



CAREER CLUSTER

Finance

CAREER PATHWAY

Accounting

INSTRUCTIONAL AREA

Financial Analysis

ACCOUNTING APPLICATIONS SERIES EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the 21st Century Skills, Performance Indicators and Event Situation. You will have up to 10 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 10 minutes to make your presentation to the judge (you may have more than one judge).
- You will be evaluated on how well you meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

21st CENTURY SKILLS

- Critical Thinking – Reason effectively and use systems thinking.
- Problem Solving – Make judgments and decisions, and solve problems.
- Communication – Communicate clearly.
- Creativity and Innovation – Show evidence of creativity.

PERFORMANCE INDICATORS

1. Explain the concept of accounting.
2. Demonstrate the effects of transactions on the accounting equation.
3. Describe the nature of income statements.
4. Describe the nature of balance sheets.
5. Describe the nature of cash flow statements.

EVENT SITUATION

You are to assume the role of a general accountant at HODGES AND SONS, one of the largest accounting firms in the country. The firm has an opportunity to contract a new client. The senior partner (judge) has asked you to meet with the potential client to establish the relationship and explain financial accounting principals. The senior partner (judge) has asked for a briefing of the meeting before you meet with the potential client.

The potential client is extremely worried about his finances. Unfortunately, his previous accounting firm stole thousands of dollars due to fraudulent accounting practices. The actions of the previous firm lead to the potential client filing for bankruptcy several years ago. The potential client has decided to take an active role in his finances and would like to understand the true concept of financial accounting; how various financial transactions effect the accounting equation. He has requested that you explain in detail the nature of his income statement, balance sheet and cash flow statements for 2015 which he has provided the firm. You will meet with the senior partner (judge) to present findings prior to meeting with the potential client.

The senior partner (judge) is expecting the following information:

- Explain the concept of financial accounting.
- Describe how financial transactions effect the accounting equation.
- Explain the nature of income statements using the client's actual income statement.
- Discuss the nature of balance sheets using the client's balance sheet.
- Explain the components of a cash flow statement and why the cash flow statement is so important to any business.

You will brief the senior partner (judge) in a role-play to take place in the senior partner's (judge's) office. The senior partner (judge) will begin the role-play by greeting you and asking to hear your findings. After you have conducted the briefing and have answered the senior partner's (judge's) questions, the senior partner (judge) will conclude the role-play by thanking you for your work.

Client's 2015 Income Statement and Balance Sheet:**1. Financial Statement #1**

Potential Client Income Statement For the Year Ended December 31, 2015		
Operating Revenue		
Net Sales	540,253	
Cost of Services Sold	23,420	
Gross Profit on Operations	516,833	
Operating Expenses		
Selling Expenses		
Advertising Expense	995	
Delivery Expense	685	
Supplies Expense—Sales	315	
Total Selling Expenses	1995	
Administrative Expenses		
Depr. Expense—Office Equipment	400	
Depr. Expense—Computer System	620	
Insurance Expense	880	
Payroll Taxes Expense	250	
Rent Expense	2,543	
Salary Expense—Administrative	5,255	
Supplies Expense—Administrative	325	
Uncollectible Accounts Expense	345	
Utilities Expense	550	
Total Administrative Expenses	11,168	
Total Operating Expenses	13,163	
Income from Operations	503,670	
Other Revenue and Expenses		
Interest Revenue	500	
Net Income before Federal Income Tax	504,170	
Federal Income Tax Expense	2,044	
Net Income after Federal Income Tax	502,126	
Units of Services Sold	1285	

2. Financial Statement #2:

Ryan the Rapper		
Balance Sheet		
December 31, 2015		
Assets		
	Debits	Credits
Cash	502,126.00	
Accounts Receivable - Christianson	1,875.00	
Equipment – DJ Equipment	265,000.00	
Total Assets		769,001.00
Liabilities		
Accounts Payable – Phil Good Processing	6,275.00	
Accounts Payable – DJ Aspires	10,245.00	
Notes Payable - Funtimes	500.00	
Total Liabilities		17,020.00
Owner's Equity		
Capital - Domingo		751,981.00
Total Liabilities and Owner's Equity		769,001.00

JUDGE'S INSTRUCTIONS

DIRECTIONS, PROCEDURES AND JUDGE'S ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Procedures
2. 21st Century Skills and Performance Indicators
3. Event Situation
4. Judge Role-play Characterization
Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
5. Judge's Evaluation Instructions
6. Judge's Evaluation Form

Please use a critical and consistent eye in rating each participant.

JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of a general accountant at HODGES AND SONS, one of the largest accounting firms in the country. The firm has an opportunity to contract a new client. You have asked a general accountant from the firm (participant) to meet with the potential client to establish the relationship and explain financial accounting principals. You have asked for a briefing of the meeting before the accountant (participant) meets with the potential client.

The potential client is extremely worried about his finances. Unfortunately, his previous accounting firm stole thousands of dollars due to fraudulent accounting practices. The actions of the previous firm lead to the potential client filing for bankruptcy several years ago. The potential client has decided to take an active role in his finances and would like to understand the true concept of financial accounting; how various financial transactions effect the accounting equation. He has requested that you explain in detail the nature of his income statement, balance sheet and cash flow statements for 2015 which he has provided the firm. The accountant (participant) will meet with you to present findings prior to meeting with the potential client.

You are expecting the following information:

- Explain the concept of financial accounting.
- Describe how financial transactions effect the accounting equation.
- Explain the nature of income statements using the client's actual income statement.

- Discuss the nature of balance sheets using the client's balance sheet.
- Explain the components of a cash flow statement and why the cash flow statement is so important to any business.

The participant will present the findings to you in a role-play to take place in your office. You will begin the role-play by greeting the participant and asking to hear about his/her ideas.

During the course of the role-play you are to ask the following questions of each participant:

1. Explain what the other revenue/expense section of an income statement is and give an example of another type other revenue (not interest income)?
2. How did you feel the potential client did in 2015 based on the income statement and balance sheet?

Once the accountant (participant) has presented the findings and has answered your questions, you will conclude the role-play by thanking the accountant (participant) for the work.

You are not to make any comments after the event is over except to thank the participant.

SOLUTION:

1. Explain the concept of accounting

The definition of accountant is best explained by a system of recording and summarizing business and financial transactions. It can be further defined as an information and measurement system that *identifies*, *records*, and *communicates* relevant, reliable, and comparable information about an organization's business activities to interested users.

The concept of accounting overall can be broken down into 7 smaller concepts:

Business entity concept – The accounting process is carried out for the business separately from the actual person that owns it.

Dual aspect concept – Every transaction has two affects (assets and liabilities).

Going concern concept - The organization is going to be in existence for an indefinite period of time and is not likely to close down the business in the shorter period of time. This affects the valuation of assets and liabilities.

Accounting period concept - The indefinite period of time is divided into shorter time periods, each one being in the form of Accounting period, in order to facilitate the preparation of financial statements on periodical basis.

Cost concept - According to this concept, only those transactions find place in the accounting records, which can be expressed in terms of money.

Money Management concept - According to this concept, only those transactions find place in the accounting records, which can be expressed in terms of money

Matching concept - According to this concept, while calculating the profits during the accounting period in a correct manner, all the expenses and costs incurred during the period, whether paid or not, should be matched with the income generated during the period

Demonstrate the effects of transactions on the accounting equation

The equation for accounting is: Assets = liabilities +owners' equity (shareholders equity if corporation)

The basic equation shows that a company can fund the purchase of an asset with other assets or fund it with liabilities or shareholders' equity (amount of money by owner or retained earnings by the shareholders). Also, in the same explanation, liabilities (or monies owned) can be paid down with assets, like cash or by taking on more liabilities, like debt. The formula must always be in balance and can be show clearly on the balance sheet.

2. Describe the nature of income statements.**Financial Statement #1**

Potential Client Income Statement For the Year Ended December 31, 2015	
Operating Revenue	
Net Sales	540,253
Cost of Services Sold	23,420
Gross Profit on Operations	516,833
Operating Expenses	
Selling Expenses	
Advertising Expense	995
Delivery Expense	685
Supplies Expense—Sales	315
Total Selling Expenses	1995
Administrative Expenses	
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Supplies Expense—Administrative	325
Uncollectible Accounts Expense	345
Utilities Expense	550
Total Administrative Expenses	11,168
Total Operating Expenses	13,163
Income from Operations	503,670
Other Revenue and Expenses	
Interest Revenue	500
Net Income before Federal Income Tax	504,170
Federal Income Tax Expense	2,044
Net Income after Federal Income Tax	502,126
Units of Services Sold	1285

The income statement is a financial statement that shows a company's financial performance over a specific accounting period. The bolded areas on the income statement should be explained as follows:

Operating Revenue – \$540,253 sales generated by a company's day-to-day business activities which means monies posted from selling the companies services.

