



Business Virtual Learning

Course: Intro to Business

Lesson: Introduction to Accounting

May 6, 2020



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Objective/Learning Target: Students will be able to:

- (1) Understand the importance of accounting in a business.**
- (2) Describe and understand parts of financial statements.**



Lesson Starter

Why do you think accounting is an important function in a business?

The Importance of Accounting

Please watch the video to understand the importance of accounting especially when starting a business. It will also cover the basics of financial statements, which we will cover some more in today's lesson.





Income Statement

An income statement or profit and loss account is one of the financial statements of a company and shows the company's revenues and expenses during a particular period. It indicates how the revenues are transformed into the net income or net profit.

Paul's Guitar Shop, Inc.
Income Statement
For the Year Ended December 31, 2015

Revenues

Merchandise Sales	\$ 24,800	
Music Lesson Income	<u>3,000</u>	
Total Revenues:		\$ 27,800

Expenses

Cost of Goods Sold	10,200	
Depreciation expense	2,000	
Wage expense	750	
Rent expense	500	
Interest expense	500	
Supplies expense	500	
Utilities expense	<u>400</u>	
Total Expenses:		<u>14,850</u>

Net Income

\$ 12,950

Here is an example of a basic **income statement**. You can see how it is formatted and what key items belong on this financial statement.



Balance Sheet

A balance sheet is a financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time, and provides a basis for computing rates of return and evaluating its capital structure.

Paul's Guitar Shop, Inc.
Balance Sheet
December 31, 2015

Assets

Current Assets	
Cash	32,800
Accounts Receivable	54,000
Inventory	<u>39,800</u>
Total Current Assets	126,600
Fixed Assets	
Leasehold Improvements	100,000
Accumulated Depreciation	<u>(2,000)</u>
Total Fixed Assets	<u>98,000</u>
Other Assets	
Trademarks	20,000
Accumulated Amortization	<u>(8,000)</u>
Total Other Assets	<u>12,000</u>
Total Assets:	236,600

Liabilities

Current Liabilities	
Accounts Payable	49,000
Accrued Expenses	<u>1,000</u>
Total Current Liabilities	50,000
Long-term Liabilities	
Mortgages payable	75,000
Notes payable	<u>25,000</u>
Total Long-term Liabilities	100,000
Total Liabilities	150,000

Owner's Equity

Owner's Equity	
Common Stock	20,000
Additional Paid-in Capital	15,000
Retained Earnings	<u>51,600</u>
Total Owner's Equity	<u>86,600</u>
Total Liabilities and Owner's Equity	236,600

Here is an example of a basic **balance sheet**. You can see how it is formatted and the key items that belong on this financial statement.



Cash Flow Statement

A cash flow statement is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities.

Paul's Guitar Shop
Statement of Cash Flows
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$	12,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on fixed assets		2,000
(Increase) decrease in current assets:		
Accounts receivable		(300)
Inventory		(39,800)
Prepaid expenses		(1,000)
Increase (decrease) in current liabilities:		
Accounts payable		49,000
Accrue expenses and unearned revenues		1,450
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>24,300</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment		<u>(101,000)</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(101,000)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

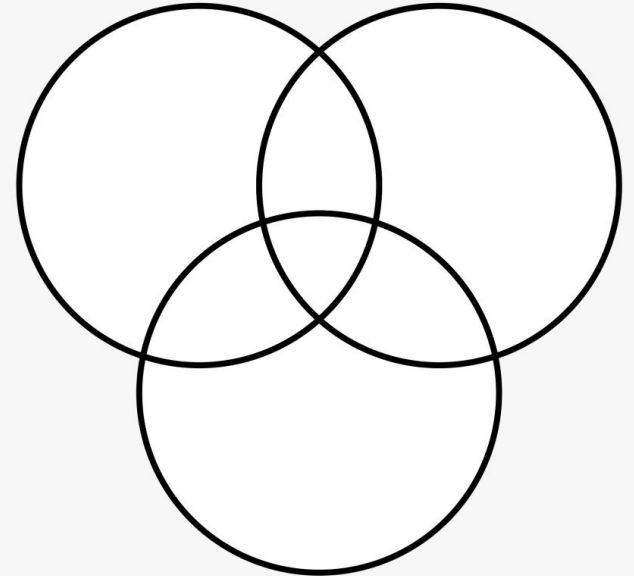
Proceeds from line of credit		-
Payments on line of credit		10,000
Proceeds from long-term debt		99,500
Payments on long-term debt		-
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES		<u>109,500</u>
NET INCREASE (DECREASE) IN CASH		<u>32,800</u>

BEGINNING CASH BALANCE		<u>-</u>
ENDING CASH BALANCE	\$	<u>32,800</u>

Here is an example of a basic **Cash Flow Statement**. You can see how it is formatted and the key items that belong on this financial statement.

Activity: Compare 3 Financial Statements

Directions: Please refer to the video, information on previous slides, and your own research to compare the three financial statements discussed in this lesson. I want you to draw a Venn Diagram similar to the example here on a sheet of paper. You will need to label each circle as a financial statement (income statement, balance sheet, and cash flow statement) You will then need to put the key items and concepts discussed today where they belong on the diagram. They item might belong to one financial statement OR it may be in the overlap between two or more financial statements.





Activity Conclusion

In today's lesson, I hope you understood the importance of accurate accounting within a business. I also hope you understand the reasoning for the three financial statements and what is reported on each one. We will look further into accounting in the next couple lessons. As of what you know right now, would you consider a career in accounting? Why or why not?