

TEACHING GUIDE

A Deloitte High School Challenge

Deloitte.

CHALLENGE

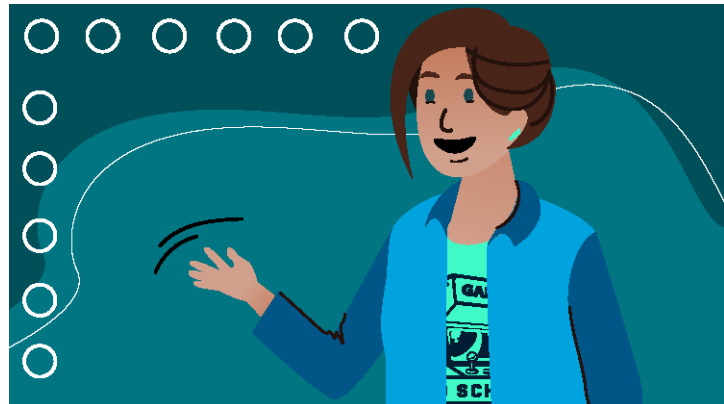
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Help Life Rules Arcade check their financial statements and identify any errors.

Welcome to the
Life Rules Arcade!



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 arcade business. They'll meet Alex Arnot, a young entrepreneur with an established business looking for help in



analyzing her business' financial statements. Your students will take on the role of accounting interns providing a summary of misstatements.

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

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

- Complete a full accounting cycle.
- Review financial statements for errors.

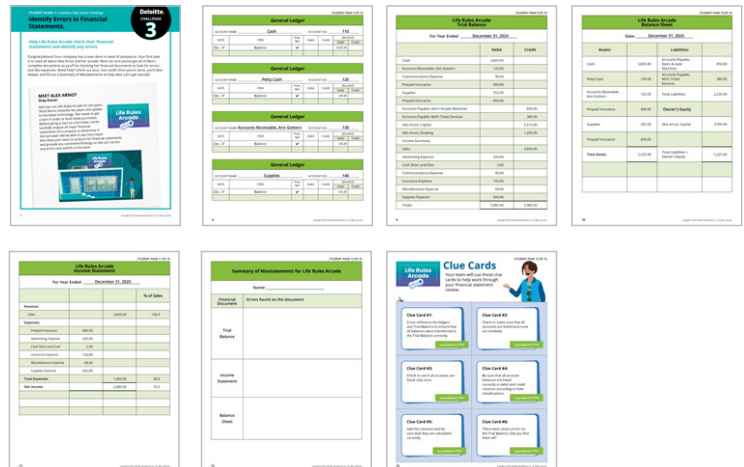
Let's Get Started!

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



2. **Share these documents** with your students, presented in this order:

- Introduction documents
- Ledgers (Corrected)
- Trial Balance (Completed, but with errors)
- Income Statement (Completed, but with errors)
- Balance Sheet (Completed, but with errors)
- Clue Cards
- Blank Summary of Misstatements



3. **If desired: 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. **Want to take this challenge a step further?** Provide a blank trial balance for your students to complete a trial balance from the ledger accounts to see if they do better than Alex's accountant and prepare an error-free trial balance. Want to take it even further? Have them prepare an error-free balance sheet and income statement as well.

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ANSWER KEY

Life Rules Arcade Trial Balance		
For Year Ended <u>December 31, 202X</u>		
	Debit	Credit
Cash	3,825.00	
Petty Cash	100.00	
Accounts Receivable, Ann Gottern	125.00	
Supplies	325.00	
Prepaid Insurance	450.00	
Accounts Payable, Dee's Arcade Machines		450.00
Accounts Payable, Mel's Ticket Services		380.00
Alex Arnot, Capital		2,515.00
Alex Arnot, Drawing	1,200.00	
Income Summary		
Sales		3,830.00
Advertising Expense	220.00	
Cash Short and Over	2.00	
Communications Expense	90.00	
Insurance Expense	150.00	
Miscellaneous Expense	68.00	
Supplies Expense	620.00	
Totals	7,175.00	7,175.00

