenses to be over a certain period of time.

Budgeting

The three main types of budgets are:

- Start-up budget
- Cash budget
- Operating budget

Start-up Budget

A start-up budget is a plan for your income and expenses from the time you start the business to when it makes a profit.

It includes the cost of equipment, supplies, rent, and hiring workers.

Start-up Budget

Most new businesses don't make a profit during the first year, so you also need to plan for covering your own personal expenses.

Cash Budget

A cash budget is a plan for the actual money you expect to spend and earn on a daily, weekly, or monthly basis.

Operating Budget

An operating budget is a plan for how much you expect to spend and earn over a given period of time, usually six months or a year.



Fast Review

1. What are some of the expenses a start-up budget includes?
2. What is the main difference between a cash budget and an operating budget?

Financial Records

To keep track of how your business is actually doing financially, you need to keep accurate written accounts.

Financial Records

An accounting period may be one month, three months, or one year.

If the reports are for one year, the accounting period is a **fiscal year**.

Financial Records

There are many business software programs you can buy that not only set up budgets, but also keep financial records.

Financial Statements

Accounting records keep track of money coming into and going out of your business.

Financial Statements

Accounting records sort out transactions to show what your business owns, how much money it takes in, and how much it owes to others.

Financial Statements

Any amount your business owes is a *liability*.

When you buy anything from a supplier, such as food products, you usually buy it on credit.

Financial Statements

Any debts you owe banks or investors are also claims against the assets of your business.

Their claim is called the **owner's equity**.

Financial Statements

The relationship between a company's assets and the claims against those assets is expressed by an equation:

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

Income Statement

The **income statement** is a report of *net income* or *net loss* over an accounting period.

Income Statement

If total revenue, or earnings, is greater than a business's total expenses, it has a net income.

If expenses are greater than its revenue, then it has a net loss.

Balance Sheet

A **balance sheet** is a report of the financial state of your business on a certain date.

Balance Sheet

A balance sheet includes a report of assets, liabilities, and the owner's equity.

Balance Sheet

The left side of the sheet lists all your assets and the right side lists all your liabilities and equity.

**Figure
17.2**

COMMON SOURCES AND USES OF FUNDS IN A BUSINESS

A budget is a written plan of what you expect your income and expenses to be over a certain period of time. This helps control your spending.

What are some uses of funds for a company? List at least four.

SOURCES OF FUNDS	USES OF FUNDS
Revenues	1.
Profits	2.
Loans and Credits	3.
Owner's Equity	4.



Fast Review

1. What's the purpose of financial records?
2. Explain the difference between total assets and total liabilities.



Making an Ethical Decision

1. In what ways is a nonprofit like a business?
2. What can an accountant provide for a nonprofit that a volunteer cannot?
3. What ethical questions arise when a volunteer is the treasurer for a nonprofit?

continued



Making an Ethical Decision

4. How would you tactfully convince a volunteer to step down from his or her role as treasurer for a nonprofit? Are there other roles that a volunteer treasurer could fulfill in a nonprofit organization?



Real-World Application

For any business, what is the first step to financial management?

continued



Real-World Application

**Name some long-term goals a
company might have.**

continued



Real-World Application

**What helps a company control its
spending?**

continued



Real-World Application

What does a company use to track the money coming in and going out?

End of Chapter



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