**SURVEY OF BUSINESS – FILL-IN-THE BLANK: SESSION 7**

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**Chapter Fourteen: Accounting and Financial Statements**

Accounting, the financial “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” that organizations use to record, measure, and interpret all of their financial transactions and records, is very important in business.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the recording, measurement, and interpretation of financial information.

Many of the functions of accounting are carried out by \_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_ accountants.

The terms Accounting and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are often mistakenly used interchangeably.

Bookkeeping is much narrower and far more mechanical than accounting, and is typically limited to the day-to-day recording of business transactions. Bookkeepers are responsible for obtaining and recording the info that accountants require to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a firm’s financial position.

Accountants, on the other hand, usually complete course work beyond their basic four or five-year college accounting degrees. This additional training allows accountants not only to record financial information, but to understand, interpret, and even develop the sophisticated accounting systems necessary to classify and analyze \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ financial information.

Accountants summarize the information from a firm’s business transactions in various \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for a variety of stakeholders, including managers, investors, creditors, and government agencies.

Managers and owners use financial statements:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Managerial Accounting refers to the internal use of accounting statements by managers in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the organization’s activities.

Perhaps, management’s greatest single concern is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the movement of money through an organization over a set period of time. For any business to succeed, it needs to generate enough cash to pay its bills when they are due.

Managerial accountants also help prepare an organization’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, an internal financial plan that forecasts expenses and income over a set period of time.

Managers also use accounting statements to report the business’s financial \_\_\_\_\_\_\_\_\_\_\_\_\_\_ to outsiders.

The most important component of an Annual Report is the signature of a CPA that the required financial statements are an accurate \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the underlying financial condition of the firm.

Many view accounting as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ business language. It is of little use, however, unless you know how to “speak” it.

The relationship among assets, liabilities, and owner’s equity is a fundamental concept in accounting and is known as the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Assets = Liabilities + Owner’s Equity).

\_\_\_\_\_\_\_\_\_\_\_\_\_\_: A firm’s economic resources, or items of value that it owns, such as cash, inventory, land, equipment, buildings, and other tangible and intangible things.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: Debts that a firm owes to others.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_: Equals Assets minus Liabilities and reflects historical values of initial and ongoing financial contribution(s) to the company.

Double-Entry Bookkeeping is a system of recording and classifying business transactions in separate accounts in order to maintain the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the Accounting Equation

(Assets = Liabilities + Owner’s Equity)

An Accounting Cycle is the four-step procedure of an accounting system, which includes:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The end result of the accounting process is a series of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Income Statement, Balance Sheet, and Statement of Cash Flows are the best known \_\_\_\_\_\_\_\_\_\_\_\_\_\_ of financial statements.

The question, “What’s the bottom line?” derives from the income statement, where the bottom line shows the overall profit or loss of the company after taxes. Thus, the Income Statement is a financial report that shows an organization’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ over a period of time.

Revenue is total amount of money \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) from the sale of goods or services, as well as from other business activities.

The next major item included in the income statement is the Cost of Goods Sold, which is the amount of money a firm spent to \_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_ the products it sold during the period to which the income statement applies. This figure is calculated as follows: Cost of Goods Sold = Beginning Inventory + Interim Purchases – Ending Inventory

Gross Income (or Profit) equals revenues minus the cost of goods sold required to generate the \_\_\_\_\_\_\_\_.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the difference between what it costs to make and sell a product and what a customer pays for it.

Expenses are the costs incurred in the day-to-day operations of an organization. Three common expense accounts include:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Included in the General and Administrative category is a special type of expense known as \_\_\_\_\_\_\_\_\_\_\_.

Depreciation is the process of spreading the costs of long-lived \_\_\_\_\_\_\_\_\_\_\_\_\_\_ such as buildings and equipment over the total number of accounting periods in which they are expected to be used.

Net Income is the total profit (or loss) after all expenses, including taxes, have been deducted from revenue, also called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Companies \_\_\_\_\_\_\_\_\_\_\_\_\_\_ their operational activities in the revenue and expense accounts during an accounting period.

The second basic financial statement is the Balance Sheet, which represents a “snapshot” of an organization’s financial position at a given moment. As such, the Balance Sheet indicates what the organization owns or controls and the various sources of the funds used to pay for these assets, such as bank \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or owner’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Balance Sheet takes its name from its \_\_\_\_\_\_\_\_\_\_\_\_\_\_ on the accounting equation:

Assets = Liabilities + Owner’s Equity.

All asset accounts are listed in descending order of \_\_\_\_\_\_\_\_\_\_\_\_\_\_ – that is, how quickly each could be turned into cash.

