



**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 21<sup>st</sup> 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 demonstrate the 21<sup>st</sup> Century Skills and meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

**21<sup>st</sup> CENTURY SKILLS**

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- 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**

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- Describe the need for financial information.
- Describe the nature of income statements.
- Explain the nature of balance sheets.
- Explain record keeping procedures for tax accounting.
- Assess financial accounting fraud risk.

## **EVENT SITUATION**

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You are to assume the role of a newly hired accountant at E-BIKE AND MORE, a new electric bike shop. The owner of the shop (judge) wants your help in setting up an accounting system.

On the tour of the new shop, you see that there is a show room with various models of e-bikes, components and accessories. You also meet the expert salespeople to understand the sales process.

You inform the owner (judge) that one of the first tasks of setting up the new system is to identify all the accounts that will be used, classify the accounts (assets, liabilities, equity, revenue, expense) and determine the appropriate financial statement for reporting the account.

The owner (judge) provides you a list of accounts. You will classify the accounts and determine whether the account will be found on the income statement, statement of owner's equity or the balance sheet. The shop owner (judge) is eager to understand the purpose and significance of these financial statements in managing the business's financial affairs. The owner (judge) also wants to understand the documentation needed for tax compliance and preparation of tax returns, and the major accounting risks they might have and how to prevent them.

List of Accounts:

- Electric Bikes Inventory
- Employee Wages
- Cash in the shop's bank account
- Outstanding loans to expand the shop
- Customer Accounts (amounts owed by customers for bike purchases)
- Owner's Initial Investment
- Tools and Equipment for Repairs

You will present the information to the owner (judge) in a role-play to take place in the owner's (judge's) office. The owner (judge) will begin the role-play by greeting you and asking to hear the information. After you have presented ideas and have answered the owner's (judge's) questions, the owner (judge) will conclude the role-play by thanking you for your work.

## JUDGE INSTRUCTIONS

### **DIRECTIONS, PROCEDURES AND JUDGE ROLE**

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

1. Procedures, 21<sup>st</sup> Century Skills and Performance Indicators
2. Event Situation
3. Judge Role-Play Characterization  
Allow the participants to present their ideas without interruption, unless you are asked to respond. 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.
4. Judge Evaluation Instructions and Judge Evaluation Form  
Please use a critical and consistent eye in rating each participant.

### **JUDGE ROLE-PLAY CHARACTERIZATION**

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You are to assume the role of the owner of E-BIKE AND MORE, a new electric bike shop. You want the new accountant (participant) to help in setting up an accounting system.

On the tour of the new shop, the accountant (participant) sees that there is a show room with various models of e-bikes, components and accessories. The accountant (participant) also meets the expert salespeople to understand the sales process.

The accountant (participant) informs you that one of the first tasks of setting up the new system is to identify all the accounts that will be used, classify the accounts (assets, liabilities, equity, revenue, expense) and determine the appropriate financial statement for reporting the account.

You provide the accountant (participant) a list of accounts. The accountant (participant) will classify the accounts and determine whether the account will be found on the income statement, statement of owner's equity or the balance sheet. You are eager to understand the purpose and significance of these financial statements in managing the business's financial affairs. You also want to understand the documentation needed for tax compliance and preparation of tax returns, and the major accounting risks they might have and how to prevent them.

List of Accounts:

- Electric Bikes Inventory
- Employee Wages
- Cash in the shop's bank account
- Outstanding loans to expand the shop
- Customer Accounts (amounts owed by customers for bike purchases)
- Owner's Initial Investment
- Tools and Equipment for Repairs

The participant will present information 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. How often do we need to file business taxes?
2. Are there any other documents or statements that you need to create and control as our accountant?

