



CAREER CLUSTER
Finance

CAREER PATHWAY
Accounting

INSTRUCTIONAL AREA
Financial Analysis

FINANCIAL ACCOUNTING EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills—the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills—the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills—the ability to take a concept from an idea and make it real
- Priorities/time management—the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

1. Interpret financial statements.
2. Describe the nature of income statements.
3. Explain the nature of balance sheets.
4. Discuss the role of ethics in accounting.
5. Explain the nature of accounting standards.

CASE STUDY SITUATION

You are a recently hired controller at SWAN LAWN CARE, a lawn care business founded by the firm's sole proprietor. The proprietor has hired you to formalize the company's financial reporting as it begins discussions with possible lenders and prospective investors and partners. You have been asked to finalize the balance sheet and explain financial statements for the month ending on July 31, 2018.

You have received the following adjusted trial balance in order to finalize the balance sheet.

SWAN LAWN CARE
ADJUSTED TRIAL BALANCE
JULY 31, 2018

Account Name	Debits	Credits
Cash	2,470	
Accounts Receivable	1,700	
Interest Receivable	25	
Note Receivable	1,250	
Prepaid Insurance	250	
Equipment	4,600	
Accumulated Depreciation		25
Land	3,750	
Accounts Payable		620
Unearned Revenue		1,200
Wages Payable		400
Interest Payable		20
Notes Payable		4,000
S. Davidson, Capital		9,000
S. Davidson, Drawing	2,000	
Mowing Revenue		5,600
Interest Revenue		25
Wages Expense	4,300	
Fuel Expense	410	
Interest Expense	60	
Insurance Expense	50	
Depreciation Expense	25	
TOTALS	<u>20,890</u>	<u>20,890</u>

YOUR CHALLENGE

Using the income statement and statement of owner's equity provided below, you need to finalize the balance sheet to present to the proprietor at a meeting. The proprietor knows a lot about lawn care, but very little about accounting and the interrelationship between the different financial statements. You need to explain, in layman's terms, the purpose of the different statements and

what each represents. You also need to discuss what the statements say about the general financial health of the SWAN LAWN CARE.

SWAN LAWN CARE	
Income Statement	
For the Month Ending July 31, 2018	
Revenues	
Mowing Revenue	\$5,600
Total Revenues	5,600
Expenses	
Wages expense	4,300
Fuel expense	410
Insurance expense	50
Depreciation expense	25
Total Expenses	4,785
Operating Income	815
Other Revenues/Gains and Expenses/Losses	
Interest revenue	25
Interest expense	(60)
Net Income	<u>\$780</u>

SWAN LAWN CARE	
Statement of Owner's Equity	
For the Month Ending July 31, 2018	
S. Davidson, Capital, May 1, 2018	\$9,000
Add: Additional investments	0
Net Income	780
Less: S. Davidson, Drawing	<u>(2,000)</u>
S. Davidson, Capital, May 31, 2018	<u>\$7,780</u>

SWAN LAWN CARE			
Balance Sheet			
July 31, 2018			
Assets		Liabilities	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash		Accounts Payable	\$620
Accounts Receivable		Unearned Revenue	1,200
Interest Receivable		Wages Payable	400
Note Receivable		Interest Payable	20
Prepaid Insurance		Notes Payable	4,000
Total Current Assets		Total Current Liabilities	6,240
Equipment	4,600	Owner's Equity	
Less: Accumulated Depreciation	(25)	S. Davidson, Capital	7,780
Land	<u>3,750</u>		
Total Assets		Total Liabilities & Owner's Equity	<u>\$14,020</u>

SOLUTION

SWAN LAWN CARE			
Balance Sheet			
July 31, 2018			
Assets		Liabilities	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	\$2,470	Accounts Payable	\$620
Accounts Receivable	1,700	Unearned Revenue	1,200
Interest Receivable	25	Wages Payable	400
Note Receivable	1,250	Interest Payable	20
Prepaid Insurance	250	Notes Payable	4,000
Total Current Assets	5,695	Total Current Liabilities	6,240
Equipment	4,600	Owner's Equity	
Less: Accumulated Depreciation	(25)	S. Davidson, Capital	7,780
Land	3,750		
Total Assets	\$14,020	Total Liabilities & Owner's Equity	\$14,020

Key Points

- Generally Accepted Accounting Principles (GAAP) govern the preparation of financial statements. The cost principle, the revenue recognition principle, the matching principle, the monetary unit assumption and the time period assumption all influence the development of a firm's financial statements.
- The purpose of the income statement is to answer the question, "did the organization operate at a profit during the time period under consideration?" The income statement reports the operating activities of the firm. Many people consider the income statement to be like a movie, in that it tells a whole story (about revenues and expenses) for the given time period.
- An income statement can be called many things. Income statement, profit-and-loss (P&L) statement, and statement of operations are all names for the same financial statement. They all report the revenues, expenses and resulting profit or net income for a specific time period.
- The statement of owner's equity reports the change in the owner's position from one time period to the next. Most changes in owner's equity relate to generating and distributing earnings. If the proprietor brings in a partner or new investors, the statement of partners' capital will show the changes in each partner's capital account for the time period being

reported on. It has the same format as the statement of owner's equity except that it includes a column for each partner and a total column for the company.

- The balance sheet shows the company's financial position at a given point in time. It is like a photograph or snapshot of the balances in the company's accounts at the end of an accounting time period. It shows what the company owns, its assets or its prior investing decisions, and it shows how the company paid for (financed) its assets through either borrowed money (what is owes—liabilities) or through equity (contributed from owners or generated from profits).
- The balance sheet must prove that: $\text{Assets} = \text{Liabilities} + \text{Equity}$. This is the basic accounting equation and all transactions recorded in the company's accounting system MUST keep this equation in balance. The balance sheet, therefore, will always balance.
- The general financial health of the company could be considered on two accounts: 1) current liabilities are greater than current assets. This is generally not viewed as a favorable situation, as the company may not be able to generate enough cash to pay its short-term debts and obligations; and 2) the capital account has a smaller balance at the end of the month due to a large drawing by the owner.



FINANCIAL ACCOUNTING, 2019

Participant: _____

JUDGE'S EVALUATION FORM

Sample Event

I.D. Number: _____

INSTRUCTIONAL AREA

Financial Analysis

Did the participant:

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Interpret financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Describe the nature of income statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Explain the nature of balance sheets?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Discuss the role of ethics in accounting?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Explain the nature of accounting standards?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and responses to judge's questions?	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						