



**CAREER CLUSTER**

Finance

**CAREER PATHWAY**

Corporate Finance Pathway

**INSTRUCTIONAL AREA**

Financial Analysis

**BUSINESS FINANCE 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 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**

- 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**

1. Explain the role of managerial accounting techniques in business management.
2. Describe the need for financial information.
3. Differentiate among management accounting responsibility centers.
4. Describe the nature of income statements.
5. Describe the scope of costs in managerial accounting (direct cost, indirect cost).

## **EVENT SITUATION**

You are to assume the role of managerial accountant for GEM PAGODA, a business that designs and markets jewelry. The owner (judge) has requested that you present information about the accounting department during the next staff meeting and would like you to present an outline of the information prior to the meeting.

The owner of GEM PAGODA (judge) thinks it is important for all departments to understand how the accounting department is organized and operates and has asked for you to present information at the next staff meeting. The owner (judge) would like you to begin the presentation by explaining your role as a managerial accountant and the need for financial information in any organization. You will also discuss the organization of the accounting department broken down into the four responsibility centers.

The owner (judge) has provided you with a comparative income statement representing the past two years at GEM PAGODA. You have been instructed to list three strengths of the income statement and three areas of concern. The owner (judge) would also like you to explain indirect and direct cost associated. The owner (judge) feels that by discussing all key financial items, the company will reach record heights toward their financial goals.

You will present your outline of the information for the staff meeting 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 your ideas. After you have presented the information and have answered the owner's (judge's) questions, the owner (judge) will conclude the role-play by thanking you for your work.

**Comparative income statement:**

Gem Pagoda				
Comparative Income Statement				
For Years Ended December 31, 2014 and 2015				
(All amounts written in 000s)				
	2015	2014	Increase/(Decrease)	
			Amount	Percentage
<b>Operating Revenue</b>				
Net Sales	24,350	18,795	5,555	29.56%
<b>Cost of Merchandise Sold</b>	3,420	3,150	270	8.57%
<b>Gross Profit on Operations</b>	<b>20,930</b>	<b>15,645</b>	<b>5,285</b>	<b>33.78%</b>
<b>Operating Expenses</b>				
Selling Expenses				
Advertising Expense	1,095	385	710	1.844%
Delivery Expense	250	180	70	18.89%
Supplies Expense—Sales	120	205	-85	-41.46%
Total Selling Expenses	<b>1,465</b>	<b>770</b>	<b>695</b>	<b>90.26%</b>
Administrative Expenses				
Depr. Expense—Office Equipment	200	0	200	N/A
Depr. Expense—Computer System	440	0	440	N/A
Insurance Expense	660	495	165	33.33%
Payroll Taxes Expense	150	120	30	2.50%
Rent Expense	2,800	2,700	100	3.70%
Salary Expense—Administrative	3,123	2,880	243	8.44%
Supplies Expense—Administrative	423	285	138	48.42%
Uncollectible Accounts Expense	345	1,045	-700	-66.99%
Utilities Expense	685	620	65	10.48%
Total Administrative Expenses	<b>8,826</b>	<b>8,145</b>	<b>681</b>	<b>8.36%</b>
Total Operating Expenses	<b>10,291</b>	<b>8,915</b>	<b>1,376</b>	<b>15.43%</b>
<b>Income from Operations</b>	<b>10,639</b>	<b>6,730</b>	<b>3,909</b>	<b>58.08%</b>
<b>Other Revenue and Expenses</b>				
Interest Revenue	345	225	120	53.33%
<b>Net Income before Federal Income Tax</b>	<b>10,984</b>	<b>6,955</b>	<b>4,029</b>	<b>57.93%</b>
Federal Income Tax Expense	1,123	845	278	32.90%
<b>Net Income after Federal Income Tax</b>	<b>9,861</b>	<b>6,110</b>	<b>3,751</b>	<b>61.39%</b>
Units of Item Sold	350	315	35	11.11%

## **JUDGE'S INSTRUCTIONS**

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

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

1. Procedures
2. 21<sup>st</sup> Century Skills and Performance Indicators
3. Event Situation
4. Judge Role-play Characterization  
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.
5. Judge's Evaluation Instructions
6. Judge's Evaluation Form  
Please use a critical and consistent eye in rating each participant.