ANSWER KEY

Life Rules Arcade Balance Sheet			
Date: <u>December 31, 202X</u>			
Assets		Liabilities	
Cash	3,825.00	Accounts Payable, Dee's Arcade Machines	450.00
Petty Cash	100.00	Accounts Payable, Mel's Ticket Services	380.00
Accounts Receivable, Ann Gottern	125.00	Total Liabilities	830.00
Supplies	325.00	Owner's Equity	
Prepaid Insurance	450.00	Alex Arnot, Capital	3,995.00
Total Assets	4,825.00	Total Liabilities + Owner's Equity	4,825.00

ANSWER KEY

Life Rules Arcade Income Statement			
For Year Ended <u>December 31, 202X</u>			
			% of Sales
Revenue:			
Sales		3,830.00	100.0
Expenses:			
Advertising Expense	220.00		
Cash Short and Over	2.00		
Communications Expense	90.00		
Insurance Expense	150.00		
Miscellaneous Expense	68.00		
Supplies Expense	620.00		
Total Expenses		1,150.00	30.0
Net Income		2,680.00	70.0

ANSWER KEY

Summary of Misstatements for Life Rules Arcade

Name: _____

Financial Document	Errors found on the document
Trial Balance	<p>Prepaid insurance is listed twice.</p> <p>The account balance is wrong.</p> <p>Communications Expense is listed twice.</p> <p>Drawing is listed as a credit instead of a debit.</p> <p>Supplies is listed as \$352.00 on the trial balance instead of \$325.00.</p> <p>Petty Cash is missing from the trial balance.</p> <p>Supplies Expense is listed as \$260.00 instead of \$620.00.</p> <p>Balance on the Credit Side was added incorrectly.</p>
Income Statement	<p>Sales is listed incorrectly as \$3,380.00 instead of \$3,830.00.</p> <p>Communication Expense is missing.</p> <p>Prepaid Insurance is an asset and does not belong on the income statement.</p> <p>The net income is incorrect.</p> <p>The component percentages are incorrect.</p>
Balance Sheet	<p>The Heading is not Balance Statement, it's Balance Sheet.</p> <p>Prepaid insurance is listed twice.</p> <p>The account balance is wrong.</p> <p>Dee's Arcade Machines account balance is incorrectly listed as \$850.00. It should be \$450.00</p> <p>The total liabilities are incorrect. They total \$830.00—therefore the balance sheet will not balance, and that total is off as well.</p>

Note: there may be additional errors found, as mathematical errors can throw off all totals!

Life Rules Arcade Balance Sheet			
Date: _____			
Assets		Liabilities	
		Owner's Equity	

Identify Errors in Financial Statements.

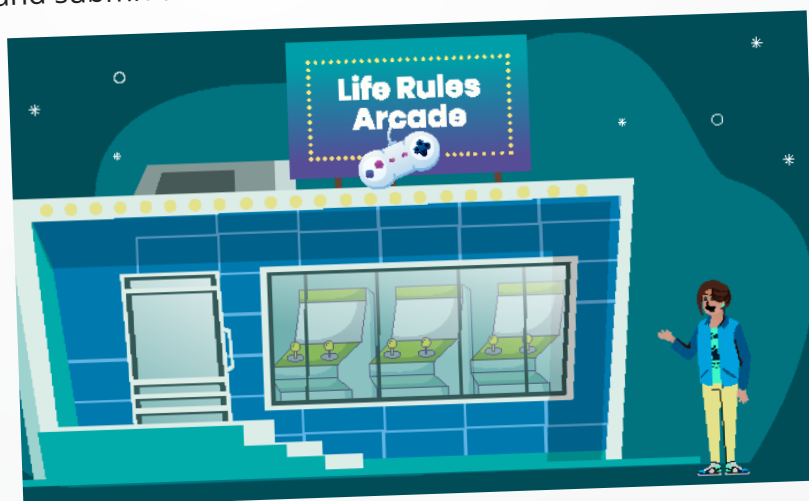
Help Life Rules Arcade check their financial statements and identify any errors.

