



PATHWAY: Financial Management- Accounting

COURSE: Principles of Accounting II

UNIT 8: Cash Flow Statements and Taxes



INTRODUCTION

Annotation:

This section covers the creation of Cash Flow statements as well as the calculation and recording of taxes under.

Grade(s):

	9 th
X	10 th
X	11 th
X	12 th

Time: Five 50 minute periods.

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Additional Author(s):

Students with Disabilities:

For students with disabilities, the instructor should refer to the student's IEP to be sure that the accommodations specified are being provided. Instructors should also familiarize themselves with the provisions of Behavior Intervention Plans that may be part of a student's IEP. Frequent consultation with a student's special education instructor will be beneficial in providing appropriate differentiation.



FOCUS STANDARDS

GPS Focus Standards:

BCS-PAII-6. Students will create, interpret, and analyze end-of-fiscal-period activities and financial statements.

- h. Discuss the three basic types of business activities – operating, investing and financing.
- i. Generate statements of cash flow using the direct and indirect methods.

BCS-PAII-8. Students will apply appropriate accounting principles to income taxation.

- a. Differentiate between taxation at personal and business levels, including tax-planning strategies.
- b. Discuss how income tax law is formed.
- c. Research the basic differences between GAAP and tax law.

GPS Academic Standards:

ELA11RC3. The student acquires new vocabulary in each content area and uses it correctly.

ELA11C1. The student demonstrates understanding and control of the rules of the English language, realizing that usage involves the appropriate application of conventions and grammar in both written and spoken formats.

ELA11SLV1. The student participates in student-to-teacher, student-to-student, and group verbal interactions.

MM3P1. Students will solve problems (using appropriate technology).

MM3P4. Students will make connections among mathematical ideas and to other disciplines.

National / Local Standards / Industry / ISTE:

Accounting III: Prepare, interpret, and analyze financial statements using manual and computerized systems for service, merchandising, and manufacturing businesses.

Accounting IV: Apply appropriate accounting principles to payroll, income taxation, managerial systems, and various forms of ownership.



UNDERSTANDINGS & GOALS

Enduring Understandings:

- Cash is the most important asset a business has and the hardest to control.
- Simply looking at the change in cash on the balance sheet is not enough; we must use the cash flow statement to understand how that change occurred.
- Congress often passes tax laws specific to business that offer incentives for certain behaviors (i.e. tax breaks for hiring low income students or increased depreciation deductions to encourage capital expenditures for equipment).
- Tax laws don't always follow generally accepted accounting principle (GAAP).

Essential Questions:

- Why are cash flow statements an important element to examine when determining the financial position of a company?
- What is the effect of tax law on the reporting of personal and business income and how does it differ from GAAP?

Knowledge from this Unit:

Students will know:

- How to differentiate among cash from operations, cash from investments, and cash from financing.
- How taxes for sole proprietorships, partnerships, and corporations are related to personal taxes.
- Why the matching principle makes recognition of expenses different under GAAP from the recognition under GAAP.

Skills from this Unit:

Students will be able to:

- Calculate cash flows from operations, investments, and financing.
- Calculate income tax due under a progressive tax system.
- Determine the amount of bad debt that can be written off under tax law.
- Determine the amount of depreciation that can be written off under tax law.



ASSESSMENT(S)

Assessment Method Type:

- Pre-test
- Objective assessment - multiple-choice, true- false, etc.
 - Quizzes/Tests
 - Unit test
- Group project
- Individual project
- Self-assessment - May include practice quizzes, games, simulations, checklists, etc.
 - Self-check rubrics
 - Self-check during writing/planning process
 - Journal reflections on concepts, personal experiences and impact on one's life
 - Reflect on evaluations of work from teachers, business partners, and competition judges
 - Academic prompts
 - Practice quizzes/tests
- Subjective assessment/Informal observations
 - Essay tests
 - Observe students working with partners
 - Observe students role playing
- Peer-assessment
 - Peer editing & commentary of products/projects/presentations using rubrics
 - Peer editing and/or critiquing
- Dialogue and Discussion
 - Student/teacher conferences
 - Partner and small group discussions
 - Whole group discussions
 - Interaction with/feedback from community members/speakers and business partners
- Constructed Responses
 - Chart good reading/writing/listening/speaking habits
 - Application of skills to real-life situations/scenarios
- Post-test

Assessment(s) Title: Bad Debt and the IRS

Assessment(s) Description/Directions:

Have students complete the activity individually or in groups.

