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Chapter 17: Financial Management—Checkpoint Solutions

Checkpoint 17.1

1. What is a fiscal year?

Answer: A fiscal year period of time for which a business summarizes accounting information and prepares financial statements.

2. List five record types that are important for a business to accurately maintain.

Answer: Five record types that are important for a business to accurately maintain are those pertaining to checking accounts, source documents, inventory, assets, and payroll.

3. Explain the term *payroll*.

Answer: Payroll is a list of the employees working for the business, their earnings, taxes withheld, and other deduction.

4. When the debit and credit parts of a transaction are recorded, what type of accounting is being used?

Answer: double-entry accounting

5. What is the relationship between a journal and journalizing?

Answer: Journalizing is the process of recording transactions, and a journal is the form in which the transactions are recorded.

Checkpoint 17.2

1. What does an income statement report?

Answer: An income statement reports the revenue and expenses of a business for a specific time period, showing net income and net loss.

2. What does the owner's equity statement report?

Answer: The owner's equity statement reports how much equity the owner has at any given point in time.

3. What does the cash flow statement report?

Answer: The cash flow statement reports how cash moves in and out of a business.

4. What does the balance sheet report?

Answer: The balance sheet reports the financial strength of the business.

5. Why is a cash flow statement important when applying for a loan?

Answer: A cash flow statement is important when applying for a loan because it indicates how well a business is managing its expenses as related to income.