

CHAPTER 1

Accounting in Action

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain what accounting is.	1, 2, 5		1	1		
2. Identify the users and uses of accounting.	3, 4		1	2		
3. Understand why ethics is a fundamental business concept.				3		
4. Explain accounting standards and the measurement principles.	6, 7		1	4		
5. Explain the monetary unit assumption and the economic entity assumption.	8, 9, 10, 11			4		
6. State the accounting equation, and define its components.	12, 13, 14	1, 2, 3, 4, 5, 8, 9	2	5, 6, 7, 11	1A, 2A, 4A	1B, 2B, 4B
7. Analyze the effects of business transactions on the accounting equation.	15, 16, 17, 19	6, 7	3	6, 7, 8, 10, 11	1A, 2A, 4A, 5A	1B, 2B, 4B, 5B
8. Understand the four financial statements and how they are prepared.	18, 20, 21, 22	10, 11	4	8, 9, 12, 13, 14, 15, 16, 17	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Analyze transactions and compute net income.	Moderate	40–50
2A	Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
3A	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4A	Analyze transactions and prepare financial statements.	Moderate	40–50
5A	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50
1B	Analyze transactions and compute net income.	Moderate	40–50
2B	Analyze transactions and prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
3B	Prepare income statement, retained earnings statement, and statement of financial position.	Moderate	50–60
4B	Analyze transactions and prepare financial statements.	Moderate	40–50
5B	Determine financial statement amounts and prepare retained earnings statement.	Moderate	40–50

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what accounting is.	D11-1	Q1-1 Q1-2 E1-1				
2. Identify the users and uses of accounting.		Q1-3 Q1-4 E1-2				
3. Understand why ethics is a fundamental business concept.		E1-3				
4. Explain accounting standards and the measurement principles.	D1-7	Q1-6 E1-4				
5. Explain the monetary unit assumption and the economic entity assumption.	Q1-8 Q1-9 Q1-10	Q1-11 E1-4				
6. State the accounting equation, and define its components.	Q1-11 Q1-12 Q1-13 D11-2 BE1-5	Q1-14 BE1-4 BE1-8 BE1-9 E1-5 E1-6 E1-7	BE1-1 P1-2A BE1-2 P1-4A BE1-3 P1-1B E1-11 P1-2B P1-1A P1-4B			
7. Analyze the effects of business transactions on the accounting equation.		Q1-15 Q1-16 Q1-17 Q1-19 BE1-6 BE1-7 E1-6 E1-7	D11-3 P1-4A E1-8 P1-5A E1-10 P1-1B E1-11 P1-2B P1-1A P1-4B P1-2A P1-5B			
8. Understand the four financial statements and how they are prepared.		Q1-18 Q1-20 BE1-11	Q1-21 E1-17 Q1-22 P1-2A BE1-10 P1-3A D11-4 P1-4A E1-8 P1-5A E1-9 P1-2B E1-12 P1-3B E1-14 P1-4B E1-15 P1-5B E1-16	E1-13		
Broadening Your Perspective		Real-World Focus	FASB Codification	Financial Reporting Comparative Analysis		Comparative Analysis Decision-Making Across the Organization Communication Activity Ethics Case

LEARNING OBJECTIVES

- 1. EXPLAIN WHAT ACCOUNTING IS.**
- 2. IDENTIFY THE USERS AND USES OF ACCOUNTING.**
- 3. UNDERSTAND WHY ETHICS IS A FUNDAMENTAL BUSINESS CONCEPT.**
- 4. EXPLAIN ACCOUNTING STANDARDS AND THE MEASUREMENT PRINCIPLES.**
- 5. EXPLAIN THE MONETARY UNIT ASSUMPTION AND THE ECONOMIC ENTITY ASSUMPTION.**
- 6. STATE THE ACCOUNTING EQUATION, AND DEFINE ITS COMPONENTS.**
- 7. ANALYZE THE EFFECTS OF BUSINESS TRANSACTIONS ON THE ACCOUNTING EQUATION.**
- 8. UNDERSTAND THE FOUR FINANCIAL STATEMENTS AND HOW THEY ARE PREPARED.**
- *9. EXPLAIN THE CAREER OPPORTUNITIES IN ACCOUNTING.**

CHAPTER REVIEW

Accounting Defined

1. (L.O. 1) **Accounting** is an information system that identifies, records, and communicates the economic events of an organization to interested users.
 - a. The first part of the process, **identifying**, involves identifying those events that are considered evidence of economic activity relevant to a particular business organization.
 - b. **Recording** is the keeping of a chronological diary of events, measured in dollars and cents.
 - c. **Communication** occurs through the preparation and distribution of accounting reports.
2. The accounting process consists of:

Identification → Recording → Communication.