As seen in the accounting equation, total assets must be financed either through borrowing (\_\_\_\_\_\_\_\_\_\_) or through owner investments (\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_).

Owner’s Equity includes the owner’s contributions to the organization along with income earned by the organization and retained to finance continued \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The third primary financial statement is called the Statement of Cash Flows, which explains how the company’s cash \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from the beginning of the accounting period to the end.

The change in cash is explained through \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in 3 categories: cash from (used for) operating activities, cash from (used for) investing activities, and cash from (used for) financing activities.

The Income Statement shows a company’s profit or loss, while the Balance Sheet itemizes the value of assets, liabilities, and owner’s equity. Together, the two statements provide the means to answer two critical questions:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Analysis, calculations that measure an organization’s financial health, brings the complex information from the Income Statement and Balance Sheet into sharper focus so that managers, lenders, owners, and other interested parties can measure and compare the organization’s productivity, profitability, and financing mix with similar entities.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ratios measure how much operating income or net income an organization is able to generate relative to its assets, owner’s equity, and sales.

The Profit Margin is computed by dividing net income by sales, and shows the overall percentage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ earned by the company.

The higher the Profit Margin, the better the cost controls within the company and the higher the return on every dollar of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Return on Assets (ROA) is computed by dividing net income by total assets, and shows how much income the firm produces for every dollar invested in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Return on Equity (also called Return on Investment-ROI), is computed by dividing net income by owner’s equity, and shows how much income is generated by each $1 the owners have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the firm.

Asset Utilization Ratios (AURs) measure how well a firm uses its assets to generate each $1 of \_\_\_\_\_\_\_\_.

The Receivables Turnover is computed by dividing sales by accounts receivable, and indicates how many times a firm \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ its accounts receivable in one year.

Inventory Turnover is computed by dividing sales by total inventory, and indicates how many times a firm sells and replaces its \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ over the course of a year.

Total Asset Turnover is computed by dividing sales by total assets, and measures how well an organization uses all of its \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in creating sales.

Liquidity Ratios compare current assets to current liabilities to indicate the speed with which a company can turn its assets into \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to meet debts as they come due.

The Current Ratio is calculated by dividing current \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ by current \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Quick Ratio (also known as the Acid Test) is a far more stringent measure of liquidity because it eliminates inventory, the least liquid current asset. It measures how well an organization can meet its current obligations without resorting to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of its inventory.

Debt Utilization Ratios provide information about how much \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ an organization is using relative to other sources of capital, such as owner’s equity.

The Debt to Total Assets Ratio indicates how much of the firm is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ by debt and how much by owner’s equity.

The Times Interest Earned Ratio is calculated by operating income divided by interest expense, and is a measure of the safety margin a company has with respect to the interest payments it must make to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Investors may use Per Share Data to compare the performance of one company with another on an equal, or per share, basis. Generally, the more shares of stock a company issues, the less \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is available for each share.

Earnings per share is calculated by dividing net income or profit by the number of shares of stock \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Dividends Per Share are paid by the corporation to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for each share owned.

Strong compliance to accounting principles creates \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ among stakeholders.

**Chapter Fifteen: Money and the Financial System**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the study of how money is managed by individuals, companies, and governments.

Money, or currency, is anything generally accepted in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for goods and services.

Materials as diverse as salt, cattle, fish, rocks, shells, and cloth, as well as precious metals such as gold, silver, and copper, have long been used by various cultures as money. Most of these materials were limited-supply commodities that had their own value to society. The supply of these commodities therefore determined the supply of “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” in that society.

The next step was the development of “IOU’s,” or slips of paper that could be exchanged for a specified supply of the underlying commodity. “Gold” notes, for instance could be exchanged for gold, and the money supply was tied to the amount of gold \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

No matter what a particular society uses for money, its primary purpose is to enable a person or organization to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a desire into action.

Before fiat money, the trade of goods and services was accomplished through \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – trading one good or service for another of similar value.

As a Measure of Value, money serves as a common standard or yardstick of the value of goods and services. Money, then, is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that allows people to compare the different goods and services that can be consumed on a particular income level.

As a store of value, money serves as a way to accumulate \_\_\_\_\_\_\_\_\_\_\_ (buying power) until it is needed.

Value of stored money is directly dependent on the health of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_. If, due to inflation, prices increase, then the purchasing power of the money “stuffed in the mattress” would fall. On the other hand, deflation occurs when the prices of goods fall.