Congratulations! Your company has a new client in need of assistance. Your first task is to read all about Alex Arnot and her arcade. Next, be sure you've got all of Alex's complete documents as you'll be checking her financial documents to look for errors and discrepancies. Need help? Check out your clue cards! Once you're done, you'll dive deeper and fill out a Summary of Misstatements to help Alex. Let's get started!

MEET ALEX ARNOT

Shop Owner

Alex has run Life Rules Arcade for ten years. She'd like to renovate her place and update to the latest technology. She needs to get a loan in order to fund these purchases. Before giving a loan to a borrower, banks carefully analyze all major financial statements of a company to determine if the borrower will be able to pay them back! Alex hires your team to analyze her financial statements and provide any comments/findings so she can correct any errors and submit to the bank.



YOUR ACCOUNTING MISSION!

Alex hired your accounting firm to analyze all her financial documents. Another accountant on your team already cross-referenced her source documents with journal entries and ledger account balances. They found errors and have created a summary of misstatements. Use the accurate ledger balances as you work through this challenge to help you keep track of the changes. Your task is to help Alex find discrepancies and errors in the financial statements: Trial Balance, Income Statement, and Balance Sheet.

Now that you understand Alex's status, let's make sure you've got everything to begin your financial statement review. You should have:

- Ledgers (Accurate)
- Trial Balance (Completed, but with errors)
- Balance Sheet (Completed, but with errors)
- Income Statement (Completed, but with errors)
- A blank Summary of Misstatements
- Clue Cards



STUDENT PAGE 4 OF 15

General Ledger

ACCOUNT NAME: **Cash** ACCOUNT NO.: **110**

DATE	ITEM	Post Ref	Debit	Credit	BALANCE
Dec. 31					3,825.00

General Ledger

ACCOUNT NAME: **Petty Cash** ACCOUNT NO.: **120**

DATE	ITEM	Post Ref	Debit	Credit	BALANCE
Dec. 31					100.00

General Ledger

ACCOUNT NAME: **Accounts Payable, Alex Gottman** ACCOUNT NO.: **330**

DATE	ITEM	Post Ref	Debit	Credit	BALANCE
Dec. 31					

General Ledger

ACCOUNT NAME: **Supplies** ACCOUNT NO.: **340**

DATE	ITEM	Post Ref	Debit	Credit	BALANCE
Dec. 31					

STUDENT PAGE 5 OF 15

Life Rules Arcade Trial Balance

For Year Ended December 31, 202X

	Debit	Credit
Cash	3,825.00	
Accounts Receivable, Alex Gottman	125.00	
Communications Expense	90.00	
Prepaid Insurance	400.00	
Supplies	392.00	
Prepaid Insurance	400.00	
Accounts Payable, Alex Gottman		850.00
Accounts Payable, Alex Gottman		380.00
Alex Arnold, Capital		2,515.00
Total	5,115.00	5,115.00

STUDENT PAGE 10 OF 15

Life Rules Arcade Balance Sheet

Date: December 31, 202X

Assets		Liabilities		Owner's Equity	
Cash	3,825.00	Accounts Payable, Alex Gottman	850.00		
Petty Cash	100.00	Accounts Payable, Alex Gottman	380.00		
Accounts Receivable, Alex Gottman	125.00	Total Liabilities	2,230.00		
Prepaid Insurance	400.00	Alex Arnold, Capital	3,995.00		
Supplies	325.00				
Total Assets	5,115.00	Total Liabilities and Owner's Equity	5,115.00		

STUDENT PAGE 11 OF 15

Life Rules Arcade Income Statement

For Year Ended December 31, 202X

		% of Sales
Revenue:		
Sales	3,825.00	100.0
Expenses:		
Prepaid Insurance	400.00	
Advertising Expense	220.00	
Cash Short and Over	2.00	
Insurance Expense	150.00	
Miscellaneous Expense	68.00	
Supplies Expense	620.00	
Total Expenses	1,460.00	38.0
Net Income	2,365.00	62.0

STUDENT PAGE 12 OF 15

Summary of Misstatements for Life Rules Arcade

Name: _____

Financial Document	Errors found on the document
Trial Balance	
Income Statement	
Balance Sheet	

STUDENT PAGE 13 OF 15

Clue Cards

Your team will use these clue cards to help work through your financial statement review.

