

# Introduction to Financial Statements

## An Introductory Lesson for Business Education Students

Perfect for an Intro  
to Business,  
Accounting, or  
Entrepreneurship  
High School or  
College class

**NO PREP!**  
**SAVES YOU TIME!**



BUSINESS EDUCATION WITH *Denise Leigh*

## MY EXPERTISE

**Teaching accounting is my JAM!** I taught Accounting every year of my 28-year career in the classroom.

## TEACHING DURATION

My students worked 90-minutes on this lesson which includes class discussions.

## STANDARDS

This lesson follows the National Business Education Association (NBEA) standards and can be completed with any textbook series.



# Financial Statements

## Financial Statements

Financial statements are documents that contain data that explains the financial position of a business. Full disclosure is an accounting concepts according to GAAP, Generally Accepted Accounting Principles. GAAP is the ethical doctrine that governs ethics and rules of accounting. In order to comply with GAAP, financial statements provide information needed to inform stakeholders or stockholders.

Three of the most important financial statement are:

- Income Statement
- Balance Sheet
- Cash Flows Statement



## Income Statement

### THE INCOME STATEMENT

Accounts that are included on the Income Statement.	Revenue and Expenses
The purpose of the Income Statement.	Realize if the company has a Net Income or Net Loss.

Often called the "bottom line"

Ken's Bakery Income Statement For Month Ended March 202X		
Revenue:		
Bakery Sales	6,852.00	89.3
Merchandise Sales	822.00	10.7
Total Sales	7,674.00	100.0
Expenses:		
Advertising Expense	1,950.00	
Insurance Expense	250.00	
Rent Expense	1,000.00	
Supplies Expense	320.00	
Utilities Expense	280.00	
Total Expenses	3,800.00	49.3
Net Income	3,874.00	50.7

## Income Statement-WebQuest

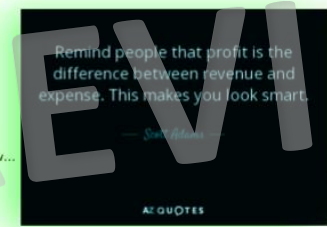
### Revenue

Search the Web for the definition of **Revenue**. Record your findings below...  
Be sure to paraphrase. DO NOT copy and paste!

Search the Web for 2 types of revenue and list them below...

### Expenses: "It costs money to make money."

Search the Web for the definition of **Expenses**. Record your findings below...  
Be sure to paraphrase. DO NOT copy and paste!



List 3 examples of what expenses a business might incur...

Search the Web to find the simple calculation for REVENUE.

## Balance Sheet



Ken's Bakery Balance Sheet March 17, 202X			
Assets		Liabilities	
Cash	3,225.00	Account Payable-Bakery Supply Co.	180.00
Prepaid Cash	125.00	Account Payable-Food Supply Co.	320.00
Accounts Receivable-At's Restaurant	82.00	Account Payable-Wholesale	6,801.00
Merchandise Inventory	7,569.00	Total Liabilities	7,301.00
Supplies	630.00	Owner's Equity	
Prepaid Insurance	850.00	Maeve O'Connor, Capital	6,430.00
Bakery Equipment	1,250.00		
Total Assets	13,731.00	Total Liabilities + Owner's Equity	13,731.00

### THE BALANCE SHEET

Accounts that are included on the Balance Sheet...	Assets, Liabilities, Owner's Equity
The purpose of the Balance Sheet...	Show what the company owes and owns.

Called a Balance Sheet as the Accounting Equation should balance.  
 $Assets = Liabilities + Owner's Equity$

## Balance Sheet



The balance sheet is a very important financial statement and is used to tell a wealth of information about a company.

Click on [this link](#) to discover four ways to use a balance sheet.

1	
2	
3	
4	

## Cash Flows Statement

### CASH FLOWS STATEMENT

Included on the Cash Flows Statement...	Cash flow from: Operations, Investing, Financing
The purpose of the Cash Flows Statement...	Reports and tracks cash and where it is going or coming from.

Cash Flow Statement Company XYZ FY Ended 31 Dec 2017 <small>All figures in USD</small>	
<b>Cash Flow From Operations</b>	
Net Earnings	2,000,000
Additions to Cash	
Depreciations	10,000
Increase in Accounts Receivable	15,000
Increase in Taxes Payable	15,000
Increase in Inventory	(30,000)
Net Cash From Operations	2,012,000
<b>Cash Flow From Investing</b>	
Equipment	(500,000)
<b>Cash Flow From Financing</b>	
Notes Payable	10,000
<b>Cash Flow for FY Ended 31 Dec 2017</b>	<b>1,522,000</b>

## Cash Flow Statement

Click on [this link](#) for information to complete the following questions and prompts.

What does the CFS summarize?



List 3 ways that the CFS is used in business...

Give 3 examples of cash activities from **OPERATING** activities...

Give 3 examples of cash activities from **FINANCING** activities...

Give 3 examples of cash activities from **INVESTING** activities...

### Apply what you have learned

Now that you learned about 3 of the most important financial statements in accounting, use your knowledge to drag and drop the accounts under the financial statement in which they appear.

Income Statement      Balance Sheet      Cash Flow Statement

PREVIEW

### Show what you know

Drag and drop the purpose under the appropriate financial statement.

Income Statement

[Blank box for Income Statement purpose]

Cash Flow Statement

[Blank box for Cash Flow Statement purpose]

Balance Sheet

[Blank box for Balance Sheet purpose]



# WHAT CLASSES IS THIS FOR?

- Survey of Business
- Introduction to Business
- Business Essentials
- Entrepreneurship Class
- or even an Accounting Class to introduce these concepts

**9 Google Slide files that **easily** convert to Microsoft PowerPoint**



# This Financial Statements lesson is Lesson #3 in my Basic Accounting Unit

### Lesson 1 in this Accounting Unit What is Accounting?

**What is Accounting?**  
Accounting is often referred to as the language of business. It's an important aspect of business and keeping financial records in order. Without a structured accounting system in place, there would be chaos and disorder.

