

LESSON PLAN #2

BASIC ACCOUNTING

Understanding Assets, Liabilities, Income and Expense

KEY CONCEPT: Analyze financial transactions so we can understand our net worth and convince others of the value in investing in us.

PERFORMANCE OBJECTIVES:

1. Student will be able to categorize financial transactions into income and expenses, current and long term assets or liabilities.
2. Student will be able to categorize financial transactions to create financial statements

PATHWAY STANDARDS ADDRESSED:

A1.0 – Students understand the basic principles and procedures of the accounting cycle.

A1.2 – Examine, analyze, and categorize financial transactions

A2.0 – Students understand and apply accounting principles and concepts.

A2.1: Understand how to identify current and long-term assets and liabilities

A2.3: Understand the processes involved in revenue recognition and in matching income and expenses.

ACADEMIC SKILLS REINFORCED: (List)

Math: 24.2 Students identify the hypothesis and conclusion in logical deduction

English: 2.4 Listening and Speaking

(1.1) Formulate judgments about the ideas under discussion and support those judgments with convincing evidence.

FOUNDATION OR ESLRS ADDRESSED: (List)

5.3 Use critical thinking skills to make informed decisions and solve problems.

5.4 Understand how financial systems and tools are used to solve business problems.

MATERIALS: Financial Transaction Challenge with Key

Personal Inventory Worksheet (VERY SLOW to load – have patience!)

Financial Transaction cards (VERY SLOW to load – have patience!)

MOTIVATION/OPENER:

Is being 7 feet tall an asset or a liability? If you are trying to reach a hundred dollar bill on the top shelf of a cabinet, it's an asset. If you want to be a jockey, being 7 feet tall would definitely be a liability. Today we are going to talk about assets and liabilities, as well as income and expenses. Are all assets "good"; are all liabilities "bad"?

Teacher may hand out "Transaction cards" (cards follow) as students walk into classroom. This will peak student interest and also divide students into their brainstorming groups later in the lesson.

PRESENTATION: (Teacher Activities):

10 min: Give definitions and examples of assets and liabilities, revenue and expenses (See fact sheet). Then hand out Personal Inventory Worksheet. Have students

move into groups based upon the card they were handed when they entered the classroom.

APPLICATION: (Student Activities)

5 min: Team or class discussion

1. Brainstorm student's personal assets: i.e. checking account, auto, CD collection, Ipod
2. Brainstorm student personal liabilities: loan on car; loan from parent for concert ticket, owes Joe for lunch yesterday
3. Brainstorm student personal revenue/income: salary, allowance, birthday check
4. Brainstorm student personal expenses: taco bell, new shoes, prom dress, gas, Mom's birthday

Individual activity:

10 min Giving personal examples, students fill in worksheet divided into quadrants of assets (i.e., list 5), liabilities (i.e., list 1), revenue (i.e., list 3) and expenses (i.e., list 5)

Class discussion:

5 min Share personal examples

Teacher/individual Activity:

5 min Define long term/fixed vs. current asset and liability as students circle *current* assets and/or liabilities vs. long-term. Explain that business financial transactions are very similar to our personal transactions.

10 min: Team or class discussion:

1. Have the 4 transaction areas on board (assets, liabilities, revenue, expenses):
Take transactions from our BUSINESS and now categorize those transactions:
i.e. business loan, computer equipment, electric bill, salaries, income from sales

ASSESSMENT/EVALUATION:

1. Financial Transaction Challenge – have students take the challenge individually and turn in. (These questions are items 3-7 on VE accounting assessment – taken as pre and post test)
2. Completed and correct Personal Inventory Worksheet
3. These standards will also be assessed at the end of the accounting unit as part of an accurate and complete personal finance budget)

CLOSURE:

Now that we understand that an asset is something of value that we can convert to cash, and a liability is something we owe which reduces our assets, we realize that indeed, sometimes we have both an asset and a liability within one “7 foot tall” transaction. When we think of a house in California that we could sell for a half a million dollars, it sounds like we are worth a lot; however, when we subtract the liability on that house, we realize maybe we aren't rich after all! Maybe it's the bank that's rich!

TEACHER FACT SHEET

Definitions:

ASSET: Something that the business owns that has value. An asset appears on the Balance Sheet and is recorded at what it costs the business.
I.E. cash, equipment, accounts receivables, prepaid expenses such as insurance.

Current asset: Asset that can be converted into cash within 12 months
I.E. checking or savings account, inventory, accounts receivable

Fixed asset: Asset that cannot easily be converted into cash within 12 months
I.E. equipment, buildings, automobiles

Other asset: Long term investment not intended to be converted into cash in the short term.
I.E. 3 year Certificate of Deposit

LIABILITY: Monies that the business owes to creditors. Liabilities appear on the Balance Sheet
I.E. bank loan, items purchased on credit (accounts payable)
Payroll taxes until they are deposited

Current liability: Monies that you owe within a 12 month period
I.E. Accounts Payable, which is the amount you owe your creditors for purchases which will be paid within the next twelve months; accrued payroll taxes

Long Term Liability: Monies that you will not have paid off within 12 months
I.E. bank loans

INCOME/REVENUE: Money earned

EXPENSE: Money spent

Name: _____

Period: ___

Financial Transaction Challenge

1.	_____ is something that the business owns that has value.			
	a.	An expense	c.	A liability
	b.	An income	d.	An asset
2.	A liability is			
	a.	monies that the business owes.	c.	the investment in the business.
	b.	monies spent in order to produce an income.	d.	monies received from selling a product, providing a service, investing, etc.
3.	What is a Current Asset?			
	a.	an asset that can be converted into cash within a six month period	c.	an asset that cannot be converted into cash.
	b.	an asset that can be converted into cash within a twelve month period	d.	an asset that cannot be converted into cash easily.
4.	What is a Fixed Asset?			
	a.	an asset that can be converted into cash within a six month period	c.	an asset that cannot be converted into cash.
	b.	an asset that can be converted into cash within a twelve month period	d.	an asset that cannot be converted into cash easily.
5.	What is an Other Asset?			
	a.	accounts receivable owed by your customers who have purchased the merchandise on credit	c.	an automobile or truck that is used for the business
	b.	long-term investments (not intended to be converted to cash in the short-term)	d.	an item on the balance sheet that shows the amounts that you owe your creditors

Match financial transactions type to transaction.
Some may have more than one answer.

Asset- A
 Liability- L
 Income- I
 Expenses- E

1. A payment from a trade fair sale	
2. Check to Betty Sue for her salary	
3. A payment to a utility company	
4. Business Loan/payment	
5. Bill for office supplies	
6. Check received for product or service your company sold	
7. Computer equipment purchased and owned by the company	
8. Rent payment	
9. Customer account that has not been paid yet (accounts receivables)	
10. Trade fair registration fee	

After all is said and done.....

The biggest asset a company can have is its employees!

Financial Transaction Challenge Key

1.	_____ is something that the business owns that has value.		
	a.	An expense	c. A liability
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3. A payment to a utility company	E
4. Business Loan/payment	L-E
5. Bill for office supplies	E
6. Check received for product or service your company sold	I
7. Computer equipment purchased and owned by the company	E - A
8. Rent payment	E
9. Customer account that has not been paid yet (accounts receivables)	A
10. Trade fair registration fee	E

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The biggest asset a company can have is its employees!

Personal Inventory Worksheet

Name: _____

Period: ____

ASSETS

LIABILITIES

INCOME

EXPENSES

INCOME

Money earned.

ASSETS

Something owned that has value.

EXPENSES

Money spent.

LIABILITIES

Money owed.