3. (L.O. 2) **Internal users** of accounting information are managers who plan, organize, and run a business. These include marketing managers, production supervisors, finance directors, and company officers.
4. **External users** include investors, creditors, taxing authorities, regulatory agencies, labor unions, and customers.

Ethics

5. (L.O. 3) The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair, are **ethics**. The process of analyzing ethics cases and situations is to recognize that an ethical issue is involved, identify and analyze the principal elements in the situation (especially those harmed or benefited), identify the alternatives and weigh the impact of each alternative on the various stakeholders, then select the most ethical alternative.

Accounting Standards

6. (L.O. 4) Accountants present financial statements in conformity with accounting standards that are issued by standard-setting bodies.
7. Most countries follow standards referred to as International Financial Reporting Standards which are determined by the International Accounting Standards Board.
8. Most companies in the United States follow standards issued by the **Financial Accounting Standards Board** (FASB), referred to as generally accepted accounting principles (GAAP).
9. Under the **historical cost principle** assets should be recorded at their cost. Cost is the value exchanged at the time something is acquired. The **fair value principle** indicates that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

The Monetary Unit and Economic Entity Assumptions

10. (L.O. 5) The accounting profession has developed certain assumptions that serve as guidelines for the accounting process.
 - a. The **monetary unit assumption** requires that only transaction data that can be expressed in money terms be included in the accounting records.

- b. The **economic entity assumption** requires that the activities of the entity be kept separate and distinct from (1) the activities of its owner and (2) all other economic entities.

Business Enterprises

- 11. Three types of business enterprises are proprietorships, partnerships, and corporations.
 - a. A **proprietorship** is a business owned by one person.
 - b. A **partnership** is a business owned by two or more persons associated as partners.
 - c. A **corporation** is a business organized as a separate legal entity under corporation law with ownership divided into transferable shares.

The Accounting Equation

- 12. (L.O. 6) The **basic accounting equation** is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}.$$

The accounting equation applies to all economic entities regardless of size, nature of business, or form of business organization.

- 13. The key components of the basic accounting equation are:
 - a. **Assets** are resources owned.
 - b. **Liabilities** are claims against assets.
 - c. **Equity** is the claims of the shareholders.
- 14. In corporations, there are five subdivisions of equity:
 - a. **Share capital—ordinary** is the amounts paid in by shareholders for the ordinary shares purchased.
 - b. **Revenues** are the gross increase in equity resulting from business activities entered into for the purpose of earning income.
 - c. **Expenses** are the cost of assets consumed or services used in the process of earning revenue.
 - d. **Dividends** are distributions of cash or other assets to shareholders.
 - e. **Retained earnings** is determined by revenues, expenses, and dividends.
- 15. Revenues and expenses determine if a **net income** or **net loss** occurs as follows:
 - a. $\text{Revenues} > \text{Expenses} = \text{Net Income}.$
 - b. $\text{Revenues} < \text{Expenses} = \text{Net Loss}.$

Transactions

- 16. (L.O. 7) **Transactions** are the economic events of the enterprise recorded. Transactions may be identified as either external or internal transactions.
- 17. Each transaction must be analyzed in terms of its effect on the components of the basic accounting equation. The analysis must also identify the specific items affected and the amount of the change in each item.
- 18. Each transaction has a dual effect on the equation. For example, if an individual asset is increased, there must be a corresponding:
 - a. decrease in another asset, or

- b. increase in a specific liability, or
 - c. increase in equity.
19. A tabular summary may be prepared to show the cumulative effect of transactions on the basic accounting equation. The summary demonstrates that:
- a. Each transaction must be analyzed in terms of its effect on (1) the three components of the equation and (2) specific types of items within each component.
 - b. The two sides of the equation must always be equal.
 - c. The Share Capital and Retained Earnings columns indicate the causes of each change in the shareholders' claim on assets.

