FINANCE

BMS1.0 Demonstrate business and financial management practices needed for entrepreneurs.

1.1 Interpret a budget.

1.1	Budget – A financial plan usually extending for a period of one year that is used to manage cash flow out of a business. A budget would take into account how much income the business expects to receive, then would show how the business would spend the income on expenses for the business with the hope that there will be money left over at the end of the year.
1.1	Start-up Cost – A variety of different costs that a new business owner must incur in order to get the business established. Typically these are one-time costs, and often they are allowed to be amortized over time beginning with the month that the new business begins.

1.2 Interpret an income statement.

1.2	Component Percentages – The percentage relationships between one financial statement item and the total that includes that item. For example, common component percentages on an income statement include the sales, expenses, and net income component percentages. These percentages can be compared to industry averages for similar businesses to determine how the company is doing toward financial strength.
1.2	Gross Income – The total amount of income earned from sales and investment returns before taxes and other business expenses are deducted.
1.2	Gross Profit – The profit of a business before taxes, payroll, and interest charges are deducted.
1.2	Income – Money or revenue coming into a business from sales or investments.
1.2	Income Statement – The financial statement that shows a firm's profit after costs, expenses, and taxes; it summarizes all of the resources that have come into the firm (revenue), all of the resources that have left the firm, and the resulting net income. There are three basic parts to an income statement: Revenue, Expenses, and Profit. Pro forma income statement.
1.2	Income Statement Example

Walt Disney Company Income Statement	
Sales	$23,402
Cost of Goods Sold	-
Gross Profit	$19,715
	$3,687
Selling/Administrative Expenses	
Interest	-$196
Other	-$612
Total Expenses	-$565
	-$1,373
Income before taxes	
(Gross Profit – Total Expenses)	
Income taxes	$2,314
	-$1,014
Net Income	$1,300

1.2	Net Income – Revenue left over after all costs and expenses, including taxes, are paid.
1.2	Net Profit - Also referred to as the bottom line, net income, or net earnings is a measure of the profitability of a venture after accounting for all costs.
1.2	Profit – The money earned from conducting business after all costs and expenses have been paid. Profit is the key incentive for operating a business.

1.3 Interpret a balance sheet.

<table>
<tr><td>1.3</td><td>Balance Sheet
A financial snapshot of a business
Shows what a company owns (assets)
Shows what a company owes (liabilities)
Shows the difference between the two (net worth)
Assets – liabilities = owners equity (net worth)</td></tr>
<tr><td>1.3</td><td>Balance Sheet – A financial statement showing the business's financial position/condition/strength. It reports the company's assets, liabilities and owner's equity. The owner's equity explains the net worth of the company. The assets must balance the liabilities plus owner's equity.</td></tr>
<tr><td>1.3</td><td>Sample Balance Sheet
<table>
<tr><td colspan="2">Walt Disney Company Balance Sheet
As of Sept 20th, 2011
(in millions of dollars</td><td colspan="2"></td></tr>
<tr><td colspan="2">Assests</td><td colspan="2">Liabilities</td></tr>
<tr><td>Cash</td><td>$414</td><td>Account payable</td><td>-$4,488</td></tr>
<tr><td>Receivables</td><td>$3,644</td><td>Long Term Debt</td><td>-$9,278</td></tr>
<tr><td>Investments</td><td>$2,434</td><td>Other Liabilities</td><td>-$8,838</td></tr>
<tr><td>Inventories</td><td>$798</td><td>Total Liabilities</td><td>-$22,704</td></tr>
<tr><td>Property</td><td>$11,348</td><td></td><td></td></tr>
<tr><td>Other Assets</td><td>$25, 045</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Net Worth</td></tr>
<tr><td></td><td></td><td>Common Stock</td><td>-$9,234</td></tr>
<tr><td></td><td></td><td>Retained Earnings</td><td>-$12,281</td></tr>
<tr><td></td><td></td><td>Treasury Stock</td><td>(630)</td></tr>
<tr><td></td><td></td><td>Total Net Worth</td><td>-$20,975</td></tr>
<tr><td>Total Assets</td><td>$43,679</td><td>Total Liabilities + Net Worth</td><td>-$43,679</td></tr>
</table>
Assets = liabilities + net worth
Assets – liabilities = net worth
$43,679 – $22,704 = $20,975</td></tr>
<tr><td>1.3</td><td>Debt – An amount owed.</td></tr>
<tr><td>1.3</td><td>Net Worth – For a company, total assets minus total liabilities. Net worth is an important determinant of the value of a company, considering it is composed primarily of all the money that has been invested since its inception, as well as the retained earnings for the duration of its operation. Net worth can be used to determine creditworthiness because it gives a snapshot of the company's investment history. Also called owner's equity, shareholders' equity, or net assets.</td></tr>
<tr><td>1.3</td><td>Owner's Equity – The amount of the business that belongs to the owners minus any liabilities owed by the business.</td></tr>
<tr><td>1.4</td><td>Interpret a cash flow statement.</td></tr>
<tr><td>1.4</td><td>Cash Controls – A company must have adequate controls to prevent theft or other misuses of cash. These control activities include segregation of duties, proper authorization, adequate documents and records, physical controls, and independent checks on performance.</td></tr>
<tr><td>1.4</td><td>Cash Flow – The difference between cash coming in and cash going out of a business.</td></tr>
<tr><td>1.4</td><td>Cash Flow Statement – Reports the cash going out of a business to pay for a variety of expenses as well as the cash coming into the business from sales revenues and investment returns.</td></tr>
<tr><td>1.4</td><td>Improving Cash Flow - It's a simple enough formula: collect your receivables as fast as possible and slow down your payables without jeopardizing your relationship with suppliers.</td></tr>
<tr><td>1.5</td><td>Interpret financial information for decision making and planning.</td></tr>
<tr><td>1.5</td><td>Accrual – Accrual (accumulation) of something is, in finance, the adding together of interest or different investments over a period of time.</td></tr>
<tr><td>1.5</td><td>Break-even Analysis – Determining the point where sales revenue equals the costs of production and distribution of goods or services to break even.</td></tr>
</table>