Attachments for Assessment(s):

Bad Debt and the IRS
Bad Debt and the IRS Rubric



LEARNING EXPERIENCES

Sequence of Instruction

BCS-PAII-6. Students will create, interpret, and analyze end-of-fiscal-period activities and financial statements.

- h. Discuss the three basic types of business activities – operating, investing and financing.
- i. Generate statements of cash flow using the direct and indirect methods.

Lesson 1 - Why are cash flow statements an important element to examine when determining the financial position of a company?

- Define Vocabulary
 - **Cash flows from financing** – include cash received from issuing notes payable, bonds payable, and capital stock and cash payments for repaying notes payable, redeeming bonds payable, and paying dividends to stockholders.
 - **Cash flows from investing** – include cash received from sale of plant assets, cash received from repayment of loan principal, cash paid for marketable securities (current asset), and for new plant assets.
 - **Cash flows from operating activities** – include such activities as cash received from sales and interest income, as well as cash paid for purchases, operating expenses, interest expense, and tax expenses.
 - **Cash inflows** – receipts of cash in a business
 - **Cash outflows** – payments of cash in a business
 - **Noncash investing and financing transactions** – transactions that involve long-lived asset, long-term liabilities, and capital stock that do not involve cash (e.g. trading a car for a truck, swapping an account payable for a note payable, or paying a stock dividend.
 - **Statement of Cash Flows** – shows how cash is affected by the operating, investing, and financing activities of a business
- Introduce the unit – Using the textbook, introduce students to the Cash Flow Statement. Mention that the Cash Flow Statement was not even a required financial statement until 1987. Ask students why they thought it was added. Show students financial statements (found online or from the book) that show an increase in cash on the balance sheet. Ask students if this is a good thing. Now ask students if they would think the same way if they knew the reason for the increase in cash came from borrowing a lot of money or from selling off the company's assets. Explain that WHERE the cash came from is extremely important in describing a company's business position. Work with the students on learning how to calculate the three parts of the Cash Flow Statement.
- Supplemental Activity – Have the students use the Flash Card activity to create flash cards for transactions in each of the categories of the Cash Flow Statement. Use the flash cards produced in a game, or have students quiz each other.
- Extension Activity – Have students research company financial statements online (by accessing company annual reports). They can pick a company that interests them or the teacher may assign them a company. Students should be instructed to look at the balance sheet and see how the cash balance changed over the past year, then go to the Statement of Cash Flows and

discover how the change occurred. Have them write a one page paper describing where the money came from and where it went.

- Assessment –Use a text or teacher prepared text that includes a problem in which the student prepares a Statement of Cash Flow.

BCS-PAII-8. Students will apply appropriate accounting principles to income taxation.

- a. Differentiate between taxation at personal and business levels, including tax-planning strategies.
- b. Discuss how income tax law is formed.
- c. Research the basic differences between GAAP and tax law.

Lesson 2 - What is the effect of tax law on the reporting of personal and business income and how does it differ from GAAP?

- Define vocabulary
 - **ACRS** – tax term for accelerated cost recovery system. Tax deduction that allows the business owner to take more of a depreciation deduction for a long-term asset early in the life of the asset.
 - **Direct Write Off** – Method of writing off bad debt that allows deduction only for debts that have gone bad and been written off in the current tax year. The only method allowed by tax law
 - **MACRS** – tax term for modified accelerated cost recovery system. Tax deduction that allows the business owner to take more of a depreciation deduction for a long-term asset early in the life of the asset.
 - **Matching Principle** – Expenses should be matched with the revenues they helped to make.

