FITB Review

You can work individually or in pairs. Each person should turn in their own paper.

1. ________________________________ is an expense that changes based on the amount of product or service a business sells.
2. The period of time a company uses for its financial statements ________________________________.
3. ________________________________ is an examination of the income statement that identifies how many units of a product a business must sell to pay all its fixed expenses.
4. ________________________________ is a financial document that records inflows and outflows of cash when they actually occur.
5. ________________________________ is an expense that isn't affected by the number of items a business produces, such as insurance, salaries, advertising, interest, depreciation, utilities, rent.
6. ________________________________ is a financial document that summarizes a business's income and expenses over a given time period and shows whether the business made a profit or took a loss.
7. ________________________________ is a financial statement that shows you the value of your business on a specific date.
8. ________________________________ are assets that usually take longer than one year to turn into cash; examples are equipment, computers, furniture, machinery, buildings, and long-term investments.
9. ________________________________ is the amount owed by a business to its suppliers for credit purchases.
10. ________________________________ are debts that usually take longer than one year to repay; the money owed on a mortgage, for example.
11. ________________________________ are short-term assets that can be converted into cash within one year; these include cash, inventory, marketable securities, etc.
12. ________________________________ are short-term debts that must be repaid within one year; examples include bank loans, taxes payable, etc.
13. The accounting equation can be written as ____.
14. ________________________________ is the amount of money owed to a business by its customers for credit sales.
15. ________________________________ is the amount per unit that a product contributes toward the company's profitability before the fixed expenses are subtracted.
16. ________________________________ is the basic building block of your business; what a customer actually buys from you.

17. ______________________________ is the cost reduction made possible by spreading costs over a larger volume.

18. The decrease in value of an asset because of age, wear, or use is ___________________________.

19. ______________________________ is the rate at which a business needs to spend cash to cover overhead costs before it begins to make money.

20. ______________________________ is a type of variable expense that is associated with each unit of sale for manufacturing and merchandising businesses.

21. Explain what is meant by each part of the accounting equation: Assets = Liabilities + Owner's Equity.

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22. ABC Company provides you with the following data for its widgets:

Selling price: $50 (per unit)	Variable costs: $30 (per unit)	Total fixed costs: $10,000

What is the contribution margin per unit for the widgets? How many widgets does the company have to sell to cover all of its fixed costs? *(show your work)*

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23. XYZ Corporation has Total Debt of $250, Total Assets of $750, Current Assets of $300, Current Liabilities of $150, Net Income of $200, and Sales of $1,000. Calculate the following ratios for XYZ *(show your work)*:

Debt Ratio: _______________________ (hint: Total Debt / Total Assets)

Current Ratio: _______________________ (hint: Current Assets / Current Liabilities)

Profit Margin on Sales: _______________________ (hint: Net Income / Sales)

24. Explain the difference between an income statement and a balance sheet. What information is found on each form and who might find this information useful?

25. Why is insurance so important for businesses? What are some of the types of insurance that an entrepreneur should consider getting?

Case Study: Samantha's Financing Options

Samantha was sick and tired of not having enough money to buy the things she wanted. She expressed her frustration to her father, declaring "I need to make some money. I want to start my own business!" Her father was impressed by her determination, and he quickly saw an opportunity to teach his daughter some money management and entrepreneurship skills. He suggested that she check out the old lawn mower in the garage. "The motor died about a month ago, so it's been sitting there unused. If you can fix it, it's yours. And, with a working lawn mower, you would be steps away from being a business owner."

Samantha didn't know how to fix engines, but she immediately remembered her neighbor Doug, a retired mechanic who might be able to get her lawn mower in working order free of charge. As hoped for, Doug was happy to help, and he quickly identified the problem: the mower needed new parts. But, as Samantha quickly learned on her trip to the hardware store, the new parts cost money-$44, to be exact. The whole reason for starting this business was because Samantha didn't have enough money in the first place!

Samantha didn't want to give up so easily though. Maybe spending some money up front would be worth it if she could have a money-making business in the long run. When she got home, Samantha asked her father for the money to purchase the lawn mower parts. Her father said he would loan her half of the money if she promised to pay him back. Samantha went up to her room and scraped together $22 from her piggy bank, her change purses, and a birthday card from Grandma. She agreed to take her father's loan of $22.

A few days later, Doug had fixed the lawn mower, and Samantha had secured her first client. A family friend named David had agreed to let Samantha mow his lawn for $20. However, there was another hitch: the lawn mower didn't have gas! Samantha went back to her father and asked for help purchasing fuel. Her father was impressed that she had gotten the mower running again, and he suggested she buy some lawn bags and a rake to make sure she was totally prepared for her first job. He said he would loan her the $28 necessary to cover these costs if she paid him back. Excited to get her business up and running, Samantha agreed.

Early the next Saturday, Samantha spent several hours mowing and raking the lawn. Much to her excitement, David presented Samantha with a crisp new $20 bill. She set up an appointment in two weeks to mow the lawn again. Wow! This would mean another $20. At this rate, she figured that she would make $120 mowing the lawn every other week for the next 12 weeks.

Samantha ran home to celebrate her success, her imagination running wild with thoughts of all the things she could now buy-both for herself and for her new business. However, Samantha's excitement was tempered when she saw a sheet of paper taped on her bedroom with "Samantha Debt To Dad: $50!" written in big letters. When Samantha went to her father, she asked when she had to pay him back. Her father gave her three options:

1. Samantha could pay him all of the $20 for each lawn mowed until the debt is paid off.
2. Samantha could pay him only $10 for each lawn mowed until the debt is paid off, but her father would charge her 5% interest on her debt every time she mowed a lawn. (In other words, he would add $1 to her debt for each lawn mowed.)
3. Samantha could pay him nothing at all, but only if Samantha agreed to make him a part-owner of the business. As a part-owner of the business, Samantha's dad would have a say in the business and receive 25% of all future earnings made through the lawn mowing business.

Cost/Benefit Analysis

Fill out the timeline, benefits, and costs for each of Samantha's debt repayment options. After you've completed the chart, decide which option you'd choose if you were Samantha.

	Option #1 **Pay Dad $20 for each lawn mowed**	**Option #2** **Pay Dad only $10 for each lawn mowed, but 5% interest for each lawn mowed**	**Option #3** **Pay Dad nothing, but give him 25% of all future earnings**
Time To Pay?			
Benefits (Advantages)			
Costs (Disadvantages)			