The Financial Statements

20. (L.O. 8) Four financial statements are prepared from the summarized accounting data:
- a. An **income statement** presents the revenues and expenses and resulting net income (or net loss) of a company for a specific period of time.
 - b. A **retained earnings statement** summarizes the changes in retained earnings for a specific period of time.
 - c. A **statement of financial position** reports the assets, liabilities, and equity at a specific date.
 - d. A **statement of cash flows** summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time.
21. The financial statements are **interrelated** because:
- a. Net income (or net loss) shown on the income statement is added (subtracted) to (from) the beginning balance of retained earnings in the retained earnings statement.
 - b. Retained earnings at the end of the reporting period shown in the retained earnings statement is reported in the statement of financial position.
 - c. The amount of cash shown on the statement of financial position is reported on the statement of cash flows.
22. In the income statement, revenues are listed first, followed by expenses. Then below expenses is the resulting amount of net income (or net loss).
23. The retained earnings statement shows the retained earnings at the beginning of the period, net income (or net loss) for the period, dividends, and the retained earnings at the end of the period.
24. In the statement of financial position, assets are listed at the top, followed by equity and liabilities.
25. The statement of cash flows reports the sources, uses, and net increase or decrease in cash. Chapter 13 will examine in detail how the statement is prepared.

***Careers in Accounting**

- *26. (L.O. 9) **Public accounting** provides the services of auditing, taxation, and management consulting.
- a. **Auditing** involves examining financial statements of companies and expressing an opinion as to the fairness of their presentation.
 - b. **Taxation** includes providing tax advice and planning, preparing tax returns, and representing clients before governmental agencies.
 - c. **Management consulting** involves providing advice for managers on such matters as financial planning and control and the development of computer systems.
- *27. **Private accounting** involves the employment of accountants within individual companies. The private accountant performs a wide variety of duties such as general accounting, cost accounting, budgeting, accounting information systems, tax accounting, and internal auditing.
- *28. Other opportunities for careers in accounting are available in government and forensic accounting.

LECTURE OUTLINE

A. What Accounting Is.

1. To identify economic events, a company identifies the economic events relevant to its business.
2. Once the company identifies economic events, it records those events in order to provide a history of its financial activities. Recording consists of keeping a systematic, chronological diary of events, measured in dollars and cents.
3. The company communicates the collected information to interested users by means of accounting reports which are called financial statements.
4. A vital element in communicating economic events is the accountant's ability to analyze and interpret the reported information. Interpretation involves explaining the uses, meaning, and limitations of reported data.
5. Bookkeeping usually involves only the recording of economic events and is therefore just one part of the accounting process. Accounting involves the entire process of identifying, recording, and communicating economic events.

TEACHING TIP

ILLUSTRATION 1-1 provides an overview of the accounting process and identifies the major users of accounting information.

B. Users and Uses of Accounting.

1. Internal users of accounting information are those individuals inside a company who plan, organize, and run a business. These include marketing managers, finance directors, and company officers.

2. External users are individuals and organizations outside a company who are either:
 - a. Investors or creditors: Investors use accounting information to make decisions to buy, hold, or sell ownership shares of a company. Creditors (suppliers and bankers) use accounting information to evaluate the risks of granting credit or lending money.
 - b. Other external users: These include taxing authorities (State Administration of Taxation in China), regulatory agencies (Federal Trade Commission), customers, and labor unions.

C. Ethics in Financial Reporting.

1. Ethics are the standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair. Effective financial reporting depends on sound ethical behavior.
2. In the process of analyzing ethics cases and situations, the following steps should be applied:
 - a. Recognize an ethical situation and the ethical issues involved.
 - b. Identify and analyze the principal elements in the situation.
 - c. Identify the alternatives, and weigh the impact of each alternative on various stakeholders.