Cost of Services Sold - \$23,420 is the amount it cost this business to produce the service specifically.

Operating Expenses - \$13,163 are a combination of selling and administrative expenses. These are the expenses that are not directly associated with the production of the service.

Income from Operations - \$503,670 is the amount of gross profit on operations – operating expenses.

Other Revenue and Expenses - \$500 is the amount this business earned from receiving interest from the bank by keeping their money in a deposit account.

Net Income before Federal Income tax - \$504,170 is the amount of profit that the business earned before actually paying \$2,044 in federal taxes.

Net Income after Federal Income taxes - \$502,126 is the bottom line amount of profit that the business earned after paying all their expenses and federal taxes.

Units of Services sold – The amount of services sold to clients for the accounting period.

3. Describe the nature of balance sheets.

Potential Client		
Balance Sheet		
December 31, 2015		
Assets	Debits	Credits
Cash	502,126.00	
Accounts Receivable - Christianson	1,875.00	
Equipment – DJ Equipment	265,000.00	
Total Assets		769,001.00
Liabilities		
Accounts Payable – Phil Good Processing	6,275.00	
Accounts Payable – DJ Aspires	10,245.00	
Notes Payable - Funtimes	500.00	
Total Liabilities		17,020.00
Owner's Equity		
Capital - Domingo		751,981.00
Total Liabilities and Owner's Equity		769,001.00

The balance sheet is a statement of the assets, liabilities, and capital of a business or other organizations as a particular point in time. The bolded areas on the balance sheet should be explained as follows:

Assets – \$769,001Resources that are owned by a company and have future economic value that can be measured and expressed in dollars. In this statement the assets are made up of cash, accounts receivable and equipment.

Liabilities -\$17,020 are obligations or debts owed to other people/business for the company's operations.

Owner's Equity - \$751,981. This represents the owner's investment in the business minus any withdrawals from the business plus the net income since the business began.

4. Describe the nature of cash flow statements.

The purpose of the cash flow statement or statement of cash is to provide information about a company's gross receipts and gross payments for a specified period of time. The cash statement can tell us a lot about the liquidity of company. Cash flow statements are broken down by:

Cash Flows from Operating Activities – from the day-to-day business of the organization.

Cash Flows from Investing Activities – shows the cash outlay for capital expenditures and acquisitions.

Cash Flows from Financing Activities – cash received from borrowing and cash used to repay loans. Shows cash received from sale of stock any cash paid out for dividends.

Each section shows Cash in's and cash out's and show the net increase in cash which should be a positive number. If a company is operating at a negative net increase in cash that would send up a red flag to show us that the company does not have enough cash flowing to make their obligations. This should be monitored closely.

ANSWERS TO JUDGE'S QUESTIONS

1. Explain what the other revenue/expense section of an income statement is and give an example of another type other revenue (not interest income)?

The “Other Revenue,” or “Other Expenses,” section of an income statement usually refers to money or expenses that come in from activities outside of a company’s core operations. Examples could vary as long as the student explains that it is not normal business activities. For example: if you sell shoes and own a store but want to rent space to another business; you could list rental income on balance sheet. You could also have a soda machine in the store and have money coming in for the machine. The expenses could be associated with these activities. i.e. Maintenance for soda machine.

2. How did you feel Ryan the Rapper did in 2015 based on the income statement and balance sheet?

Ryan the Rapper is a very healthy company according to the income statement and balance sheet for 2015. The income statement shows us that the company generated enough revenue from the business in order to pay all the expenses and at the end made a solid profit. The balance sheet also measures the stability and shows that the company is very liquid and is managing all assets to leverage their liabilities.

JUDGE'S EVALUATION INSTRUCTIONS

Evaluation Form Information

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators being demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event chairperson and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.

**ACCOUNTING APPLICATIONS SERIES, 2017**

Participant: _____

**JUDGE'S EVALUATION FORM
SAMPLE**

I.D. Number: _____

INSTRUCTIONAL AREA:

Financial Analysis

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Explain the concept of accounting?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Demonstrate the effects of transactions on the accounting equation?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Describe the nature of income statements?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Describe the nature of balance sheets?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Describe the nature of cash flow statements?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
21st CENTURY SKILLS						
6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	
TOTAL SCORE						