Deflation might seem like a good thing for consumers, but in many ways it can be just as problematic as inflation. Periods of major deflation often lead to decreases in wages and increases in debt burdens. Deflation also tends to be an indicator of problems in the economy. It indicates \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economic growth and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ prices.

To be used as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_, money must be acceptable, divisible, portable, stable in value, durable, and difficult to counterfeit.

To be effective, money must be readily \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the purchase of goods and services and for the settlement of debts.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is probably the most important characteristics of money: If people do not trust the value of money, businesses will not accept it as a payment for goods and services, and consumers will have to find some other means of paying for their purchases.

Given the widespread use of quarters, dimes, nickels, and pennies in the U.S., it is no surprise that the principle of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is an important one. With barter, the lack of divisibility often makes otherwise preferable trades impossible, as would be an attempt to trade a steer for a loaf of bread.

Clearly, for money to function as a medium of exchange, it must be easily \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from one location to the next.

Large colored rocks could be used as money, but you couldn’t carry them around in your wallet. Paper \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and metal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, on the other hand, are capable of transferring vast purchasing power into small, easily carried (and hidden) bundles.

Money must be stable and maintain its declared face value. The principle of stability allows people who wish to postpone purchases and save their money to do so without fear that it will decline in \_\_\_\_\_\_\_\_\_\_.

Money must be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Finally, to remain stable and enjoy universal acceptance, it almost goes without saying that money must be very difficult to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – that is, to duplicate illegally.

While paper money and coins are the most visible types of money, the combined value of all of the printed bills and all of the minted coins is actually rather insignificant when compared with the value of money kept in checking accounts, savings accounts, and other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ forms.

The U.S. financial system fuels our economy by storing money, fostering investment opportunities, and making loans for new businesses and business expansion as well as for homes, cars, and college educations. This amazingly complex system includes banking institutions, non-banking financial institutions such as finance companies, and systems that provide for the electronic transfer of funds throughout the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The guardian of the American financial system is the Federal Reserve Board, or “the Fed,” as it is commonly called, an independent agency of the federal government established in 1913 to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the nation’s banking and financial industry.

The Federal Reserve System is organized into 12 regions, each with a Federal Reserve Bank that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ its defined area.

The Federal Reserve Board is the chief \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ arm in the United States.

Working with Congress and the President, the Fed tries to create a positive economic environment capable of sustaining low inflation, high levels of employment, a balance in international payments, and long-term economic growth. To this end, the Federal Reserve Board has four major responsibilities:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The Fed controls the amount of money available in the economy through \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_. Without this intervention, the supply of and demand for money might not balance.

To effectively control the supply of money in the economy, the Fed must have a good idea of how much money is in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Using several different measures of the money supply, the Fed establishes specific growth targets that, presumably, ensure a close balance between money \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and money \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Open Market Operations refer to decisions to buy or sell U.S. Treasury Bills (short-term debt issued by the U.S. government; also called T-bills) and other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the open market.

When the Fed buys \_\_\_\_\_\_\_\_\_\_\_\_\_, it writes a check on its own account to the seller of the investments.

When the seller of the investments (usually a large bank) deposits the check, the Fed transfers the balance from the Federal Reserve account into the seller’s account, thus increasing the supply of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the economy and, hopefully, fueling economic growth.

The opposite occurs when the Fed sells investments. The buyer writes a check to the Federal Reserve, and when the funds are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ out of the purchaser’s account, the amount of money in circulation falls, slowing economic growth to desired level.

The second major monetary policy tool is the Reserve Requirement, the percentage of deposits that banking institutions must hold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (“in the vault,” as it were). Funds so held are not available for lending to businesses and consumers.

The third monetary policy tool, the Discount Rate, is the rate of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the Fed charges to loan money to any banking institution to meet reserve requirements.

The Fed is the lender of last resort for these banks. When a bank borrows from the Fed, it is said to have borrowed at the “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_,” and the interest rates charged there are often higher than those charged on loans of comparable risk elsewhere in the economy.

This added interest expense, when it exists, serves to discourage banks from borrowing from the \_\_\_\_\_\_.

When the Fed wants to expand the money supply, it lowers the Discount Rate to encourage \_\_\_\_\_\_\_\_\_\_.

The final tool in the Fed’s arsenal of weapons is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the authority to establish and enforce credit rules for financial institutions and some private investors.

By raising and lowering minimum down payment amounts and payment periods the Fed can \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ credit purchases of “big ticket” items.

The second major responsibility of the Fed is to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ banking institutions that are members of the Federal Reserve System.

Accordingly, the Fed establishes and enforces banking rules that affect monetary policy and the overall level of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ between different banks.

