



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

- Explain methods used to value inventory (e.g., FIFO, LIFO, average cost, etc.).
- Determine the cost/value of inventory.
- Prepare income statements.
- Interpret financial statements.
- Prepare management discussion and analysis.

CASE STUDY SITUATION

You are the senior accountant at HOWARD NOVELTY, an online novelty store. Management is re-evaluating the appropriateness of its present inventory cost flow method, weighted average cost. Management has requested your help in determining the results of operations for the year ending December 31, 2022, if the FIFO method had been used. For the 2022 operating year, the accounting records show the following data:

Purchases were made quarterly, as follows:

Quarter	Units	Unit Cost	Total Cost
1	60,000	\$ 2.40	\$ 144,000
2	50,000	2.50	125,000
3	50,000	2.60	130,000
4	70,000	2.75	192,500
	<u>230,000</u>		<u>\$ 591,500</u>

Operating expenses were \$147,000 and the periodic system is used.

For the year ended December 31, 2022:

Sales = \$865,000

Beginning inventory = 15,000 units (\$34,000)

Ending inventory = 20,000 units

YOUR CHALLENGE

The vice president of the company has asked you to prepare a comparative income statement for 2022 under periodic FIFO and weighted average cost. You will also calculate whether the gross profit under the weighted average cost method will be higher or lower than under FIFO.

Additionally, management would like to know how much extra cash will be available under the weighted average method, and why? You will summarize what factors management should consider in selecting its inventory cost flow assumption.

SOLUTION

HOWARD NOVELTY
Condensed Income Statements
For the Year Ended December 31, 2022

	FIFO	Weighted Average
Sales	\$865,000	\$865,000
Cost of goods sold		
Beginning inventory	34,000	34,000
Cost of goods purchased	591,500	591,500
Cost of goods available for sale	625,500	625,500
Ending Inventory	55,000 ^a	51,000 ^b
Cost of Goods Sold	570,500	574,500
Gross profit	294,500	290,500
Operating Expenses	147,000	147,000
Net Income	\$147,500	\$143,500

^a 20,000 x \$2.75 = \$55,000

^b [(\$34,000 + \$591,500) ÷ (15,000 + 230,000) = \$2.55] = 20,000 x \$2.55 = \$51,000

Factors to consider:

Inventory related points to assist in making a choice between the FIFO and weighted average cost flow assumptions:

1. Gross profit under the weighted average cost flow assumption will be lower than the gross profit reported under the FIFO cost flow assumption. Costs are rising, and in such instances, FIFO will always result in higher gross profit.
2. The choice of inventory cost flow assumption will impact the balance sheet (through inventory) and income statement (through cost of goods sold) of the company. It will not impact the company's cash flow. While purchases and sales have a cash effect, the choice of cost flow assumption does not affect cash as it only allocates costs between inventory and cost of goods sold.
3. In selecting a cost flow assumption management should consider their circumstances—the type of inventory and the flow of costs throughout the period.

Management should select the method that will best match their costs with their revenues.

The FIFO cost flow assumption produces the more meaningful inventory amount for the balance sheet because the units are costed at the most recent purchases. The FIFO method is most likely to approximate actual physical flow because the oldest goods are usually sold first to minimize spoilage and obsolescence.

The weighted average cost flow assumption produces the more meaningful gross profit / net income because the cost of more recent purchases are matched against sales. At least, more so

than occurs with FIFO, which matches the cost of the earliest purchases against sales revenue. Average also smooths these costs, using an average of all costs during the period rather than matching the cost of any specific time period.

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
2024**

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.	Explain methods used to value inventory?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Determine the cost/value of inventory?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Prepare income statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Interpret financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Prepare management discussion and analysis?	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						