



# BACHELOR of ECONOMICS



**Thammasat University  
Faculty of Economics  
Bachelor of Economics (International Program)**

# AC 201

## Fundamental Accounting

**Semester 1/2015**

### Course Materials

**Topics:**

Chapter 2 Investing and Financing Decisions  
and the Accounting System

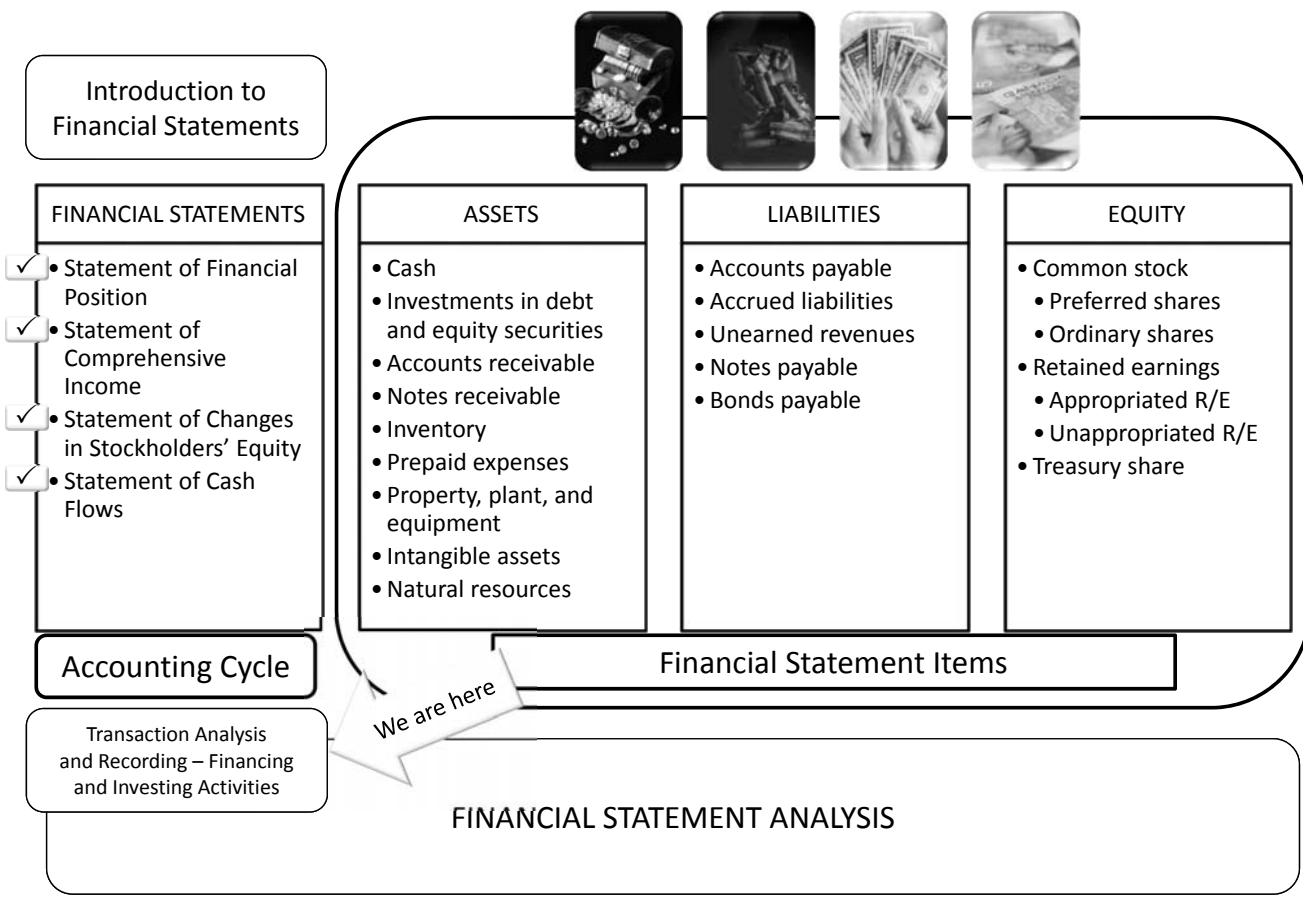
**Session:**

Session #2

**Instructor:**

Ajarn Santana Singhasaneh





AC201 Fundamental Accounting

**BACHELOR of ECONOMICS**

**CHAPTER 2:  
INVESTING AND FINANCING  
DECISIONS AND THE ACCOUNTING  
SYSTEM**

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## Overview of Accounting Concepts



