

## Is Luke's Skate Shop Turning a Profit?

Welcome to  
the Skate Shop  
Challenge!



We think you and your students are going to love working through this challenge that continues to reinforce introductory accounting concepts. It's a great way to immerse accounting students in the entrepreneurial world of a fictional skateboard business. They'll meet Luke Davies who is a young entrepreneur with an established business looking for assistance preparing his financial statements. Your students will also take on the role of accounting interns providing Luke with small business accounting knowledge and guidance.

**Note:** This business is a fictional retail business. You may need to give a briefing on how inventory will be treated as an asset and debited when purchased.

**Time:** This challenge will take 120-145 minutes of class time to complete.

**Before starting this challenge, your students must be able to:**

- Prepare a Trial Balance
- Prepare an Income Statement
- Prepare a Balance Sheet

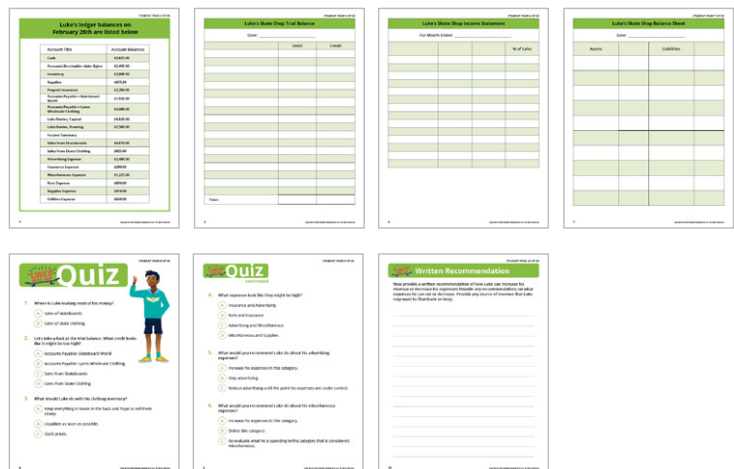


# Let's Get Started!

1. **Show the video** of Luke's entrepreneurial journey. Discuss the video with your class.

2. **Share these documents** with your students:

- Introduction pages
- List of ledger account balances
- Blank Trial Balance
- Blank Income Statement
- Blank Balance Sheet
- Quiz



3. **Organize students in groups** to complete the necessary accounting records as a team. Remind them to think carefully about why they are making the choices they make.

4. **Give students the opportunity to check** another group's documentation trail by sharing the teacher answer key.

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## ANSWER KEY

Luke's Skate Shop Trial Balance		
Date: <u>February 28, 2022</u>		
	Debit	Credit
Cash	2,825.00	
Accounts Receivable-Jake Ryker	2,490.00	
Inventory	3,008.00	
Supplies	625.00	
Prepaid Insurance	2,200.00	
Accounts Payable-Skateboard World		1,920.00
Accounts Payable-Lyons Wholesale Clothing		5,088.00
Luke Davies, Capital		4,820.00
Luke Davies, Drawing	2,500.00	
Income Summary		
Sales from Skateboards		6,810.00
Sales from Skate Clothing		825.00
Advertising Expense	2,480.00	
Insurance Expense	200.00	
Miscellaneous Expense	1,225.00	
Rent Expense	850.00	
Supplies Expense	410.00	
Utilities Expense	650.00	
Totals	19,463.00	19,463.00

## ANSWER KEY

Luke's Skate Shop Income Statement			
For Month Ended <u>February 28, 2022</u>			
			% of Sales
Revenue:			
Skateboard Sales	\$6,810.00		89.2
Clothing Sales	\$825.00		10.8
Total Sales		7,635.00	100.0
Expenses:			
Advertising Expense	\$2,480.00		
Insurance Expense	\$200.00		
Miscellaneous Expense	\$1,225.00		
Rent Expense	\$850.00		
Supplies Expense	\$410.00		
Utilities Expense	\$650.00		
Total Expenses		5,815.00	76.2
Net Income		1,820.00	23.8

