



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

- Identify and correct accounting errors.
- Journalize and post adjusting entries.
- Prepare balance sheets.
- Determine business liquidity.
- Explain loan evaluation criteria used by lending institutions.

CASE STUDY SITUATION

STELLA JANITORIAL SERVICE was started two years ago. Because business has been exceptionally good, the owner decided to expand operations by acquiring an additional truck and hiring two more assistants.

To finance the expansion, the owner obtained a bank loan for \$25,000 on July 1, 2019. The loan came with a significant interest rate of 10%, largely since the owner had never borrowed money before and had self-financed the business.

Of the amount loaned, \$10,000 was due on July 1, 2020, with the remaining balance due a year later. The terms of the loan require the owner to maintain a working capital of at least \$10,000 as of December 31, 2019. If these terms are not met, the entire amount of the loan is immediately.

On December 31, 2019, the following Balance Sheet was prepared.

Stella Janitorial Services		
Balance Sheet		
As of December 31, 2019		
Assets		
Current Assets		
Cash	\$	6,500
Accounts Receivable		9,000
Janitorial Supplies		5,200
Prepaid Insurance		<u>4,800</u>
Total Current Assets		25,500
Capital Assets		
Cleaning Equipment (net)	\$ 22,000	
Deliver Truck (net)	<u>34,000</u>	<u>56,000</u>
Total Assets		<u>\$ 81,500</u>
Liabilities & Owner's Equity		
Current Liabilities		
Notes Payable	\$	10,000
Accounts Payable		<u>2,500</u>
Total Current Liabilities		12,500
Long Term Debt		
Notes Payable		<u>15,000</u>
Total Liabilities		27,500
Owner's Equity		
Stella Loughlin, Capital		<u>54,000</u>
Total Liabilities & Owner's Equity		<u>\$ 81,500</u>

The owner presented this Balance Sheet to the bank's loans officer. The loan officer wants the statement audited.

YOUR CHALLENGE

You have been hired by STELLA JANITORIAL SERVICE to audit the financial records and make any adjustments you can find to the Balance Sheet. Upon investigation, you realize that the Balance Sheet presented to the bank was created using a Trial Balance and not an Adjusted Trial Balance. You have found several items that have not been journalized as of December 31, 2019. Namely:

- Earned but unbilled janitorial services were \$5,000
- Janitorial supplies on hand were \$2,500
- Prepaid insurance was a two-year policy dated January 1, 2019
- December expenses incurred but unpaid were \$300
- Interest on the bank loan was not recorded
- The amounts for capital assets were reported net of accumulated amortization of \$4,000 for cleaning equipment and \$5,000 for delivery trucks, as at January 1, 2019. Amortization for 2019 was \$2,000 for cleaning equipment and \$5,000 for delivery trucks.

The first thing you want to do is journalize and post the adjusting entries. After this, you will prepare a corrected Balance Sheet and present this information to the owner. You will also determine if the terms of the bank loan are being met.

Finally, the owner would like to know what working capital is and why the bank is insisting on a \$10,000 threshold.

SOLUTION

Stella Janitorial Service
Balance Sheet
December 31, 2019

Assets	
Current assets	
Cash	\$ 6,500
Accounts receivable (\$9,000 + \$5,000)	14,000
Janitorial supplies (\$5,200 – \$2,700)	2,500
Prepaid insurance (\$4,800 X 1/2)	<u>2,400</u>
Total current assets	25,400
Capital assets	
Cleaning equipment (\$22,000 + \$4,000)	\$26,000
Less: Accumulated amortization—	
cleaning equipment (\$4,000 + \$2,000)	<u>6,000</u>
Delivery trucks (\$34,000 + \$5,000)	\$39,000
Less: Accumulated amortization—	
delivery trucks	<u>10,000</u>
(\$5,000 + \$5,000)	29,000
Total Capital Assets	<u>49,000</u>
Total assets	<u>\$74,400</u>

Liabilities and Owner's Equity

Current liabilities	
Notes payable due within one year	\$10,000
Accounts payable (\$2,500 + \$300)	2,800
Interest payable (\$25,000 X 10% X 6/12)	<u>1,250</u>
Total current liabilities	14,050
Long-term liabilities	
Notes payable, due July 1, 2021 (less current portion)	<u>15,000</u>
Total liabilities	29,050
Owner's equity	
Stella Louglin, Capital	<u>45,350*</u>
Total liabilities and owner's equity	<u>\$74,400</u>

*Capital balance as reported	\$54,000
Add: Earned but unbilled fees	<u>5,000</u>
Less: Janitorial supplies used (\$5,200 - \$2,500)	\$ 2,700
59,000	
Insurance expired (\$4,800 x 1/2)	2,400
Amortization (\$2,000 + \$5,000)	7,000
Expenses incurred but unpaid	300
Interest accrued	<u>1,250</u>
Total	<u>13,650</u>

Capital balance as adjusted \$45,350

STELLA JANITORIAL SERVICE met the terms of the bank loan because current assets exceed current liabilities by \$11,350 (\$25,400 – \$14,050) at December 31, 2019.

Working capital is the difference between current assets and current liabilities. It is important to evaluate as it represents a company's liquidity (ability to pay obligations that become due during the current operating cycle).

EVALUATION INSTRUCTIONS

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 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.



**FINANCIAL ACCOUNTING
2021**

JUDGE'S EVALUATION FORM
Association Event 1

Participant: _____

INSTRUCTIONAL AREA
Financial Analysis

ID Number: _____

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Identify and correct accounting errors?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Journalize and post adjusting entries?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Prepare balance sheets?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Determine business liquidity?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Explain loan evaluation criteria used by lending institutions?	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 response to judge's questions	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						