It determines which non-banking activities such as brokerage services, leasing, and insurance, are appropriate for banks and which should be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Fed is also responsible for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the federal insurance funds that protect the deposits of member institutions.

Banking institutions accept money deposits from and make \_\_\_\_ to individual consumers and businesses.

Some of the most important banking \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ include commercial banks, savings and loan associations, credit unions, and mutual savings banks.

Banking institutions all have one thing in common: They are businesses whose \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is to earn money by managing, safeguarding, and lending money to others.

Their sales revenues come from the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that they charge for providing these financial services.

Since the advent of the computer age, a wide range of technological innovations has made it possible to move money all across the world \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Such “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” transactions have allowed financial institutions to reduce costs in what has been, and continues to be, a virtual competitive battlefield.

Electronic Funds Transfer (EFT) is any \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of funds by means of an electronic terminal, telephone, computer, or magnetic tape.

Such transactions \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a particular financial institution to subtract money from one account and add it to another.

The most \_\_\_\_\_\_\_\_\_\_\_\_\_\_ used forms of EFT are automated teller machines, automated clearinghouses, and home banking systems.

Rapid advances and innovations in technology are challenging the banking industry and requiring it to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

More and more banks, both large and small, are offering electronic access to their financial services.

Online financial services, ATM technology/services, and bill presentation are just a few of the areas where rapidly changing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is causing the banking industry to change as well.

**Chapter Sixteen: Financial Management and Securities Markets**

Financial Management is the field that addresses the issues of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the funds and resources necessary to run a business successfully.

All organizations must manage their resources effectively and efficiently if they are to achieve their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Managing short-term assets and liabilities involves managing the current assets and liabilities on the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Current Assets are short-term resources such as cash, investments, accounts receivable, and \_\_\_\_\_\_\_\_\_\_.

Current Liabilities are short-term debts such as accounts payable, accrued salaries, accrued taxes, and short-term bank \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Managing short-term assets and liabilities is sometimes called Working Capital Management because short-term assets and liabilities continually flow through an organization and are thus said to be “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.”

The chief \_\_\_\_\_\_\_\_\_\_\_\_ of financial managers who focus on current assets and liabilities is to maximize the return to the business on cash, temporary investments of idle cash, accounts receivable, and inventory.

Ensuring that sufficient (but not excessive) funds are on hand to meet the company’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is one of the single most important facets of financial management.

Idle cash does not make money, and corporate checking accounts typically do not earn interest. As a result, astute money managers try to keep just enough cash on hand, called \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_, to pay bills; such as, employee wages, supplies, and utilities, as they come due.

To manage the firm’s cash and ensure that enough cash flows through the organization quickly and efficiently, companies try to speed up cash \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from customers.

As companies sell products, they generate cash on a daily basis, and sometimes cash comes in faster than it is needed to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

After cash and marketable securities, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ lists accounts receivable, money owed to a business by credit customers, and inventory.

While the inventory that a firm holds is controlled by both production needs & marketing considerations, the financial manager has to coordinate inventory purchases to manage \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_.

The object is to minimize the firm’s investment in inventory without experiencing production cutbacks as a result of critical materials shortfalls or lost sales due to insufficient finished goods \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ inventory levels are determined in large part by the method of production.

If a firm attempts to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ its goods just in time to meet sales demand, the level of inventory will be relatively low. If, on the other hand, the firm produces materials in a constant, level pattern, inventory increases when sales decrease and decreases when sales increase.

While having extra cash on hand is a delightful surprise, the opposite situation – a temporary cash shortfall – can be a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Just as accounts receivable must be actively managed to ensure proper cash collections, so too must accounts payable be managed to make the best use of this \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Accounts payable is money an organization \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to suppliers for goods and services.

Virtually all organizations – large and small – obtain short term funds for operations from \_\_\_\_\_\_\_\_\_\_\_\_.

In most instances, the credit services granted these firms take the form of a line of credit or fixed dollar loan. A Line of Credit is an arrangement by which a bank agrees to lend a specified amount of money to the organization upon request. In general, a business LOC is similar to a consumer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

In addition to credit lines, banks also make: Secured Loans – loans backed by collateral that the bank can claim if the borrowers do not repay the loans, and Unsecured Loans – loans backed only by the borrower’s good \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and previous credit \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Both individuals and businesses build their credit rating from their history of borrowing and repaying borrowed funds on time and in full. A lack of credit history or poor credit history can make it \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to get loans from financial institutions.

Banks are not the only source of short-term \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for businesses.

While most business failures are the result of poor short-term planning, successful ventures must also consider the long-term financial \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of their actions.