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

You are to assume the role of owner of GEM PAGODA, a business that designs and markets jewelry. You have requested that the managerial accountant (participant) present information about the accounting department during the next staff meeting and would like the managerial accountant (participant) to present an outline of the information to you prior to the meeting.

You think it is important for all departments to understand how the accounting department is organized and operates and have asked the managerial accountant (participant) to present information at the next staff meeting. You would like the managerial accountant (participant) to begin the presentation by explaining the role of managerial accountant and the need for financial information in any organization. The managerial accountant (participant) will also discuss the organization of the accounting department broken down into the four responsibility centers.

You have provided the managerial accountant (participant) with a comparative income statement representing the past two years at GEM PAGODA. The managerial accountant (participant) has been instructed to list three strengths of the income statement and three areas of concern. You would also like the managerial accountant (participant) to explain indirect and direct cost associated. You feel that by discussing all key financial items, the company will reach record heights toward their financial goals.

The managerial accountant (participant) will present the information to you in a role-play to take place in your office. You will begin the role-play by greeting the managerial accountant (participant) and asking to hear the information.

**Comparative income statement with full analysis:**

Gem Pagoda				
Comparative Income Statement				
For Years Ended December 31, 2014 and 2015				
(All amounts written in 000s)				
	2015	2014	Increase/(Decrease)	
			Amount	Percentage
<b>Operating Revenue</b>				
Net Sales	24,350	18,795	5,555	29.56%
<b>Cost of Merchandise Sold</b>	3,420	3,150	270	8.57%
<b>Gross Profit on Operations</b>	20,930	15,645	5,285	33.78%
<b>Operating Expenses</b>				
Selling Expenses				
Advertising Expense	1,095	385	710	1.844%
Delivery Expense	250	180	70	18.89%
Supplies Expense—Sales	120	205	-85	-41.46%
Total Selling Expenses	1,465	770	695	90.26%
Administrative Expenses				
Depr. Expense—Office Equipment	200	0	200	N/A
Depr. Expense—Computer System	440	0	440	N/A
Insurance Expense	660	495	165	33.33%
Payroll Taxes Expense	150	120	30	2.50%
Rent Expense	2,800	2,700	100	3.70%
Salary Expense—Administrative	3,123	2,880	243	8.44%
Supplies Expense—Administrative	423	285	138	48.42%
Uncollectible Accounts Expense	345	1,045	-700	-66.99%
Utilities Expense	685	620	65	10.48%
Total Administrative Expenses	8,826	8,145	681	8.36%
Total Operating Expenses	10,291	8,915	1,376	15.43%
<b>Income from Operations</b>	10,639	6,730	3,909	58.08%
<b>Other Revenue and Expenses</b>				
Interest Revenue	345	225	120	53.33%
<b>Net Income before Federal Income Tax</b>	10,984	6,955	4,029	57.93%
Federal Income Tax Expense	1,123	845	278	32.90%
<b>Net Income after Federal Income Tax</b>	9,861	6,110	3,751	61.39%
Units of Item Sold	350	315	35	11.11%

During the course of the role-play you are to ask the following questions of each participant:

1. Although, you have mentioned three strengths and concerns of the comparative income statement; what is your overall current analysis of GEM PAGODA?
2. What is the difference between selling and administrative expenses on the comparative income statement?

After the managerial accountant (participant) has presented the information and has answered all your questions, you will conclude the role-play by thanking the participant for the work.

You are not to make any comments after the event is over except to thank the participant.

## **SOLUTIONS:**

### **1. Explain the role of managerial accounting techniques in business management**

The role of managerial accounts are to perform a series of task to ensure their company's financial security. These accountants are different from financial accountants because they are not following reports nor do they have to file GAAP (Generally Accepted Accounting procedures). The role of this accountant in business management is to crunch numbers for internal review to help companies budget and perform better. The managerial accountant works with other managers. They constantly manage and analyses risk. All of these techniques help a business strive towards financial success!