D. Accounting Standards.

1. Accountants present financial statements in conformity with accounting standards that are issued by standard-setting bodies.
2. There are two primary accounting standard-setting bodies—the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).
 - a. Most countries follow standards referred to as International Financial Reporting Standards (IFRS) which are determined by the IASB.

- b. Most U.S. companies follow standards issued by the FASB, referred to as generally accepted accounting principles (GAAP).
- 3. Relevance means that financial information is capable of making a difference in a decision. Faithful representation means that the numbers and descriptions are factual.
- 4. The historical cost principle dictates that companies should record assets at their cost. This is also true over the time the asset is held.
- 5. The fair value principle indicates that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

E. Assumptions.

- 1. Monetary unit assumption.
 - a. Requires that companies include in the accounting records only transaction data that can be expressed in money terms. This assumption enables accounting to quantify (measure) economic events.
 - b. The monetary unit assumption is vital to applying the measurement principles.
- 2. Economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
 - a. A business owned by one person is generally a proprietorship.
 - b. A business owned by two or more persons associated as partners is a partnership.
 - c. A business organized as a separate legal entity under corporation law and having ownership divided into transferable shares is a corporation.

ACCOUNTING ACROSS THE ORGANIZATION

The study of accounting should help students a great deal, because a working knowledge of accounting is desirable for virtually every field of endeavor.

How might accounting help a student?

Answer: You will need to understand financial reports in any enterprise with which you are associated. Whether you become a business manager, doctor, lawyer, social worker, teacher, engineer, architect, or entrepreneur, a working knowledge of accounting is relevant.

F. The Basic Accounting Equation.

1. $\text{Assets} = \text{Liabilities} + \text{Equity}$.
2. Equality of the equation must be preserved.

TEACHING TIP

Use **ILLUSTRATION 1-2** to explain the basic accounting equation and to define the terms assets, liabilities, and equity.

G. Assets, Liabilities, and Equity.

1. Assets are resources a business owns. The business uses its assets in carrying out such activities as production and sales.
2. Liabilities are claims against assets. They are existing debts and obligations.
3. Equity is equal to total assets minus total liabilities; equity is the ownership claim on total assets. Equity generally consists of share capital—ordinary and retained earnings.
 - a. Share capital—ordinary is the amounts paid in by shareholders for the ordinary shares they purchase.
 - b. Retained earnings is determined by three items: revenues, expenses, and dividends.

4. Revenues are the gross increases in equity resulting from business activities entered into for the purpose of earning income.
5. Expenses are the cost of assets consumed or services used in the process of earning revenue.
6. Dividends are distributions of cash or other assets to shareholders; dividends reduce retained earnings.

H. Using the Accounting Equation.

1. Transactions (business transactions) are a business's economic events recorded by accountants.
2. A company must analyze each event to find out if it affects the components of the accounting equation.
3. Each transaction must have a dual effect on the accounting equation.
4. The expanded accounting equation is:

$$\text{Assets} = \text{Liabilities} + \text{Share Capital} + \text{Revenues} - \text{Expenses} - \text{Dividends}.$$

TEACHING TIP

Use **ILLUSTRATION 1-3** to demonstrate the analyzing and recording of business transactions in terms of the expanded accounting equation. The example also illustrates how the resulting information can be used to prepare financial statements.

I. Financial Statements.

1. An income statement presents the revenues and expenses and resulting net income or net loss for a specific period of time.
2. A retained earnings statement summarizes the changes in retained earnings for a specific period of time.
3. A statement of financial position reports the assets, liabilities, and equity of a company at a specific date.
4. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

ACCOUNTING ACROSS THE ORGANIZATION

Not every company uses December 31 as the accounting year-end. Many choose to end the accounting year when inventory or operations are at a low.

What year-end would a ski resort and ski rental business likely use? A college bookstore? Why would those year-ends be chosen?

Answer: Probable choices for a ski resort would be between May 31 and August 31.

For a college bookstore, a likely year-end would be June 30.

The optimum accounting year-end, especially for seasonal businesses, is a point when inventory and activities are lowest.

TEACHING TIP

ILLUSTRATION 1-4 is a short exercise that the instructor may use to stimulate student thinking about the dual nature of analyzing transactions in terms of the accounting equation.