Once the accountant (participant) has presented information 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

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### I. List of Accounts:

- Electric Bikes Inventory: Asset, Balance Sheet
- Employee Wages: Expense, Income Statement
- Cash in the shop's bank account: Asset, Balance Sheet
- Outstanding loans to expand the shop: Liability, Balance Sheet
- Customer Accounts (amounts owed by customers for bike purchases): Asset, Balance Sheet
- Owner's Initial Investment: Equity, Balance Sheet
- Tools and Equipment for Repairs: Asset, Balance Sheet

### II. Purpose of the Two Financial Statements:

- Income Statement: The income statement provides a snapshot of the shop's financial performance over a specific period, usually a month, quarter, or year. It outlines the revenues generated from bike sales and the expenses incurred in running the shop. The bottom line, net income or net loss, indicates the profitability of the shop during that period.
- Balance Sheet: The balance sheet provides a snapshot of the shop's financial position at a specific moment in time. It lists all assets (e.g., bikes, cash), liabilities (e.g., loans), and equity (e.g., owner's investment) accounts, allowing the owner to see what the shop owns and owes. The balance sheet adheres to the fundamental accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . It's a critical tool for assessing the shop's solvency and overall financial health.

### III. Effective record-keeping is crucial for small businesses to manage their finances, comply with tax laws, and minimize tax liabilities. Here are examples of what a shop owner should do:

- Separate Business and Personal Finances: maintain separate bank accounts for business and personal expenses.
- Track Income: record all sources of income, including sales, services rendered, loans, and investments. Keep copies of sales invoices, receipts, and payment confirmations. Use accounting software or a ledger to record income transactions promptly.
- Expense Records: maintain detailed records of all business expenses. Categorize expenses by type (e.g., rent, utilities, supplies, salaries) to simplify tax reporting. Keep receipts, invoices, and supporting documentation for all expenses.
- Asset and Depreciation Records: document the acquisition and disposal of assets such as equipment, vehicles, and real estate. Include purchase dates, costs, depreciation schedules, and any improvements. Keep records of depreciation expenses, as they may be deductible on your tax return.
- Inventory Management: maintain accurate records of inventory levels, purchases, and sales. Implement a consistent inventory valuation method (e.g., FIFO or LIFO). Regularly reconcile physical inventory counts with recorded levels.
- Payroll Records: Keep payroll records, including timesheets, payroll tax filings, and employee benefit documentation. Ensure accurate recording of employee wages, deductions, and tax withholdings.

- IV. Accounting fraud can pose significant risks to small businesses. The following are examples of accounting fraud risks in a small business and ways to prevent them:
- **Expense Fraud:** Risk: Employees or management may submit false or inflated expense reports, leading to unauthorized reimbursements. Prevention: Implement a clear expense policy that outlines what expenses are reimbursable and the documentation required. Require receipts for all expenses and use expense management software to track and verify claims.
  - **Cash Theft and Embezzlement:** Risk: Employees or trusted individuals may misappropriate cash from the business, such as skimming cash sales or diverting funds from bank deposits. Prevention: Implement segregation of duties so that multiple individuals are involved in handling cash and financial transactions. Regularly reconcile cash registers, sales records, and bank deposits. Conduct background checks on employees with access to cash or financial systems.
  - **Invoicing and Billing Fraud:** Risk: Employees or third parties may create fictitious invoices or manipulate billing records to divert funds away from the business. Prevention: Establish a strong approval process for invoices, requiring multiple individuals to review and approve payments. Verify vendor information and legitimacy by cross-referencing invoices with purchase orders and contracts. Regularly review accounts payable and accounts receivable records for unusual patterns.
  - **Payroll Fraud:** Risk: Employees may engage in various payroll schemes, such as ghost employees, falsified hours, or unauthorized pay raises. Prevention: Maintain accurate and up-to-date personnel records, and promptly remove terminated employees from the payroll. Implement time and attendance systems with controls to prevent timecard manipulation. Regularly audit payroll records and compare them to HR data.

## EVALUATION INSTRUCTIONS

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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 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 director 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 <sup>th</sup> 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 <sup>th</sup> 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 <sup>th</sup> percentile of business personnel performing this performance indicator.



## ACCOUNTING APPLICATIONS SERIES 2024

### JUDGE'S EVALUATION FORM ASSOCIATION EVENT 1

Participant: \_\_\_\_\_

ID Number: \_\_\_\_\_

### INSTRUCTIONAL AREA: Financial Analysis

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
<b>PERFORMANCE INDICATORS</b>						
1.	Describe the need for financial information?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Describe the nature of income statements?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Explain the nature of balance sheets?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Explain record keeping procedures for tax accounting?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Assess financial accounting fraud risk?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
<b>21<sup>st</sup> CENTURY SKILLS</b>						
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	
<b>TOTAL SCORE</b>						