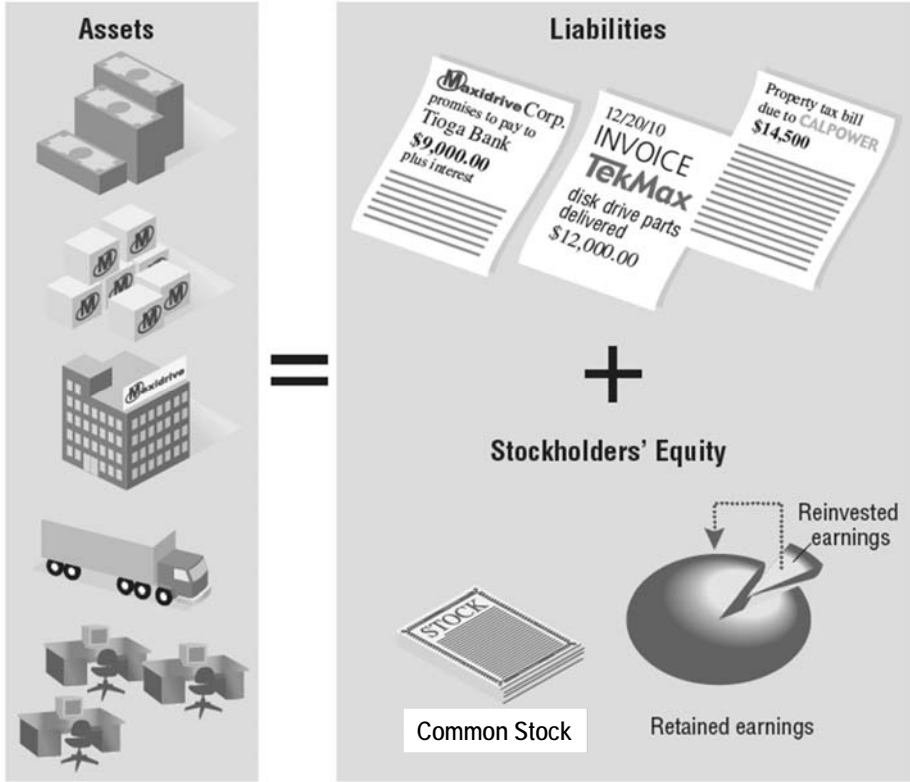
## Accounting Assumptions & Principle

Four accounting assumptions & principle underlie reporting on the statement of financial position:

- a) **Separate-entity assumption** – transactions of the business are accounted for separately from transactions of the owner.
- b) **Unit-of-measure assumption** – financial information is reported in the national monetary unit.
- c) **Continuity (going-concern) assumption** – a business is expected to continue to operate into the foreseeable future.
- d) **Historical cost principle** – financial statements elements should be recorded at the cash-equivalent cost on the date of the transaction.



# The Accounting Equation



# Elements of Statement of Financial Position

$$A = L + SE$$

Economic resources with probable future benefits owned or controlled by the entity. Measured by the historical cost principle.

Probable debts or obligations (claims to a company's resources) that result from a company's past transactions and will be paid with assets or services. Entities that a company owes money to are called creditors.

The financing provided by the owners and by business operations. Often referred to as common stock and retained earnings.

**Assets** = **Liabilities** + **Owners' Equity**  
 [Resources] [A method of financing resources that requires repayment]\* [A method of financing resources that does not require repayment and represents ownership interests in the business]



## Papa John's Statement of Financial Position

Papa John's Statement of Financial Position as at **December 31, 2008**

| PAPA JOHN'S INTERNATIONAL, INC.<br>Consolidated Balance Sheet<br>December 31, 2008<br>(dollars in thousands) |                              |                |                  |
|--|------------------------------|----------------|------------------|
| <b>ASSETS</b>  |                              |                |                  |
| <b>Current Assets</b>  |                              |                |                  |
| Current assets   | Cash                         | High Liquidity | \$ 11,000        |
|  | Accounts receivable          |                | 24,000           |
|  | Supplies                     |                | 17,000           |
|  | Prepaid expenses             |                | 10,000           |
|  | Other current assets         |                | <u>13,000</u>    |
| <b>Total current assets</b>  |                              |                | 75,000           |
| <b>Noncurrent Assets</b>   |                              |                |                  |
| Noncurrent assets  | Investments                  |                | 1,000            |
|  | Property and equipment (net) |                | 190,000          |
|  | Notes receivable             |                | 8,000            |
|  | Intangibles                  |                | 77,000           |
|  | Other assets                 |                | <u>36,000</u>    |
| <b>Total assets</b>  |                              |                | <u>\$387,000</u> |

point in time the balance sheet is prepared  
 (at year-end in this case)