**Accountants**  
Using the same resource link as the previous slide, complete the following questions.  
1. What type of degree do accountants earn?  
2. What type of services do accountants provide?  
3. What is a CPA and what is expected in order to become a CPA?

**Big Business Accounting!**  
There are four large accounting firms in the US and globally. Search the web for "Big Four Accounting Firms" and list them below.

**Branches of Accounting**  
There are several different types of accounting. They are called branches. Using the same resource link as the previous pages, complete the table below.  
Four of the most common branches of accounting...  
List each branch of accounting. What is the function or focus of this branch of accounting?

**What is Accounting?**

### Lesson 2 in this Accounting Unit The Accounting Equation

**The Accounting Equation**  
There is a very important equation in accounting. It's called the Accounting Equation. This equation is also often called the Balance Sheet Equation. The three account classifications that are included in the equation are ASSETS, LIABILITIES, and OWNER'S EQUITY. In order to understand the accounting equation, you must understand what each classification means.  
**The Accounting Equation**  
 $Assets = Liabilities + Owner's Equity$

**Assets**  
Click on [this link](#) to learn about assets.  
1. According to the resource link above, what is an asset?  
2. An asset can be thought of as what?  
3. An asset is reported on which financial statement?  
4. List the four types of assets and give examples of each.

**Liabilities**  
Click on [this link](#) to learn about liabilities.  
1. According to the resource link above, what is a liability?  
2. What is the difference between short-term and long-term liabilities?  
3. List 3 different types of current liabilities.

**Owner's Equity**  
Click on [this link](#) to learn about owner's equity.  
1. Owner's equity can help you determine what?  
2. What is the definition of owner's equity?  
3. What is the equation to calculate owner's equity?  
4. Define the following financial terms...  
Investor Capital  
Retained Earnings

**Apply what you have learned**  
Now that you learned about the three different account classifications that are included in the accounting equation, study what you learned. Drag and drop the accounts under the proper account classification.  
 $Assets = Liabilities + Owner's Equity$

**The Accounting Equation**

### Lesson 3 in this Accounting Unit Financial Statements

**Financial Statements**  
Financial statements are documents that contain data on the financial position of a business. Full disclosure is an accounting principle. Full disclosure means that a company must disclose all relevant financial information to its stakeholders or stockholders. The purpose of the financial statements is to provide information to stakeholders or stockholders. These are the most important financial statements:  
Income Statement  
Balance Sheet  
Cash Flow Statement

**Income Statement**  
**THE INCOME STATEMENT**  
Revenue and Expenses  
Realize if the company has a net income or net loss.  
The purpose of the Income Statement is to show the company's profitability over a period of time.

**Balance Sheet**  
The balance sheet is a very important financial statement and is used to tell a wealth of information about a company.  
Click on [this link](#) to discover four ways to use a balance sheet.

**Cash Flows Statement**  
**CASH FLOWS STATEMENT**  
Cash flow from Operating Activities  
Investing Activities  
Financing Activities  
The purpose of the Cash Flows Statement is to show the company's ability to generate cash and cash equivalents.

**Apply what you have learned**  
Now that you learned about 3 of the most important financial statements in accounting, use your knowledge to drag and drop the accounts under the appropriate financial statement.  
Income Statement    Balance Sheet    Cash Flow Statement

**Show what you know**  
Drag and drop the pictures under the appropriate financial statement.  
Income Statement    Cash Flow Statement  
Balance Sheet

**Financial Statements**

### Lesson 4 in this Accounting Unit GAAP & Accounting Ethics

**Introduction to GAAP**  
**Generally Accepted Accounting Principles**  
There are standards and best practices in place in the world of business so it relates to accounting and financial reporting. This resource will give an introduction to how these principles are followed and governed.  
Click on [this link](#) to discover more about GAAP and the ethics of accounting.

**Click on this link to discover 10 Primary Principles.**  
Review the information on the resource link and complete the following questions.  
Name the primary principles.  
1. Larger firms all finance reporting during a quarterly period (and yearly) in order to keep control and clear records.  
2. Same does background check and other references for all new employees that are hired to work for the company.  
3. Financial records are compiled consistently and permanently at that Location Office, Inc.  
4. US users' values are calculated with the like the Case Operations will be a bonus for the financial statements.

**The 3 Rules:**  
Using the same resource link as the previous page, list the three overarching rules of GAAP.  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

**SUMMARY:**  
In your own words, summarize why it is important to use GAAP standards when reporting financial information.

**GAAP & Accounting Ethics**

## Introduction to Accounting Unit

**A Basic Accounting Unit for Business Education Students**

Perfect for an Introduction to Business or Entrepreneurship High School or College class

**NO PREP! SAVES YOU TIME!**

BUSINESS EDUCATION WITH *Denise Leigh*



**Hi! My name is Denise Leigh. I have been teaching Business Education for over 25 years! I love collaborating with business educators all over the world. I am a 2022 Pennsylvania Teacher of the Year Finalist and relentless lifetime learner and lover of everything education. Engaging students and connecting them to their world is my jam! Thank you for exploring my resources and sharing my passion for BUSINESS EDUCATION!**

Denise Leigh is an expert on student-led instruction. She was featured on CBS Pittsburgh for her City Collaborative™ Project-Based Business Education (PBL) Classroom.