***J. Accounting Career Opportunities.**

1. Individuals in public accounting offer expert service to the general public through the services they perform.
 - a. Auditing—A chartered accountant (CA) or certified public accountant (CPA) examines company financial statements and provides an opinion as to how accurately the financial statements present the company's results and financial position.
 - b. Taxation—Tax specialists provide tax advice and planning, prepare tax returns, and represent clients before governmental agencies.
 - c. Management Consulting—Management consultants assist in the installation of basic accounting software and provide support services for major marketing projects and merger and acquisition activities.
2. Private accountants are employees of a for-profit company and are involved in a number of activities including cost accounting, tax planning and preparation, accounting information system design and support, and internal auditing.
3. Government accounting opportunities include employment with tax authorities, law enforcement agencies, and corporate regulators.

20 MINUTE QUIZ

Circle the correct answer.

True/False

1. Accounting is the information system that identifies, records, and communicates the economic events of an organization to interested users.
True False
2. Bookkeeping deals with the record-keeping process and is only one aspect of accounting.
True False
3. Internal users are those who manage the business.
True False
4. The Financial Accounting Standards Board issues standards referred to as generally accepted accounting principles.
True False
5. Net income is the excess of revenues over expenses for the accounting period.
True False
6. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
True False
7. Collection of an accounts receivable will increase both cash and accounts receivable.
True False
8. An expense paid with cash would result in an equal decrease in liabilities and equity.
True False
9. Liabilities represent the ownership claim on total assets.
True False
- *10. Certified Public Accountants are only permitted to prepare audit reports and tax returns.
True False

Multiple Choice

1. All of the following are external users of accounting information except
 - a. labor unions.
 - b. taxing authorities.
 - c. regulatory agencies.
 - d. company officers.
2. Recording consists of
 - a. identifying and measuring economic events.
 - b. preparing and distributing accounting reports.
 - c. keeping a systematic, chronological diary of events, measured in dollars and cents.
 - d. identifying, measuring, receiving, and communicating economic events to interested users.
3. The financial statement that summarizes information about the cash inflows and outflows during a period is the
 - a. income statement.
 - b. retained earnings statement.
 - c. statement of financial position.
 - d. statement of cash flows.
4. Which of the following is **not** an acceptable statement of the basic accounting equation?
 - a. $\text{Assets} - \text{Liabilities} = \text{Equity}$
 - b. $\text{Assets} = \text{Liabilities} - \text{Equity}$
 - c. $\text{Assets} = \text{Liabilities} + \text{Equity}$
 - d. $\text{Assets} - \text{Equity} = \text{Liabilities}$
- *5. Accountants involved with cost accounting, budgeting, and internal auditing are part of which broad category within the accounting profession?
 - a. Government accounting
 - b. Management consulting
 - c. Public accounting
 - d. Private accounting

ANSWERS TO QUIZ

True/False

- | | |
|---------|------------|
| 1. True | 6. True |
| 2. True | 7. False |
| 3. True | 8. False |
| 4. True | 9. False |
| 5. True | *10. False |

Multiple Choice

- 1. d.
- 2. c.
- 3. d.
- 4. b.
- *5. d.

