**LEARNING GUIDE KEY**

**Objective A**

1. Financial informationis any record or data related to an individual’s or business’s financial activities. (3 points)

2. Answers will vary but should include at least three examples of personal financial information, such as: (15 points; 5 points each)

* + Credit card transactions
  + Bank deposits and withdrawals
  + Loans (school, car, house, etc.)
  + Wages/Salary
  + Bills (rent, utilities, wireless, etc.)
  + Investments, savings accounts, and other assets

3. Answers will vary but should include at least three examples of business-related financial   
information, such as: (15 points; 5 points each)

* + Accounts payable records
  + Accounts receivable records
  + Receipts
  + Sales invoices
  + Corporate credit card transactions
  + Loan documents
  + Expense reports
  + Income statements
  + Records of other assets

4. Financial information must be understandable, not just to the people who prepare it, but to everyone who needs to use it. Accountants and others in the field of finance may have in-depth knowledge of financial data, but their reports will be seen by managers, employees,   
investors, etc., who may not be as skilled in the finer points of financial interpretation. For this reason, useful financial information is presented in ways that are understandable, both in the language used and in the layout and format of the report. (3 points)

5. A good definition of relevant is “appropriate to the situation at hand.” With so many financial data available within a business, it can be difficult to distinguish what’s relevant from what’s irrelevant. The people who receive financial information need it to be applicable to their purposes. For example, a business deciding whether or not to hire new employees may need to analyze a different set of financial data than a potential investor determining whether or not the company will provide a good rate of return for her/his money.

In addition to being applicable to its audience, relevant financial information is also *timely*. This means that it’s up to date. In many situations, outdated financial information is useless. (3 points)

**LEARNING GUIDE KEY** (cont’d)

6. When a user receives financial information, s/he should be able to safely assume that the   
information is accurate. This means that the information is not only error-free but is also   
*complete*. Reliable financial information is also neutral and conforms to specific standards   
accepted in the U.S. and around the world. (3 points)

7. An important characteristic of reliable financial information is neutrality. Neutral means impartial or unbiased. Financial reports should focus on the numbers, not how they’ll be interpreted or analyzed by those who receive them. It might be tempting to present financial data in a way that makes the company look better (or worse, depending on the circumstances), but biased information is not reliable or useful. In addition, it’s unethical to attempt to influence users of financial information. Financial information must stick to the facts! (3 points)

8. Users must be able to compare current financial information to past financial information. If they can’t, it’s impossible to see what financial changes have occurred in the business, either positive or negative.

A business’s financial information should also be comparable to data from similar businesses. Potential investors want to see how one company stacks up against another company in the same industry. Businesses also want to know how their company is performing in relation to its competitors. Comparability is another reason businesses conform to widely accepted   
accounting standards—it provides across-the-board consistency that benefits everyone.  
 (3 points)

9. The important thing is to treat the financial information the same way each and every time.  
 (2 points)

**OBJECTIVE B**

10. Knowing how to keep a business running smoothly is the most important use of financial   
information. Businesses rely on financial information when making business decisions and figuring out their short-term and long-term actions. (5 points)

11. Businesses examine financial information to see how they are spending their money and where cuts could be made. For instance, a business determines that its sales team is spending a lot of money taking clients to dinner. The business could cut costs by limiting how much salespeople can spend on client dinners. (5 points)

12. If a business wants to increase sales, it might look at financial information to determine whether the company can afford to spend more on promotion. A buy-one, get-one-free offer, for example, may boost sales, but the promotion makes sense only if the business can afford to give away the extra products. (5 points)

13. A company’s sales may be strong, but that doesn’t necessarily mean that it’s making as much profit as the business needs. If profits are low, a business may analyze financial information to see if prices are too low or costs are too high. Once this is known, the business may decide to increase prices or look for ways to reduce costs. (5 points)

**LEARNING GUIDE KEY** (cont’d)

14. It is difficult to manage a business’s finances without using a budget. Businesses look at financial information to determine how much money they have available as well as how to allocate it. Financial information can also help adjust budgets as necessary. Perhaps one department consistently goes over budget, while another department is under budget. Having this information would help modify the budget appropriately. (5 points)

15. Many businesses carry some debt, and that’s OK as long as they manage it properly. One type of debt may be a loan the business took out so that it could buy a piece of equipment. If the equipment enables the business to produce more and increase its profit, the business may look at its financial information and decide to use some of the extra cash to pay off the debt early. (5 points)

16. Most businesses want to grow. And growth can come in many forms—developing a new product, expanding into a new market, hiring more employees, etc. Growth should create more income for a company, but it costs money to get started. When planning its strategies, businesses use financial information to determine what they can afford and how to finance it. For example, a bike shop wants to extend its evening and weekend hours. Before this happens, the shop will have to review its finances to determine whether it can afford to pay the extra wage and utility expenses that result from longer hours. (5 points)

17. Businesses use financial information to ensure that their legal agreements have acceptable prices and payment terms. Let’s say a business hires an IT consultant to update its network and all its computers. The business will use financial information to determine what it can pay the IT consultant and when. If these terms are acceptable to the consultant, the business and the IT consultant would sign a legal agreement outlining their agreed-upon terms. If the consultant won’t accept the terms, the business may have to negotiate further. (5 points)

18. 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. (5 points)

19. Businesses don’t just look at their own financial information. They also examine competitors’ financial information to determine how well their companies are performing in comparison to their competition. They may also analyze another company’s financial information to see if the business is worth acquiring (buying). (5 points)

**Suggested** Criterion Level: 80 points