Managing the long-term assets and liabilities and the owner’s equity portion of the balance sheet is important for the long-term \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the business.

Long-Term (Fixed) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are expected to last for many years – production facilities (plants), offices, equipment, heavy machinery, furniture, automobiles, and so on.

In today’s fast-paced world, companies need the most technologically advanced, modern facilities and equipment they can afford. However, modern and high-tech equipment carry high \_\_\_\_\_\_\_\_\_\_\_\_\_\_ tags.

Leasing is one approach to financing these items. Leasing involves paying a fee for usage rather than \_\_\_\_\_\_\_\_\_\_\_\_\_\_ the asset. There are two kinds of leases: (1) capital leases, long-term contracts which show on the balance sheet as an asset and a liability, and (2) operating leases, short-term cancelable contracts which do not show up on the balance sheet.

One of the most important jobs performed by the financial manager is to decide what fixed assets, projects, and investments will earn \_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the firm beyond the cost necessary to fund them.

The process of analyzing the needs of the business and selecting the assets that will maximize its value is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The capital budget is the amount of money budgeted for investment in such long-term \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Capital Budgeting does not end with \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_ of a particular piece of land, equipment, or major investment.

All assets and projects must be continually reevaluated to ensure their compatibility with the organization’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Every investment carries some \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The longer a project or asset is expected to last, the greater its potential risk because it is hard to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ whether a piece of equipment will wear out or become obsolete in 5 or 10 years.

The level of a project’s risk is also affected by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ nature of the marketplace and the world economy.

The ultimate \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of any project depends not only on accurate assumptions of how much cash it will generate, but also on its financing costs.

Because a business must pay interest on money it borrows, the returns from any project must cover not only the costs of operating the project but also the interest expenses for the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ used to finance its construction.

Long-term assets do not come cheaply, and few companies have the cash on hand for growth \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

To develop the needed fixed assets, companies must raise low-cost long-term funds to finance them. Two common choices for raising these funds are:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Long-Term Liabilities are debts that will be repaid over a number of years, such as bank loans and bond issues. These take many different forms, but in the end, they are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Much long-term debt takes the form of Bonds, which are debt instruments that larger companies sell to raise long-term funds. In essence, the buyers of bonds (bond holders) loan the issuer of the bonds cash in exchange for regular interest payments until the loan is repaid on or before a specified maturity \_\_\_\_\_\_\_.

The bond itself is a certificate, much like an \_\_\_\_\_, that represents the company’s debt to the bondholder.

A second means of long-term financing is through \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Owner’s equity refers to the owners’ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in an organization.

When a corporation has profits left over after paying all of its expenses and taxes, it has a choice of retaining all or a portion of its earnings and/or paying them out to its shareholders in the form of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Retained Earnings are reinvested in the assets of the firm and belong to the owners in the form of \_\_\_\_\_\_.

Retained Earnings are an important source of funds and are, in fact, the only long-term funds that can be generated \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

When the company distributes some of the corporations’ profits to the owners, it issues them as cash \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A Dividend Yield is the dividend per share divided by the stock price. It is the cash return as a percentage of the price, but does not reflect the total return an investor earns on the individual \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A company that needs more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to expand or take advantage of growth opportunities may be able to obtain financing by issuing stock.

The first-time sale of stock and bonds directly to the public is called a new issue. Companies that already have stocks or bonds outstanding may offer a new issue of stock to raise additional funds for a specific \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

When a company offers its stock to the public for the very first time, it is said to be “going public,” and the sale is called an Initial Public Offering (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_).

New issues of stocks and bonds are sold directly to the public and to institutions in what is known as the Primary Market – the market where firms raise financial \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Investment Banking, the sale of stocks and bonds for corporations, helps such companies raise funds by matching people and institutions who have money to invest with corporations in need of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to exploit new opportunities.

Securities Markets provide a mechanism for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ securities.

They make it possible for owners to sell their stocks and bonds to other investors. Thus, in the broadest sense, stocks and bonds markets may be thought of as providers of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the ability to turn security holdings into cash quickly.

The ability to sell securities at well-established market prices is one of the pillars of our capitalistic \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Stock Markets exist around the world. The two biggest stock markets in the United States are the New York Stock Exchange (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) and the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ market.

Investors, especially professional money managers, want to know how well their investments are performing relative to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ as a whole.

They also need to know how their companies’ securities are performing when compared with their competitors.’ Thus, performance measures – \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_ – are very important to many different people. They not only indicate the performance of a particular securities market but also provide a measure of the overall health of the economy.

Indexes and averages are used to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stock prices.