*payments due from franchisees and others on account food, beverages, and paper supplies on hand rent, advertising, and/or insurance paid in advance a summary of several current assets with smaller balances*

*another company's stocks and bonds purchased with excess cash the remaining cost of long-lived assets to be used in future operations (original cost \$388,000 minus \$198,000, the estimated portion of cost already used in the past) long-term amounts due from franchisees patents, trademarks, and goodwill a summary of several long-term assets with smaller balances*

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## Papa John's Statement of Financial Position

Papa John's Statement of Financial Position as at **December 31, 2008**  
(cont'd)

| LIABILITIES AND STOCKHOLDERS' EQUITY              |                             |                   |                  |
|---|-----------------------------|-------------------|------------------|
| <b>Current Liabilities</b>                        |                             |                   |                  |
| Current liabilities                               | Accounts payable            | Shortest Maturity | \$ 29,000        |
|   | Accrued expenses payable    |                   | <u>71,000</u>    |
| <b>Total current liabilities</b>                  |                             |                   | 100,000          |
| <b>Noncurrent Liabilities</b>                     |                             |                   |                  |
| Noncurrent liabilities                            | Unearned franchise fees     |                   | 6,000            |
|   | Notes payable               |                   | 124,000          |
|   | Other long-term liabilities |                   | <u>27,000</u>    |
| <b>Total liabilities</b>                          |                             |                   | 257,000          |
| <b>Stockholders' Equity*</b>                      |                             |                   |                  |
|   | Common Stock                |                   | 7,000            |
|   | Retained earnings           |                   | <u>123,000</u>   |
| <b>Total stockholders' equity</b>                 |                             |                   | 130,000          |
| <b>Total liabilities and stockholders' equity</b> |                             |                   | <u>\$387,000</u> |

Shortest Maturity  
 ↓  
 Longest Maturity

*payments due to suppliers a summary of payroll, rent, and other obligations*

*amounts paid by franchisees for services they will receive loans from creditors*

*amounts received from contributors (investors) cumulative profits not distributed to investors*

**Investment Reinvestment**

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## What Business Activities Cause Changes in Financial Statement Amounts ?

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## Transactions

**Transactions** are events that have an economic impact on the entity.

Transactions include 2 types of events:

- **External event** - an exchange between a business and one or more external parties to a business
- **Internal event** - a measurable internal event, such as adjustments for the use of assets in operations.

**Nature of Business Transactions:**  
Most transactions with external parties involve an exchange where the business entity gives up something and promise to repay or receives something in return.



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## Accounts

An account is a standardized format that organizations use to accumulate the dollar effects of transactions related to each financial statement item.



## Accounts

### EXHIBIT 3.6 Chart of Accounts for a Typical Company

#### Assets (100–199)

##### Current Assets (100–150):

- 101 Cash
- 103 Notes Receivable
- 105 Accounts Receivable
- 107 Inventory
- 108 Supplies

##### Long-Term Assets (151–199):

- 151 Land
- 152 Buildings
- 154 Office Furniture or Equipment

#### Liabilities (200–299)

##### Current Liabilities (200–219):

- 201 Notes Payable
- 202 Accounts Payable
- 203 Salaries Payable
- 204 Interest Payable
- 206 Income Taxes Payable

##### Long-Term Liabilities (220–239):

- 222 Mortgage Payable

#### Owners' Equity (300–399)

- 301 Capital Stock
- 330 Retained Earnings

#### Sales (400–499)

- 400 Sales Revenue

#### Expenses (500–599)

- 500 Cost of Goods Sold
- 501 Sales Salaries and Commissions
- 523 Rent Expense
- 525 Travel Expense
- 528 Advertising Expense
- 551 Officers' Salaries
- 553 Administrative Salaries
- 570 Payroll Taxes
- 571 Office Supplies Expense
- 573 Utilities Expense
- 578 Office Equipment Rent Expense
- 579 Accounting and Legal Fees



