

How's This Business *Really* Doing?

- Part One -

Objective: To introduce students to prime financial accounting terms. Students will need to utilize an understanding of these terms and their implications in later lessons on completing and interpreting financial statements.

Materials

- Vocabulary list (included)
- Pen or pencil

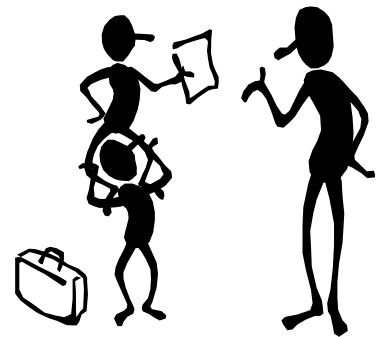
Overview

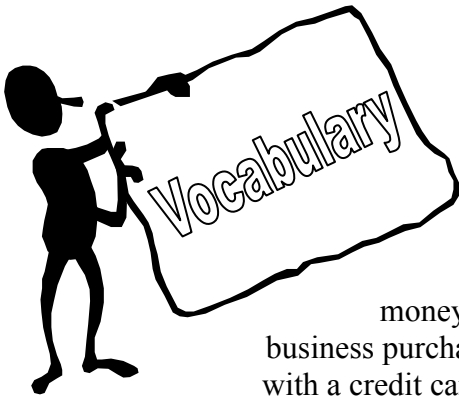
Introduce this scenario to your students:

You have been hired as the accountant for Pastrami's Pizza Joint – a cool new restaurant in town. The owner, Tony Italiano, loves pizza but doesn't know the first thing about the business side of his restaurant. Tony sold lots of pizza last month, so much that he thinks it would be a great idea to open another restaurant on the other side of town. But in order to open a second location, Tony needs money, so he applies for a bank loan. The loan officer at the bank tells Tony that he needs to see proof that Pastrami's is making money before he can approve the loan.

Tony is worried because he has never applied for a business loan before and he hasn't got a clue about the business side of the restaurant. All he knows is that he can make one awesome pizza. What's he going to do? As the accountant for Pastrami's Pizza Joint, it is **your** job to get the correct papers in order for the bank and make sure Tony gets his loan.

Before you can help Tony, you need to understand a few new vocabulary words. Use the attached sheet to complete student lesson 1. Review the answers as a class before moving on to lesson 2 where we will see how much money Tony's restaurant is making (Lesson 2 will explain an income statement to students).





1. **asset:** An asset is something that a business owns. At a pizza shop, examples of assets include an oven to cook the pizza or a refrigerator to keep the ingredients fresh.
2. **liability:** A liability is money that a business owes to somebody else. For example, when a pizza shop borrows money from a bank to buy automobiles for delivery, the liability is the money it must repay to the bank. Another example would be when a business purchases something like dough, cheese or pepperoni from a grocery store with a credit card. The liability would be the credit card bill that the business receives.
3. **owners' equity:** Owners' equity is the total amount of money invested in a business. A business receives investments in two primary ways. First, the owner can contribute his personal savings to the business. Second, the owner can sell part-ownership in the business in exchange for stock.
4. **stock:** Stock is certificate of ownership in a company. When a person or business purchases ownership in a business, it receives shares of stock as proof of ownership.
5. **shareholder:** A shareholder is somebody who owns stock in a business. The shareholders of a business are also referred to as owners.
6. **revenue (sales):** Revenue is the money that a business receives when a customer buys its product or service. Different forms of revenue include cash, checks and credit card payments from customers.
7. **expense:** An expense is money a business pays to operate. A business has two types of expenses. The first includes expenses paid to make a product or provide a service, such as materials costs and wages paid to employees. The second includes expenses for keeping a business open, such as rent and insurance.
8. **profit:** A business makes a profit when it receives more revenue than it pays in expenses. Profit is also referred to as **net income**.
9. **loss:** A business takes a loss when it pays more in expenses than it receives in revenue.
10. **financial statement:** A financial statement is a document that reports the health of a business for a given period of time. Financial statements report information such as what a business owns (assets) or how much money it earns (income).
11. **balance sheet:** A balance sheet is a financial statement that reports a business' total amount of assets, liabilities and owners' equity at a given point in time.
12. **income statement:** An income statement is a financial statement that reports a business' total amount of revenue, expenses, profit or loss for a given period of time.