## ANSWER KEY

Luke's Skate Shop Balance Sheet			
Date: <u>February 28, 2022</u>			
Assets		Liabilities	
Cash	\$2,825.00	Accounts Payable— Skateboard World	\$1,920.00
Account Receivable-Jake Ryker	\$2,490.00	Accounts Payable— Lyons Wholesale Clothing	\$5,088.00
Inventory	\$3,008.00	Total Liabilities	7,008.00
Supplies	\$625.00	Luke Davies, Capital	4,140.00
Prepaid Insurance	\$2,200.00		
<b>Total Assets</b>	<b>\$11,148.00</b>	<b>Total Liability +Owner's Equity</b>	<b>\$11,148.00</b>

## ANSWER KEY



### Answers:

1. **A.** He makes over \$6,000 in his sales of skateboards, compared to less than \$1,000 in his sales of clothing.
2. **A.** His Accounts Payable for clothing is much higher than skateboards, especially when he makes less money on the sale of clothing.
3. **B.** Luke should try to liquidate his clothing inventory.
4. **C.** Advertising and Miscellaneous
5. **C.** This expense is significant in comparison to the rest. He has a well-established business and may not need to advertise at this point.
6. **C.** Luke may need to re-evaluate what he is spending so much money on that he considers miscellaneous.

# Is Luke's Skate Shop Turning a Profit?

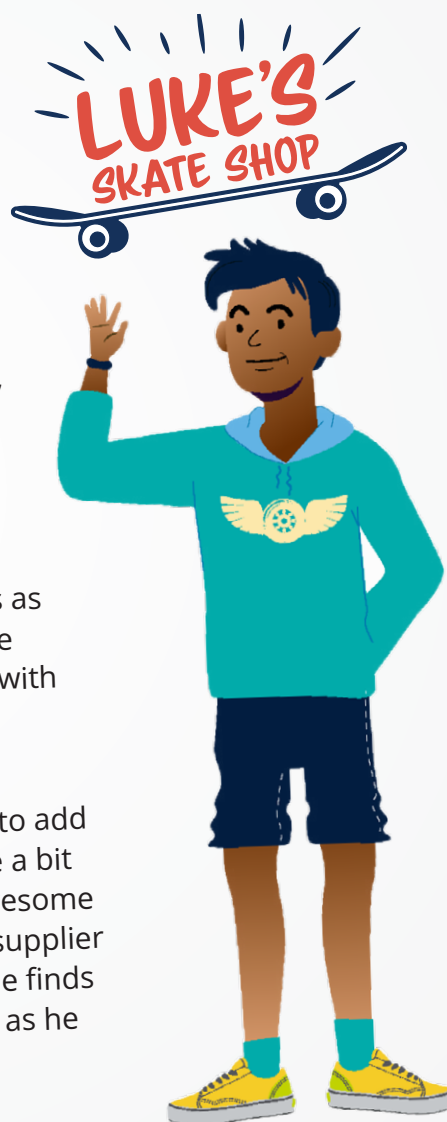
Congratulations! Your company has a new client in need of assistance. Your first task is to read all about Luke Davies and his skateboard shop. Next, be sure you've got Luke's ledger account balances as you'll be using them to build out his Trial Balance and Income Statements. Once you're done, you'll dive deeper and act as an accounting consultant to advise Luke on ways he might be able to cut costs or increase revenue. Let's get started!

## MEET LUKE DAVIES Skate Shop Owner

Luke Davies is a entrepreneur who knows everything there is about skating and skateboards. He is living his dream of owning and operating his own business in the town where he grew up. Although he is passionate about his business, he hasn't kept up to date with his account records.

Luke's shop is in a great location in the middle of town and has become quite the neighborhood hangout. He sells skateboards as well as replacement parts and safety gear. He has a hard time keeping his shelves stocked with inventory for his skateboards.

After he got a few customer requests for skateboard clothing, he saw an opportunity to add another stream of revenue. He bought quite a bit of inventory to stock his store with some awesome skateboard clothing. He found a wholesale supplier who sells the coolest skateboard clothing. He finds it hard to stop ordering a variety of clothing as he wants something for everyone!