ILLUSTRATION 1-1 ACCOUNTING PROCESS

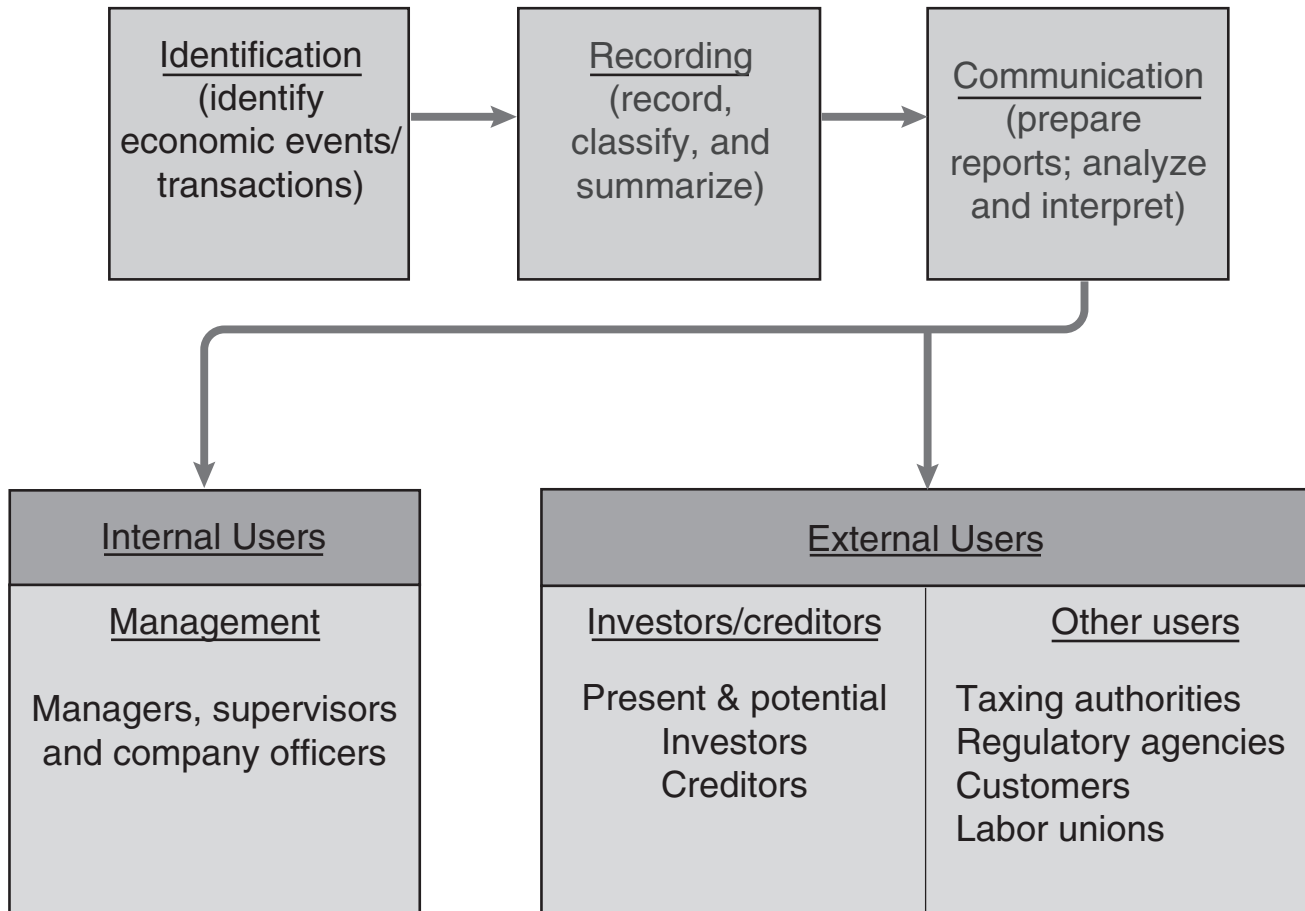


ILLUSTRATION 1-2 THE ACCOUNTING EQUATION

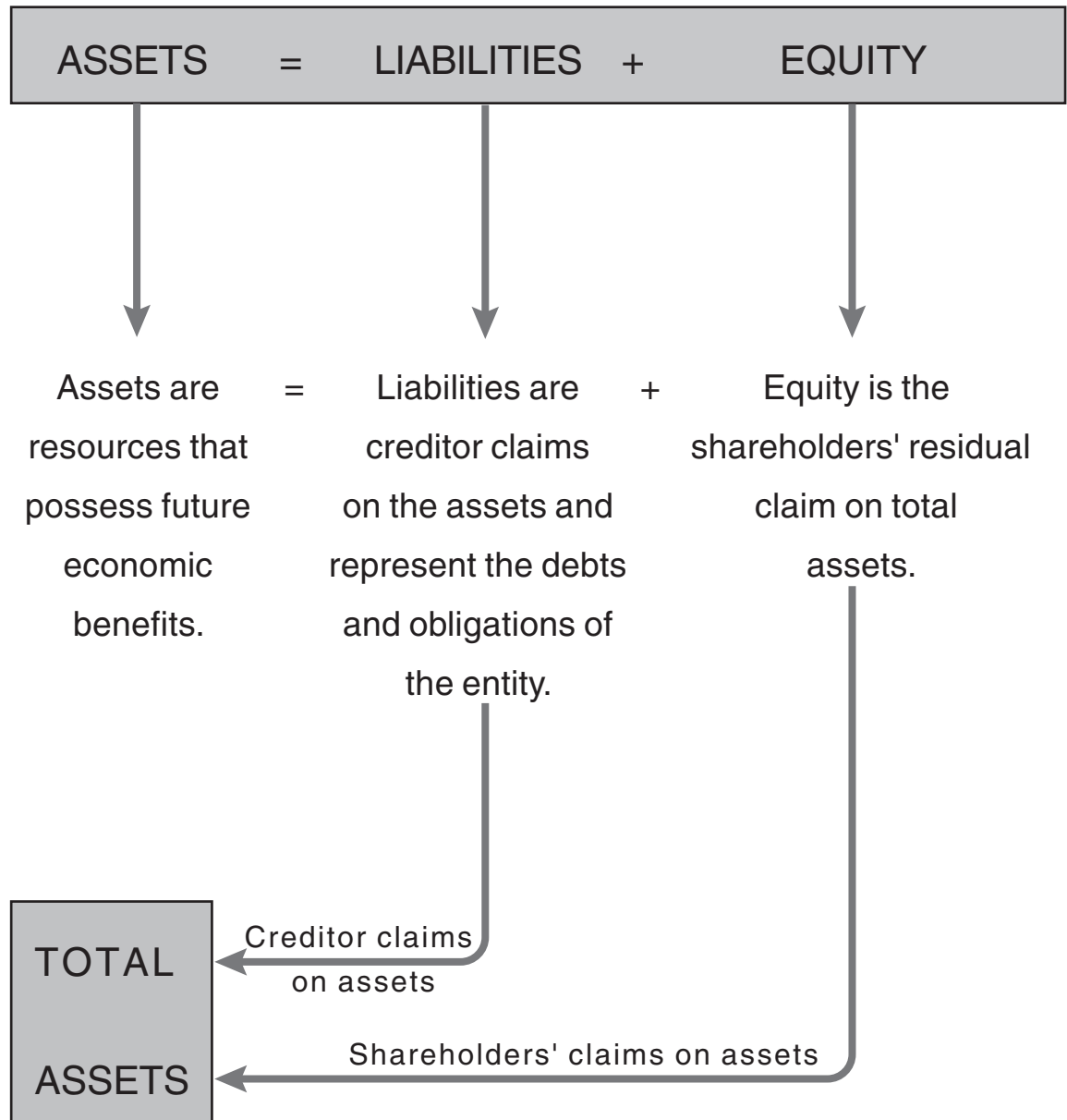


ILLUSTRATION 1-3 RECORDING BUSINESS TRANSACTIONS

A. Review of Selected Transactions

Mr. Sam Doty opened and incorporated a consulting firm during the month of September and provided you with the following data.

1. Invested \$8,000 in the business in exchange for ordinary shares.
2. Purchased \$500 of supplies on account.
3. Purchased \$4,000 of equipment on account.
4. Received \$3,000 cash for consulting services.
5. Paid salaries and wages of \$800.
6. Paid office rent for September of \$200.
7. Paid \$1,000 owed to creditor.
8. The corporation paid a \$1,500 dividend in cash to Sam Doty, the shareholder.

Instructions: Prepare the tabular summary for the transactions above.

