

# FINANCE AT A GLANCE

## More examples of transactions and their effects on the balance sheet

### Lesson 03

In this lesson, we shall show more examples of transactions and how they affect the balance sheet. We shall show as well that after every transaction,

$$\text{ASSETS} = \text{LIABILITIES} + \text{SHAREHOLDER'S EQUITY}$$

As a review of Lesson 2, we showed that on Day 2, when the Company used \$1,000 Cash to acquire more Equipment costing \$1,000, the effect on the balance sheet was a decrease of \$ 1000 in Cash, and an increase of \$1,000 in Equipment. We also showed that on Day 3, when the Company acquired more Inventories worth \$500 on credit, the effect on the balance sheet was an increase of \$500 in Inventories and increase of \$500 in Accounts payable. We proved that at the end of each day, the Total Assets = Total Liabilities and Shareholder's Equity.

	Paid Cash to acquire \$1000 of Equipment		Acquired Inventories worth \$500 on credit		
	As of Day 1	Adjustments	As of Day 2	Adjustments	As of Day 3
<b>ASSETS</b>					
Cash	5,000	minus 1,000	4,000		4,000
Inventories	10,000		10,000	plus 500	10,500
Equipment	15,000	plus 1,000	16,000		16,000
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<b>Total Assets</b>	30,000		30,000		30,500
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Accounts payable	4,000		4,000	plus 500	4,500
Long-term debt	6,000		6,000		6,000
Capital stock	20,000		20,000		20,000
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<b>Total Liabilities and Shareholders' Equity</b>	30,000		30,000		30,500

On Day 4, the bank released an additional Long-Term debt worth \$2,000, and the bank put that sum in the bank account of the Company. The effect of this transaction was an increase of \$2,000 in Long-term debt, and an increase of \$2,000 in Cash.

	As of Day 3	Adjustments	As of Day 4
<b>ASSETS</b>			
Cash	4,000	plus 2,000	6,000
Inventories	10,500		10,500
Equipment	16,000		16,000
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<b>Total Assets</b>	30,500		32,500
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable	4,500		4,500
Long-term debt	6,000	plus 2,000	8,000
Capital stock	20,000		20,000
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<b>Total Liabilities and Shareholders' Equity</b>	30,500		32,500

On Day 5, one of shareholders put in an additional investment of \$1,500 by depositing this amount into the Company's bank account. This resulted into an increase of \$1,500 in Capital stock, and an increase of \$1,500 in Cash.

	As of Day 4	Adjustments	As of Day 5
<b>ASSETS</b>			
Cash	6,000	plus 1,500	7,500
Inventories	10,500		10,500
Equipment	16,000		16,000
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<b>Total Assets</b>	32,500		34,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable	4,500		4,500
Long-term debt	8,000		8,000
Capital stock	20,000	plus 1,500	21,500
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<b>Total Liabilities and Shareholders' Equity</b>	32,500		34,000

On Day 6, the Company paid its supplier the amount of \$300. This reduces the Cash balance by \$300, and the Accounts Payable (the amount the Company owes its suppliers) by \$300.

	As of Day 5	Adjustments	As of Day 6
<b>ASSETS</b>			
Cash	7,500	minus 300	7,200
Inventories	10,500		10,500
Equipment	16,000		16,000
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<b>Total Assets</b>	<b>34,000</b>		<b>33,700</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable	4,500	minus 300	4,200
Long-term debt	8,000		8,000
Capital stock	21,500		21,500
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<b>Total Liabilities and Shareholders' Equity</b>	<b>34,000</b>		<b>33,700</b>

Finally, on Day 7, the Company acquired inventories worth \$400. Fifty percent of that amount was paid in Cash and 50% was on credit. This transaction increased the Inventories by \$400, reduced the Cash by \$200, and increased the Accounts payable by \$200.

	As of Day 6	Adjustments	As of Day 7
<b>ASSETS</b>			
Cash	7,200	minus 200	7,000
Inventories	10,500	plus 400	10,900
Equipment	16,000		16,000
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<b>Total Assets</b>	<b>33,700</b>		<b>33,900</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Accounts payable	4,200	plus 200	4,400
Long-term debt	8,000		8,000
Capital stock	21,500		21,500
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<b>Total Liabilities and Shareholders' Equity</b>	<b>33,700</b>		<b>33,900</b>

By now, you see that after all the transactions, the equation **ASSETS = LIABILITIES + SHAREHOLDER'S EQUITY** remained true.

In the next lesson, we shall talk into the ASSETS side of the balance. We shall present to you other kinds of Assets, and explain in general what Assets are. Thank you for your attention, and see you again in our next lesson.

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