1.5	Break-even Point – The point at which sales revenue equals the costs and expenses of making and distributing a product. Neither a profit nor a loss is registered.
1.5	Capacity – One of the 4 C's of creditworthiness. Capacity is one's ability to repay a debt.
1.5	Collateral – Something of value that a person pledges as payment for a loan in case of default or inability to repay the debt.
1.5	Contingency Fund – An amount kept in reserve to guard against possible losses.
1.5	Finance – Business activity that deals with all money matters related to running a business.
1.5	Investment - In finance, the purchase of a financial product or other item of value with an expectation of favorable future returns/gains and interest earned.
1.5	Managing Credit – Managing your credit is more important and more complicated than ever. With good credit, you can get a bigger house, a better car, a lower credit card rate and less-costly insurance. Without it, you'll always have a drag on your finances -- and that means fewer of the things you want.
1.5	Managing Taxes – Learn how to avoid double taxation and lower your employment tax liability by forming an S corporation.
1.5	Quick Ratio - An indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the company.
1.5	Retained Earnings - the portion of net income which is retained by the corporation rather than distributed to its owners as dividends.
1.5	Return on investments – ROI - a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. It is one way of considering profits in relation to capital invested.
1.5	Return on owner's equity – ROE – measures the rate of return or gains on the owners interest (shareholders' equity) of the common stock owners. Shows how well a company uses its funds to generate earnings growth.
1.5	Return on Sales – ROS - is net profit as a percentage of sales revenue. . . . ROS is an indicator of profitability and is often used to compare the profitability of companies and industries of differing sizes.
1.5	Stock – A share of ownership in a company that is set up as a corporation.
1.5	Stockholder's equity - represents the remaining interest in assets of a company, spread among individual shareholders of common or preferred stock.
1.5	Working Capital- A measure of both a company's efficiency and its short-term financial health. The working capital ratio is calculated as: • Working Capital=Current Assets-Current Liabilities • This ratio indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient.
1.6	**Describe risk management.**
1.6	Casualty – It is mainly liability insurance coverage of an individual or organization's for negligent acts or omissions.
1.6	Deductible – The amount you have to pay out-of-pocket for expenses before the insurance company will cover the remaining costs.
1.6	Inherent Risk - The probability of loss arising out of circumstances or existing in an environment, in the absence of any action to control or modify the circumstances. A risk which it is impossible to manage or transfer away is said to be an inherent risk.
1.6	Insurable – A risk that a typical insurance company will cover.
1.6	Insurance – A written contract between the insured and an insurance company that promises to pay for all or part of a loss. Examples of types of insurance include: health, disability, and property.
1.6	Insurance Agency – Individual who is licensed by a state to sell insurance for one or more specific insurance companies.
1.6	Insurance Discounts – Customers can get discounts on insurance for having lower risk factors. For example, non smokers get a better rate on health and life insurance than smokers. Students with B or better grade point averages get better rates on car insurance for being more responsible and having fewer accidents on average than students with worse grades.
1.6	Keyman Life Insurance - Key person insurance, also commonly called keyman insurance and key man insurance, is an important form of business insurance. There is no legal definition for "key person insurance". In general, it can be described as an insurance policy taken out by a business to compensate that business for financial losses that would arise from the death or extended incapacity of an important member of the business. To put it simply, Keyman Insurance is a standard life insurance, TPD insurance or trauma insurance policy that is used for business succession or business protection purposes.[1] The policy's term does not extend beyond the period of the key person's usefulness to the business. Keyman Insurance policies are usually owned by the business and the aim is to compensate the business for losses incurred with the loss of a key income generator and facilitate business continuity.