## Statement of Financial Position Accounts

### Typical Statement of Financial Position Account Titles

#### Assets

Cash  
Short-Term Investment  
Accounts Receivable  
Notes Receivable  
Inventory (to be sold)  
Supplies  
Prepaid Expenses  
Long-Term Investments  
Equipment  
Buildings  
Land  
Intangibles

#### Liabilities

Accounts Payable  
Accrued Expenses  
Notes Payable  
Taxes Payable  
Unearned Revenue  
Bonds Payable

#### Stockholders' Equity

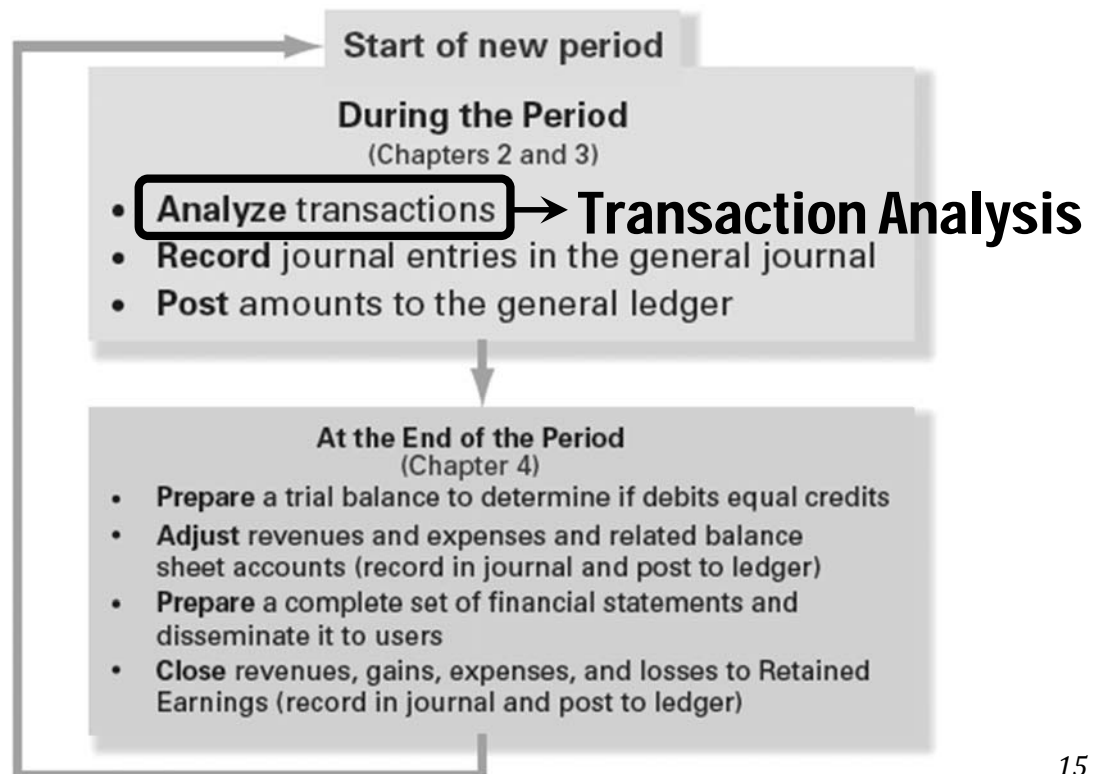
Common stock  
Retained Earnings



## How do Transactions Affect Accounts ?



## The Accounting Cycle



## Principles of Transaction Analysis

### 1. Dual Effects

Every transaction affects **at least two accounts**.

### 2. Balancing the Accounting Equation

The accounting equation must remain **in balance** after each transaction.

$$A = L + SE$$



## Steps of Transaction Analysis

### Step 1: Identify and classify accounts and effects

- **Identify the accounts (by title) affected** and make sure at least two accounts change.
- **Classify them by type of account.**  
Was each account an asset (A), a liability (L), or a stockholders' equity (SE)?
- **Determine the direction of the effects.**  
Did the account increase [+] or decrease [-]?