Introduce the lesson – Review with students the three forms of business ownership. Describe how taxes are levied on each form of ownership: sole proprietorship – income or loss is applied to the individual owner’s return; partnership – income or loss is split among the partners and applied to the individual partner’s returns; corporation – the corporation pays taxes on all income and records all loss. Owner’s (shareholders) only pay taxes when there are dividends. (IRS forms are provided to use in this discussion). Discuss the graduated tax tables. The textbook should cover the steps in calculating tax a graduated tax, if not review the steps using the Tax Schedule provided. You may select various amounts of taxable income and have the students practice figuring the tax. Finally, discuss areas where tax laws vary from generally accepted accounting principles. Discuss with students how GAAP requires the use of the Matching Principle. While GAAP allows straight line depreciation method and some forms of accelerated depreciation methods (declining balance and sum of the years digits), to allow the business to spread the expenses over the life of the asset, tax law often offers businesses incentives to depreciate assets faster, which lowers the tax and has the goal of encouraging more business investment in long-term assets. Under the matching principle, GAAP requires businesses to estimate their bad debt and show it as a contra account to their Accounts Receivable (thus your allowance for doubtful accounts). Tax law, however, only allows businesses to expense only those accounts that have actually been written off. Encourage students to research and find other ways that tax law might be different from GAAP.

- Supplemental Activity –Have students do the Why We Pay Taxes Activities. This will give students a better understanding of how our tax authority works and why taxes are necessary.
- Extension Activity – Have students research the differences between tax law and GAAP and have them complete the Bad Debt and the IRS Activity.

Attachments for Learning Experiences:

Cash Flow:

Cash Flow Flash Card Activity

Taxes:

Tax Schedule C (Sole Proprietorship)

Form 1065 (Partnership Form)

Form 1065 K-1 (Distribution of Partnership Earnings or Loss)

Form 1099 DIV (Corporate Dividends)

Tax Rate Schedules

Why We Pay Taxes And Supplement

Bad Debt and the IRS

Bad Debt and the IRS Rubric

Notes & Reflections:

It is helpful to review the forms of business ownership prior to discussing the differences in GAAP and Tax Law



CULMINATING PERFORMANCE TASK (Optional)

Culminating Unit Performance Task Title:

Use of a comprehensive practice set is suggested.

Culminating Unit Performance Task Description/Directions/Differentiated Instruction:

Attachments for Culminating Performance Task:



UNIT RESOURCES

Web Resources:

What are the functions of Government lesson plan on why governments collect taxes
<http://ecedweb.unomaha.edu/lessons/fecga.htm>

Links to go with Corporate Tax Lesson Plan

http://www.irs.gov/app/understandingTaxes/teacher/whys_thm04_les02.jsp

Online Word Scramble

<http://www.accountingcoach.com/word-scramble/cash-flow-statement.html>

Interactive Puzzles for Cash Flow Statements

<http://www.accountingcrosswords.com/cash-flow-statement.php>

Cliff Notes

<http://www.cliffsnotes.com/WileyCDA/CliffsReviewTopic/Statement-Sections.topicArticleId-21248,articleId-21204.html>

College Cram

<http://www.college-cram.com/study/finance/presentations/94>

Cash Flow Statement Problem and answer.

<http://www.scribd.com/doc/13848462/Practice-Question-Cash-flow-statement>

Attachment(s):

IRS Lesson Plan

Cash Flow Statement Excel Templates

Materials & Equipment:

What 21st Century Technology was used in this unit:

<input type="checkbox"/>	Slide Show Software	<input type="checkbox"/>	Graphing Software	<input type="checkbox"/>	Audio File(s)
<input type="checkbox"/>	Interactive Whiteboard	<input type="checkbox"/>	Calculator	<input type="checkbox"/>	Graphic Organizer
<input type="checkbox"/>	Student Response System	<input type="checkbox"/>	Desktop Publishing	<input type="checkbox"/>	Image File(s)
<input type="checkbox"/>	Web Design Software	<input type="checkbox"/>	Blog	<input type="checkbox"/>	Video
<input type="checkbox"/>	Animation Software	<input type="checkbox"/>	Wiki	<input type="checkbox"/>	Electronic Game or Puzzle Maker
<input type="checkbox"/>	Email	<input checked="" type="checkbox"/>	Website		