### **2. Describe the need for financial information**

Financial information includes all raw data records and reports. When consumers are working with financial services providers; they are relying on accurate information in order to make good decisions and reach their financial goals. Financial information is used to match company's resources with planned activities. Business also use financial information to budget for future growth as well as manage risk.

### **3. Differentiate among management accounting responsibility centers**

Responsibility centers are specific parts of a company that individual managers have accepted authority and accountability. Responsibility centers define exactly what assets and activities each manager is responsible for. Managers in each responsibility center prepare a report to evaluate the performance of each center. Typically; there are 4 responsibility centers:

- a. Revenue Centers - Usually have authority over sales and very little control over cost.
- b. Cost Centers – Produce good or provide services to other parts of the company. Do not have any control over sales prices and are only evaluated based on their total cost.
- c. Profit Centers – Evaluated based on controllable margin which is the difference controllable revenues and controllable cost. These centers do not look at uncontrollable cost such as allocated overhead and indirect fixed cost.
- d. Investment Centers – This department is responsible for revenues, expenses, and investments. Return on Investment is often used to evaluate their performance. Manager usually try to increase controllable profits or decrease average operating assets (improve productivity).

### **4. Describe the nature of income statements:**

#### ***3 Strengths of the Income statement (\*\*participant can discuss any three items)***

- a. Operating Revenue - Net sales have increased while cost of goods sold went up slightly. This resulted in a higher gross profit.
- b. Selling Expenses
  - b1. Advertising increased but it can be inferred that the increased spending helped in the increase of net sales.
  - B2. Supply expense decreased by 46%

c. Administrative Expenses

c1. Uncollectible expenses decreased from previous year.

d. Income from operations increased by 67%

e. Interest revenue increased by 53%.

f. Net income increased by 61%

g. Number of units sold increased by 11%

**3 Concerns of the income statement (\*\*participant can discuss any three items)**

Selling Expenses

a. Advertising expenses decreased by 46%

b. Selling expenses almost doubled from 2013.

c. Business purchased equipment resulting in new expenses.

Administrative Expenses

a. all expenses in this category except uncollectible accounts went up.

Operating Expenses increased by 15%

Federal Income tax increased

**4. Describe the scope in managerial accounting (direct cost, indirect cost)**

Direct Cost – are those cost that can be tied directly to cost object (which is an item for cost are compiled such as a product, person, customer). Examples of direct cost: direct materials to make the products, sales commission and freight.

Indirect Cost – Cost that are not directly associated with making a product. Examples are cost that are incurred in marketing, selling and designing the product (marketing, advertising, utilities, rent, travel)

**Answers to the Judges Questions:**

**1. Although, you have mentioned three strengths and concerns of the comparative income statement; what is your overall current analysis of GEM PAGODA?**

GEM PAGODA is a very strong company. Although many of the expenses went up from 2013; all expenses helped to raise the level of net income for the company. Many companies do not make it pass their second year of business. This company is generating a very healthy profit for its third year of operation.

**2. What is the difference between selling and administrative expenses on the comparative income statement?**

Selling Expenses – Relate to producing the product or service of a business. Cost for sales commissions, shipping supplies and delivery expenses quality as direct selling expenses.

Administrative Expenses – These are the cost that are tied to the overall running of the business. These include rent, salaries for office managers, utilities and insurance.

## JUDGE'S EVALUATION INSTRUCTIONS

### Evaluation Form Information

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 being 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 chairperson and the other judges to ensure complete and common understanding for judging consistency.

<b>Level of Evaluation</b>	<b>Interpretation Level</b>
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.





**BUSINESS FINANCE SERIES, 2017**

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

**JUDGE'S EVALUATION FORM**  
SAMPLE

I.D. Number: \_\_\_\_\_

**INSTRUCTIONAL AREA:**  
Financial Analysis

Did the participant:

		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
<b>PERFORMANCE INDICATORS</b>						
1.	Explain the role of managerial accounting techniques in business management?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Describe the need for financial information?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Differentiate among management accounting responsibility centers?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Describe the nature of income statements?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Describe the scope in managerial accounting (direct cost, indirect cost)?	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>						