Clue Card #1: Cross-reference the ledgers and Trial Balance to ensure that all balances were transferred to the Trial Balance correctly.

Clue Card #2: Check to make sure that all accounts are listed and none are omitted.

Clue Card #3: Check to see if all accounts are listed only once.

Clue Card #4: Be sure that all account balances are listed correctly in debit and credit columns according to their classifications.

Clue Card #5: Add the columns and be sure that they are calculated correctly.

**Life Rules
Arcade****Got everything? Great.****Take the following steps:**

Note: Since you know that the ledger balances are now accurate, you will always want to circle back to those account balances as you check your financial statement.

STEP 1: Check the **Trial Balance** for errors. (Use Clue Cards #1–6 to guide you through.) Use the **Trial Balance** section on the **Summary of Misstatements** page to record your findings.

STEP 2: Check the **Income Statement** for errors. (Use Clue Cards #7–12 to guide you through.) Use the **Income Statement** section on the **Summary of Misstatements** page to record your findings.

STEP 3: Check the **Balance Sheet** for errors. (Use Clue Cards #13–17 to guide you through.) Use the **Balance Sheet** section of the **Summary of Misstatements** page to record your findings.

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General Ledger

ACCOUNT NAME <u>Cash</u>			ACCOUNT NO. <u>110</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			3,825.00	

General Ledger

ACCOUNT NAME <u>Petty Cash</u>			ACCOUNT NO. <u>120</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			100.00	

General Ledger

ACCOUNT NAME <u>Accounts Receivable, Ann Gottern</u>			ACCOUNT NO. <u>130</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			125.00	

General Ledger

ACCOUNT NAME <u>Supplies</u>			ACCOUNT NO. <u>140</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			325.00	

General Ledger

ACCOUNT NAME <u>Prepaid Insurance</u>			ACCOUNT NO. <u>150</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			450.00	

General Ledger

ACCOUNT NAME <u>Accounts Payable, Dee's Arcade Machines</u>			ACCOUNT NO. <u>210</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓				450.00

General Ledger

ACCOUNT NAME <u>Accounts Payable, Mel's Ticket Services</u>			ACCOUNT NO. <u>220</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓				380.00

General Ledger

ACCOUNT NAME <u>Alex Arnot, Capital</u>			ACCOUNT NO. <u>310</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓				2,515.00

General Ledger

ACCOUNT NAME <u>Alex Arnot, Drawing</u>		ACCOUNT NO. <u>320</u>				
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			1,200.00	

General Ledger

ACCOUNT NAME <u>Income Summary</u>		ACCOUNT NO. <u>330</u>				
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			-----	-----

General Ledger

ACCOUNT NAME <u>Sales</u>		ACCOUNT NO. <u>410</u>				
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓				3,830.00

General Ledger

ACCOUNT NAME <u>Advertising Expense</u>			ACCOUNT NO. <u>510</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			220.00	

General Ledger

ACCOUNT NAME <u>Cash Short and Over</u>			ACCOUNT NO. <u>520</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			2.00	

General Ledger

ACCOUNT NAME <u>Communications Expense</u>			ACCOUNT NO. <u>530</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			90.00	

General Ledger

ACCOUNT NAME <u>Insurance Expense</u>			ACCOUNT NO. <u>540</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			150.00	

General Ledger

ACCOUNT NAME <u>Miscellaneous Expense</u>			ACCOUNT NO. <u>550</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			68.00	

General Ledger

ACCOUNT NAME <u>Supplies Expense</u>			ACCOUNT NO. <u>560</u>			
DATE	ITEM	Post. Ref.	Debit	Credit	BALANCE	
					Debit	Credit
Dec. 31	Balance	✓			620.00	