**Got everything? Great.**

**These next steps will help you complete the challenge.**

**STEP 1:** Using the ledger account balances, fill in Luke's Trial Balance. This is where a business confirms that all journal entries have been recorded correctly such that the total debit account balances equal the total credit account balances. Remember: inventory is an asset!

**STEP 2:** Prepare an Income Statement for the month of February using the totals from the Trial Balance. An Income Statement is a financial statement showing the revenue and expenses for a fiscal period, in this case, February.

**Note:**

Since Luke has two sales accounts, they will both be listed on the Income Statement and totaled under the Revenue category. Be sure to include a Total Sales line. You will also need to prepare a component percentage for each sales account.

**STEP 3:** Prepare a Balance Sheet for Luke's Skate Shop. This is a financial statement that reports assets, liabilities, and owner's equity on a specific date. You'll want to use February 28th as the date. Remember to allocate the net income in the balance sheet.

**STEP 4:** You're now going to pivot and imagine you are an accounting consultant. You'll get into groups to act as a consulting team and prepare a recommendation for Luke. Analyze the financial statements and take the quiz below. When done, you can provide Luke with a recommendation of how he can increase revenue and decrease expenses.

**Tips:**

- \* Use the information on all three of the financial statements.
- \* Analyze the expenses. Are there any areas where the costs are too high or could be decreased?
- \* Carefully analyze the receivables and payables to see if any of the balances owed stand out.
- \* Look at the net income.
- \* Consider the component percentage for expenses.
- \* Use the component percentages for sales on the Income Statement to analyze the percentage of each sale account.

## Luke's ledger balances on February 28th are listed below

Account Title	Account Balances
Cash	\$2,825.00
Accounts Receivable—Jake Ryker	\$2,490.00
Inventory	\$3,008.00
Supplies	\$625.00
Prepaid Insurance	\$2,200.00
Accounts Payable—Skateboard World	\$1,920.00
Accounts Payable—Lyons Wholesale Clothing	\$5,088.00
Luke Davies, Capital	\$4,820.00
Luke Davies, Drawing	\$2,500.00
Income Summary	
Sales from Skateboards	\$6,810.00
Sales from Skate Clothing	\$825.00
Advertising Expense	\$2,480.00
Insurance Expense	\$200.00
Miscellaneous Expense	\$1,225.00
Rent Expense	\$850.00
Supplies Expense	\$410.00
Utilities Expense	\$650.00

## Luke's Skate Shop Trial Balance

Date: \_\_\_\_\_

	Debit	Credit
Totals		

## Luke's Skate Shop Income Statement

For Month Ended \_\_\_\_\_

[illegible]

## Luke's Skate Shop Balance Sheet

Date: \_\_\_\_\_

[illegible]

# LUKE'S SKATE SHOP Quiz



1. Where is Luke making most of his money?
  - ☐ A Sales of skateboards
  - ☐ B Sales of skate clothing
2. Let's take a look at the trial balance. What credit looks like it might be too high?
  - ☐ A Accounts Payable: Skateboard World
  - ☐ B Accounts Payable: Lyons Wholesale Clothing
  - ☐ C Sales from Skateboards
  - ☐ D Sales from Skate Clothing
3. What should Luke do with his clothing inventory?
  - ☐ A Keep everything in boxes in the back and hope to sell them slowly.
  - ☐ B Liquidate as soon as possible.
  - ☐ C Slash prices.



- 4.** What expenses look like they might be high?
- ☐ A Insurance and Advertising
  - ☐ B Rent and Insurance
  - ☐ C Advertising and Miscellaneous
  - ☐ D Miscellaneous and Supplies
- 5.** What would you recommend Luke do about his advertising expenses?
- ☐ A Increase his expenses in this category.
  - ☐ B Stop advertising.
  - ☐ C Reduce advertising until the point his expenses are under control.
- 6.** What would you recommend Luke do about his miscellaneous expenses?
- ☐ A Increase his expenses in this category.
  - ☐ B Delete this category.
  - ☐ C Re-evaluate what he is spending in this category that is considered miscellaneous.

Now provide a written recommendation of how Luke can increase his revenue or decrease his expenses! Provide any recommendations on what expenses he can cut or decrease. Provide any source of revenue that Luke may want to illuminate or keep.

[illegible]