1.6	Lawsuit - Court case between individuals: a legal action brought between two private parties in a court of law.
1.6	Legal Liabilities – In law, a person is legally liable when they are financially and legally responsible for something. Legal liability concerns both civil law and criminal law. Legal liability can arise from various areas of law, such as contracts, tort judgments or settlements, taxes, or fines assed by government agencies. Liabilities may be covered by insurance, although typically insurance covers liability arising from negligent torts rather than intentional wrongs or breach of contract.
1.6	Life Insurance – A way of providing legacy: a plan under which regular payments are made to a company during somebody's lifetime, and in return the company pays a specific sum to the person's beneficiaries after the person's death. The person receiving the payments after death is called the beneficiary.
1.6	Limited Liability Company (LLC) – A company similar to an S corporation but without the special eligibility requirements. A flexible form of enterprise that blends elements of partnership and corporate structures. The responsibilities of a business's owners for losses only up to the amount they invest; limited investors have limited liability.
1.6	Loss – When a business's expenses are more than its revenues coming in.
1.6	Negligence – In tort law, behavior that causes unintentional harm or injury.
1.6	Non-insurable – A non insurable risk is one for which insurance cannot be bought.
1.6	Pilferage – A crime of theft of little things, usually from shipments or baggage. Petty theft.
1.6	Premium – In insurance, premiums are the amount of money charged by a company for active coverage. The sum a person pays in premiums, also referred to as the rate, is determined by several factors, including age, health, and the area a person lives in. People pay these rates annually or in smaller payments over the course of the year, and the amount can change over time. When insurance premiums are not paid, the policy is typically considered void and companies will not honor claims against it.
1.6	Pure Risk – Category of risk in which loss is the only possible outcome; there is no beneficial result. Pure risk is related to events that are beyond the risk-taker's control and, therefore, a person cannot consciously take on pure risk. This is the opposite of speculative risk.
1.6	Risk – The chance an entrepreneur takes of losing money and time on a business that may not prove profitable. The chance of failure or loss.
1.6	Risk Avoidance – technique of risk management that involves taking steps to remove a hazard, engage in alternative activities or otherwise end a specific exposure.
1.6	Risk Management – The systematic process of managing an organization's risks to achieve objectives in a manner consistent with public interest, human safety, environmental needs, and the law. Acquiring insurance is a method businesses use to reduce the impact of insurable risks such as natural disasters, theft, and injuries. ○ Three basic kinds ▪ Economic risk • Competition, change in customer desires, population changes, etc Natural risk • Floods, earthquakes, etc. ▪ Human risk • Employee mistakes, etc.
1.6	Risk Reduction - A systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence.
1.6	Risk Retention – An approach in which a business sets aside a sum as a protection against probable loss, instead of transferring the risk by purchasing an insurance policy.
1.6	Risk Transfer – shifting the risk from one party to another; examples include purchasing insurance coverage or issuing debt.
1.6	Self-insured – is a risk management method in which a calculated amount of money is set aside to compensate for the potential future loss.
1.6	Speculative Risk - A type of risk not typically insurable, as it is not possible to predict whether it will succeed or fail.
1.7	**Analyze banking services.**
1.7	Account Reconciliation – The process used to ensure that the checking and savings account records of a business are in balance with the records of the banking institution.
1.7	Annual Percentage Rate (APR) - Interest rate for a whole year (annualized), rather than just a monthly fee/rate, as applied on a loan, mortgage loan, credit card, etc. It is a finance charge expressed as an annual rate.[
1.7	Bank – A financial institution that accepts demand deposits, makes consumer and commercial (business) loans, and

