Module 5 Exercise: Financial Statements for Your Business

Overview

In this module, you will practice how revenues and expenses are recorded and analyzed through two key financial statements:

- Balance Sheet (Statement of Financial Position)
- Activity Statement (Income Statement)

You will see how to recognize, classify, and analyze transactions — and see how everyday business activities affect your organization's financial position.

Context

Remember the business or nonprofit idea you created back in Module 2?

In this exercise, you will continue developing that idea by recording a set of hypothetical financial transactions that occur during the first year of operations (2026).

You can imagine any type of organization — a coffee shop, bakery, consulting firm, art studio, food pantry, or youth nonprofit.

Your goal is to recognize and classify transactions, prepare an Activity Statement showing your revenues and expenses, and then build your end-of-year Balance Sheet.

Use the workbook `Module5_exercise_template_2026.xlsx`. It has three sheets: **Transactions**, **Balance Sheet**, and **Activity Statement**. Use it as a reference, and adjust the rows and columns to fit your own idea.

Step 1: Start with your beginning financial position

You begin the year with **$25,000 in cash**, which came from two sources:

- A **$20,000 bank loan** at 5% annual interest
- A **$5,000 start-up donation** (or your own savings put into the business)

The first two rows of the Transactions sheet show these as examples. List your assets, liabilities, and net assets, and fill in the Beginning column of the Balance Sheet sheet.

Step 2: Recognize and analyze transactions

Below are sample transactions that may occur during your first year (2026). Adjust the numbers and descriptions to match your own business or nonprofit idea. For each transaction, use the Transactions sheet to show how it affects your assets, liabilities, and net assets, and note whether it is a revenue or an expense.

Hypothetical transactions for 2026

1. Purchased equipment for $4,000 (paid in cash).
2. Purchased inventory (supplies, ingredients, or materials) for $2,000 (paid in cash).
3. Used $1,000 worth of inventory to produce goods or services.
4. Sold those products or services for $5,000; collected 90% in cash, with 10% remaining as accounts receivable.
5. Equipment depreciated by $800 by year-end.
6. Paid $1,500 in rent for three months.
7. Paid $1,000 in interest on the bank loan.
8. Received a $2,000 business grant or donation.
9. Paid $800 for legal or consulting services.
10. Paid employees' salaries totaling $3,000.
11. Paid utilities (electricity, internet, etc.) of $300.
12. Bought insurance for $600 covering next year (prepaid).
13. Repaid $2,000 of the loan principal.
14. Purchased additional supplies of $500 on credit (to be paid next year, i.e., accounts payable).
15. Sold a piece of equipment you no longer need for $500 cash, which is what it was worth on your books.
16. Donated $300 of inventory to a local charity (record as an expense).
17. Paid $500 in late December for January's rent (record as prepaid).

After recording all transactions, check that your final results still balance according to the accounting equation: Assets = Liabilities + Net Assets.

You may use an AI tool to check your understanding of each transaction — did you recognize its effects correctly? But decide each one yourself first, and treat the tool's answer as something to verify, not something to copy.

Step 3: Prepare end-of-year financial statements

After completing your transactions, prepare your end-of-year Balance Sheet and Activity Statement on the two sheets provided. Then check one thing: your surplus or deficit on the Activity Statement should equal the change in net assets on your Balance Sheet. If it doesn't, recheck your transactions.

Write a short memo (1 page) responding to the following:

- **Net assets and balance:** Do you have positive or negative net assets at the end of 2026?
- **Surplus or deficit:** Did your business earn a surplus (profit) or a deficit (loss) during the year?
- **Financial management reflection:** How can preparing financial statements help you manage your business or nonprofit more effectively?

What to Submit

- Your completed workbook: the Transactions sheet, and your Balance Sheet and Activity Statement for year-end 2026
- A 1-page memo responding to the Step 3 questions

You may use hypothetical numbers — do not include real personal or business data. Focus on demonstrating your understanding of accounting concepts and relationships, not on providing actual

figures.

AI-use disclosure: At the end of your memo, note which tool you used, if any. If you used one, describe one answer it gave that you decided not to accept, and why.