**POSTTEST KEY**

**OBJECTIVE A**

 1. **d Pay stub.** A pay stub is a piece of personal financial information—it shows the wages a person earned during a certain period of time. Sales invoices, expense reports, and
accounts payable records are all examples of business-related financial information.
 (5 points)

 2. **a Accounts receivable record.** An accounts receivable record (record of money owed to the business) is a piece of business-related financial information. A school-loan document, a pay stub, and a sales receipt from purchasing a new mattress are all examples of personal financial information. (5 points)

 3. **c Gathered and organized in some way.** In its raw state, financial data aren’t very useful. The data need to be gathered and organized in a way that makes sense and are useful for the business. Information that is formatted in HTML, listed in order of size, or inserted into a spreadsheet is not necessarily more useful. The important thing is gathering and organizing the data in a meaningful way. (5 points)

 4. **a Anyone who needs to use it.** Financial information is not useful unless it is understandable by anyone who needs to use it. This might include more than just accountants and managers. Not everyone who needs to use financial information will have a background in finance. Financial information may not be understandable to every single person, but that doesn’t mean it isn’t useful—it just has to be understood by the people who need to use it.
 (5 points)

 5. **c Not be considered understandable.** Financial information is not useful unless it is understandable by anyone who needs to use it. This might include more than just accountants and managers. Not everyone who needs to use financial information will have a background in finance, so industry-specific jargon should be avoided. Financial information that contains jargon may be relevant, complete, or neutral, but if it is not understandable, it will not be useful. (5 points)

 6. **c Timely.** For financial information to be useful, it must be relevant (applicable to its users’ purposes), and to be relevant, it must also be timely (up to date). Financial information does not necessarily need to be certified by an auditor, presented digitally, or perfect to be considered relevant. (5 points)

 7. **a The amount of money left in the budget for the fiscal year.** For financial information to be useful, it must be relevant (applicable to its users’ purposes). A company that is considering purchasing new machinery should look at its budget for the year and determine if there are enough funds to cover the equipment’s cost. This is an example of a relevant piece of information. How much money the company spent on machinery five years ago is not relevant, since it is not timely (up to date). The amount of money spent by a competing company on production line equipment is not relevant to the situation at hand. The current salaries of top company executives are not relevant, either. (5 points)

**POSTTEST KEY** (cont’d)

 8. **c Complete.** For financial information to be reliable, it must not only be accurate, but also complete. Financial information may be understandable and relevant, but this does not necessarily make it reliable. Financial information is not reliable if it’s biased. (5 points)

 9. **a Neutral.** If a business wants to prepare reliable financial reports, it must be neutral, or impartial. This means the business has put no bias into the reports, either positive or negative. A business does not necessarily need any certifications to prepare reliable financial reports, although the more education and experience its accountants have the better. A business can generally create a reliable financial report without supervision. (5 points)

 10. **c Reliable.** Reliable financial information conforms to specific standards accepted in the U.S. and around the world. It wouldn’t be good if businesses made up their own rules and procedures for processing financial information. Financial information should also be understandable, relevant, and comparable, but these characteristics are not described in this
example. (5 points)

11. **b Consistent.** For financial information to be comparable, it must also be consistent. It is
difficult to compare current financial information to past financial information if the same methods and formats have not been used. Financial information does not necessarily need to be current or digital to be comparable to other financial information. It is also difficult to compare private financial information to other financial information. (5 points)

 12. **d Do it the same way every time.** There may be more than one acceptable way to “treat”
a piece of financial information, but it’s important to do it the same way every time. This keeps things consistent. It may not be necessary to keep paper copies of receipts. Businesses should follow common accounting standards instead of creating their own. Competitors may or may not be able to view a business’s financial information, depending on whether the company is public or private. (5 points)

**OBJECTIVE B**

 13. **d Business decision-making.** In business, the most important application of financial
information is managerial decision-making. Useful financial information gives businesses the knowledge they need to keep the business running as it should. Trend identification
is another application of financial information, but it is secondary to business decision-making. Financial information may be used to determine salaries or research the target market, but these are not its primary applications. (5 points)

14. **a Reduce expenses.** Switching to a different Internet provider to save money on a monthly bill is a way to reduce expenses. Businesses often use financial information to determine ways to reduce expenses. Saving money on the Internet bill is not the same as increasing sales, creating a budget, or planning business expansion. (5 points)

**POSTTEST KEY** (cont’d)

 15. **c Increase sales.** Businesses often want to add new products to their offerings as a way to increase sales. They need to study financial information to make sure they can afford to
do so. Adding new products is not managing debt, checking on the competition, or
reducing expenses. (5 points)

 16. **c Budgets.** Businesses use financial information to create and adjust budgets. It is extremely difficult to run a business without a budget. Businesses don’t intentionally create and adjust trends; however, they can use financial information to identify them. Managers should not create their own accounting standards; rather, they should use a common system such as GAAP or IFRS. A business’s mission statement says what the organization hopes to achieve; it is not necessarily tied to financial information. (5 points)

17. **a Manage debt.** Paying off a loan early is one way a business can manage its debt. Analyzing financial information helps managers understand the different ways its debt can be
managed. Paying off a loan early is not the same as increasing sales, making purchases, or creating budgets. (5 points)

 18. **a Enter into legal agreements.** Companies study financial information to ensure the business agreements they enter into have acceptable terms. Entering into legal agreements is not the same as increasing sales, boosting profitability, or making purchases. (5 points)

19. **b Monitor ongoing business activities.** Businesses use updated financial information to monitor their day-to-day business activities and assess how well their strategies are working. They do so by looking at the difference between what they expected to happen and what actually happened. In this example, the business used financial information to monitor its business activities, not to boost profits, acquire new businesses, or manage its debt. (5 points)

20. **d To see how their company compares to the competition.** Public companies are required to disclose many of their financial statements. Managers might look at this financial information to see how their company compares to the competition. The information would not necessarily show them how to increase sales or manage debt. A competitor’s financial information does not help a business to monitor its own operations. (5 points)

**Suggested** Criterion Level: 80 points