	buys and sells currency and government securities (investments such as savings bonds and treasury bills).
1.7	Bank Statement – Record from the bank reporting the deposits, withdrawals, and balance of a bank account such as a savings or checking account.
1.7	Certificate of Deposit – A savings account that requires an investor to deposit a specific amount for a fixed period of time at a fixed rate of interest to be earned. There is a penalty if the owner cashes the CD in before its expiration date.
1.7	Check – A written order on a financial institution to pay previously deposited money to a third party on demand from a checking or money market account.
1.7	Checking Account - An account which allows the holder to write checks against deposited funds. Most checking accounts are not interest bearing. Money market accounts provide interest and the ability to write checks, but a high balance is required in the account which is usually around $1000.
1.7	Credit – A loan of money or goods.
1.7	Credit Card – A card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing.
1.7	Credit Union - A non-profit financial institution that is owned and operated entirely by its members.
1.7	Deposit – Putting funds into a bank account.
1.7	Extending Credit – Making a loan to a business or individual.
1.7	Federal Deposit Insurance Corporation (FDIC) – Insures savings and checking account deposits within member banks up to $250,000 per depositor as or 2013.
1.7	Federal Reserve Bank – The central bank of the United States. Lends money to member banks at the discount rate of interest.
1.7	Federal Reserve Board of Governors – The executive board of the Federal Reserve Bank. They are responsible for setting monetary policy to regulate the economy. They can adjust the discount rate of interest, the reserve ratio, and the buying and selling of government securities.
1.7	Loan - In finance, a loan is a debt evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan.
1.7	Money Market Account - The Money Market Deposit Account also called a "money market account," pays a market rate of interest with no regulatory limit so long as the account balance stays above $1,000.
1.7	Mutual Fund – An organization that buys stocks and bonds and then sells shares in those securities to the public.
1.7	Outstanding Checks – Checks that have not cleared a checking account with the bank and are not listed on the bank statement. Outstanding checks should be subtracted from the bank balance when reconciling a checking account balance.
1.7	Outstanding Deposits – Deposits that have not cleared a checking account with the bank and are not listed on the bank statement. Outstanding deposits should be added to the bank balance when reconciling a checking account balance.
1.7	Principle on a Loan – Money that is borrowed. Does not include the interest/finance charges or down payment.
1.7	Savings Account – An interest bearing bank account designed for saving money.
1.7	Treasury Bond – A long-term bond: an interest-bearing debt security issued by the U.S. government, with an initial life of between ten and thirty years.
1.7	Treasury Note – A medium-term obligation: an intermediate-term, interest-paying debt instrument issued by the U.S. government, with an initial life of between one and ten years.
1.7	Withdrawal - Taking money from bank: the act of taking money from a bank account, or the amount of money taken out.
1.8	**Describe the impact of quality business communications.**
1.8	Memorandum – A memorandum or memo is typically used for internal business communications. The format usually includes a heading of: To, From, Date, Subject.
1.9	**Identify customer relations.**
1.9	Customer Management – Encompasses all the systems, processes and applications needed to manage the customer relationship. The implementation of a robust IT system for collecting and collating customer data is necessary for most large companies these days. Even the smallest organization will have a need for some kind of customer management system. Customer Management systems and applications are used to capture, research and analyze information such as customer behavior, buying preferences and demographics.
1.9	Customer Problem Solving – A few problem-solving steps in customer service should be the core of your approach to

	satisfying complaints. Once you have created an effective complaint-resolution plan, you can establish other important customer-service programs. Steps that are recommended are to simplify the situation, determine the cause of the problem, craft a solution, and remain firm to company standards and procedures.
1.9	Customer Service – Businesses directing company activities toward satisfying customers' needs and wants.
1.9	Relationship Building – CRM (Customer Relationship Management) is identifying and understanding customers to form a strong, long-lasting business relationship.
1.9	Return Policy - the rules retail merchants establish to manage the process by which customers return or exchange unwanted or defective merchandise that they have purchased previously.