Answer:

Summary of Transactions Month of September, 2014

Trans- action	Assets					=	Liabilities	+	Equity			
	Cash	+	Sup- plies	+	Equip- ment	=	Accounts Payable	+	Share Capital	Retained Earnings		
										Revenues	Expenses	Dividends
(1)	+\$8,000								+\$8,000			
(2)			+500				+\$500					
(3)					+\$4,000		+4,000					
(4)	+3,000									+3,000		
(5)	−800										−800	
(6)	−200										−200	
(7)	−1,000						−1,000					
(8)	−1,500											−1,500
	<u>\$7,500</u>	+	<u>\$500</u>	+	<u>\$4,000</u>	=	<u>\$3,500</u>	+	<u>\$8,000</u>	<u>+\$3,000</u>	<u>−\$1,000</u>	<u>−\$1,500</u>

ILLUSTRATION 1-3 (Continued)

B. Financial Statement Relationship to Transactions and Balances

1. Prepare the Income Statement and Retained Earnings Statement from the Retained Earnings Columns of the **Summary of Transactions** for the month of September.

Retained Earnings

+	3,000	(SERVICE REVENUE)
–	800	(SALARIES AND WAGES EXPENSE)
–	200	(RENT EXPENSE)
–	<u>1,500</u>	(DIVIDENDS)
	<u>\$500</u>	

Answer:

Sam Doty Consultant Income Statement For the Month Ended September 30, 2014		
Revenues		
Service revenue		\$3,000
Expenses		
Salaries and wages expense	\$800	
Rent expense	<u>200</u>	
Total expenses		<u>1,000</u>
Net income		<u>\$2,000</u>

Sam Doty Consultant Retained Earnings Statement For Month Ended September 30, 2014		
Retained Earnings, September 1	\$ –0–	
Add: Net income	<u>2,000</u>	
	2,000	
Less: Dividends	<u>1,500</u>	
Retained Earnings, September 30	<u>\$ 500</u>	

ILLUSTRATION 1-3 (Continued)

2. Prepare the Statement of Financial Position from the Month-end Balances of the **Summary of Transactions**

Assets	=	Liabilities	+	Equity
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Cash + Supplies + Equipment	=	Accounts Payable	+	Share Capital	+	R.E.
\$7,500 + \$500 + \$4,000	=	\$3,500	+	\$8,000	+	\$500*

*\$3,000 – \$1,000 – \$1,500

Answer:

Sam Doty Consultant Statement of Financial Position September 30, 2014	
Assets	
Equipment	\$ 4,000
Supplies	500
Cash	7,500
Total assets	<u>\$12,000</u>
Equity and Liabilities	
Equity	
Share capital—ordinary	\$8,000
Retained earnings	500
	<u>8,500</u>
Liabilities	
Accounts payable	<u>3,500</u>
Total equity and liabilities	<u>\$12,000</u>

ILLUSTRATION 1-3 (Continued)

3. Prepare the Statement of Cash Flows from the Cash Column of the **Summary of Transactions** for the month of September.

Sam Doty Consultant Statement of Cash Flows For the Month Ended September 30, 2014		
Cash flows from operating activities		
Cash receipts from customers		\$3,000
Cash payments for expenses		<u>1,000</u>
Net cash provided by operating activities		2,000
Cash flows from investing activities		
Payment for equipment		(1,000)
Cash flows from financing activities		
Sale of ordinary shares	\$8,000	
Dividends paid	<u>(1,500)</u>	<u>6,500</u>
Net increase in cash		7,500
Cash at the beginning of the period		<u>0</u>
Cash at the end of the period		<u><u>\$7,500</u></u>

ILLUSTRATION 1-4 ANALYZING TRANSACTIONS

Identify the various transactions indicated by the information provided:

1.	CASH increased.....	ACCOUNTS RECEIVABLE decreased_____
2.	RENT EXPENSE increased.....	CASH decreased_____
3.	SUPPLIES increased.....	ACCOUNTS PAYABLE increased_____
4.	EQUIPMENT increased.....	CASH decreased_____
5.	ACCOUNTS RECEIVABLE increased.....	REVENUE increased_____
6.	DIVIDENDS increased.....	CASH decreased_____

Continue exercise by asking students for a transaction which increases the following:

Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Share Capital—Ordinary.

Continue exercise by asking students for a transaction which decreases the following:

Cash, Accounts Receivable, Supplies, and Accounts Payable.

Answer:

1. Collection of an accounts receivable.
2. Payment of the current month's rent.
3. Purchase of supplies on account.
4. Purchase of equipment for cash.
5. Rendering of services for a customer on account.
6. The payment of a cash dividend.