Life Rules Arcade Trial Balance

For Year Ended December 31, 202X

	Debit	Credit
Cash	3,825.00	
Accounts Receivable, Ann Gottern	125.00	
Communications Expense	90.00	
Prepaid Insurance	400.00	
Supplies	352.00	
Prepaid Insurance	400.00	
Accounts Payable, Dee's Arcade Machines		850.00
Accounts Payable, Mel's Ticket Services		380.00
Alex Arnot, Capital		2,515.00
Alex Arnot, Drawing		1,200.00
Income Summary		
Sales		3,830.00
Advertising Expense	220.00	
Cash Short and Over	2.00	
Communications Expense	90.00	
Insurance Expense	150.00	
Miscellaneous Expense	68.00	
Supplies Expense	260.00	
Totals	5,982.00	5,982.00

Life Rules Arcade Balance Sheet

Date: December 31, 202X

Assets		Liabilities	
Cash	3,825.00	Accounts Payable, Dee's Arcade Machines	850.00
Petty Cash	100.00	Accounts Payable, Mel's Ticket Services	380.00
Accounts Receivable, Ann Gottern	125.00	Total Liabilities	2,230.00
Prepaid Insurance	400.00	Owner's Equity	
Supplies	325.00	Alex Arnot, Capital	3,995.00
Prepaid Insurance	450.00		
Total Assets	5,225.00	Total Liabilities + Owner's Equity	5,225.00

Life Rules Arcade Income Statement

For Year Ended December 31, 202X

			% of Sales
Revenue:			
Sales		3,830.00	100.0
Expenses:			
Prepaid Insurance	400.00		
Advertising Expense	220.00		
Cash Short and Over	2.00		
Insurance Expense	150.00		
Miscellaneous Expense	68.00		
Supplies Expense	620.00		
Total Expenses		1,460.00	30.0
Net Income		2,680.00	70.0

Summary of Misstatements for Life Rules Arcade

Name: _____

Financial Document	Errors found on the document
Trial Balance	
Income Statement	
Balance Sheet	

Life Rules Arcade



Clue Cards

Your team will use these clue cards to help work through your financial statement review.



Clue Card #1:

Cross-reference the ledgers and Trial Balance to ensure that all balances were transferred to the Trial Balance correctly.

Trial Balance Clue

Clue Card #2:

Check to make sure that all accounts are listed (and none are omitted).

Trial Balance Clue

Clue Card #3:

Check to see if all accounts are listed only once.

Trial Balance Clue

Clue Card #4:

Be sure that all account balances are listed correctly in debit and credit columns according to their classifications.

Trial Balance Clue

Clue Card #5:

Add the columns and be sure that they are calculated correctly.

Trial Balance Clue

Clue Card #6:

There were seven errors on the Trial Balance. Did you find them all?

Trial Balance Clue

Life Rules Arcade



Income Statement Clue Cards



Clue Card #7:

Cross-reference the ledgers and Income Statement to assure that all balances were transferred to the Income Statement correctly.

Income Statement Clue

Clue Card #8:

Check to make sure that all accounts are listed (and none are omitted).

Income Statement Clue

Clue Card #9:

Be sure the Income Statement only lists accounts that are supposed to be included on the Income Statement.

Income Statement Clue

Clue Card #10:

Be sure that all account balances are listed in the correct columns.

Income Statement Clue

Clue Card #11:

Check the calculations for mathematical errors including totals and component percentages.

Income Statement Clue

Clue Card #12:

There were five errors on the Income Statement. Did you find them all?

Income Statement Clue

**Life Rules
Arcade**

Balance Sheet Clue Cards

**Clue Card #13:**

Make sure the heading is correct.

Balance Sheet Clue**Clue Card #14:**

Check the account titles to ensure that all accounts are listed and that no accounts are listed twice.

Balance Sheet Clue**Clue Card #15:**

Be sure that the account balances are correct by referring to the ledgers.

Balance Sheet Clue**Clue Card #16:**

Check all calculations for mathematical errors.

Balance Sheet Clue**Clue Card #17:**

There were seven errors on the Balance Sheet. Did you find them all?

Balance Sheet Clue