### Step 2: Verify account equation is in balance

- **Verify that the accounting equation (A = L + SE) remains in balance.**

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## Using Accounts to Categorize Transactions

- An account is a specific accounting record that provides an efficient way to categorize similar transactions.
- An individual account is a summary of every transaction affecting a certain item (like cash).

| Assets |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
| Cash   | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    |             |        |                  |   |                   |               |   |                      |                   |
| (b)    |             |        |                  |   |                   |               |   |                      |                   |
| (c)    |             |        |                  |   |                   |               |   |                      |                   |
| (d)    |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |             |        |                  |   |                   |               |   |                      |                   |
| Effect |             |        |                  | = |                   |               |   |                      |                   |

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## Transaction Analysis: Example Part I

### Papa John's Statement of Financial Position as at December 31, 2008

| PAPA JOHN'S INTERNATIONAL, INC.<br>Consolidated Balance Sheet<br>December 31, 2008<br>(dollars in thousands) |                              | <i>point in time the balance sheet is prepared<br/>(at year-end in this case)</i> |  |
|--|------------------------------|---|--|
| <b>ASSETS</b>  |                              |   |  |
| <b>Current Assets</b>  |                              |   |  |
| Current assets   | Cash                         | \$ 11,000   |  |
|  | Accounts receivable          | 24,000  | <i>payments due from franchisees and others on account</i>   |
|  | Supplies                     | 17,000  | <i>food, beverages, and paper supplies on hand</i>   |
|  | Prepaid expenses             | 10,000  | <i>rent, advertising, and/or insurance paid in advance</i>   |
|  | Other current assets         | <u>13,000</u>   | <i>a summary of several current assets with smaller balances</i>   |
| <b>Total current assets</b>  | <b>75,000</b>                |   |  |
| Noncurrent assets  | Investments                  | 1,000   | <i>another company's stocks and bonds purchased with excess cash</i>   |
|  | Property and equipment (net) | 190,000   | <i>the remaining cost of long-lived assets to be used in future operations (original cost \$388,000 minus \$198,000, the estimated portion of cost already used in the past)</i> |
|  | Notes receivable             | 8,000   | <i>long-term amounts due from franchisees</i>  |
|  | Intangibles                  | 77,000  | <i>patents, trademarks, and goodwill</i>   |
| Other assets   | <u>36,000</u>                | <i>a summary of several long-term assets with smaller balances</i>                |  |
| <b>Total assets</b>  | <b><u>\$387,000</u></b>      |   |  |

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## Transaction Analysis: Example Part I

### Papa John's Statement of Financial Position as at December 31, 2008 (cont'd)

| LIABILITIES AND STOCKHOLDERS' EQUITY              |                             |                |   |
|---|-----------------------------|----------------|---|
| <b>Current Liabilities</b>                        |                             |                |   |
| Current liabilities                               | Accounts payable            | \$ 29,000      | <i>payments due to suppliers</i>                                  |
|   | Accrued expenses payable    | <u>71,000</u>  | <i>a summary of payroll, rent, and other obligations</i>          |
| <b>Total current liabilities</b>                  | <b>100,000</b>              |                |   |
| Noncurrent liabilities                            | Unearned franchise fees     | 6,000          | <i>amounts paid by franchisees for services they will receive</i> |
|   | Notes payable               | 124,000        | <i>loans from creditors</i>                                       |
|   | Other long-term liabilities | <u>27,000</u>  |   |
| <b>Total liabilities</b>                          | <b>257,000</b>              |                |   |
| <b>Stockholders' Equity*</b>                      |                             |                |   |
|   | Common Stock                | 7,000          | <i>amounts received from contributors (investors)</i>             |
|   | Retained earnings           | <u>123,000</u> | <i>cumulative profits not distributed to investors</i>            |
| <b>Total stockholders' equity</b>                 | <b>130,000</b>              |                |   |
| <b>Total liabilities and stockholders' equity</b> | <b><u>\$387,000</u></b>     |                |   |

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## Transaction Analysis: Example Part I

Followings were transactions incurred during the month of **January 2009** for Papa John's International Inc.:

- (a) Papa John's issues \$2,000 of additional common stock to new investors for cash.
- (b) Papa John's borrows \$6,000 from the bank signing a three-year note.
- (c) Papa John's purchases new ovens, counters, refrigerators, and other equipment costing \$10,000, paying \$2,000 in cash and signing a two-year note for the balance.
- (d) Papa John's lends \$3,000 cash to new franchisees who sign notes to be repaid in five years.
- (e) Papa John's purchases the stock of another company as a long-term investment, paying \$1,000 in cash.
- (f) The board of directors declares that Papa John's will pay \$3,000 in cash dividends to shareholder next month.

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## Analyzing Transactions (1)

- (a) Papa John's issues \$2,000 of additional common stock to new investors for cash.

### Step 1: Identify and classify accounts and effects

- 1. Cash (+A) \$2,000.
- 2. Common stock (+SE) \$2,000.

### Step 2: Is the accounting equation in balance?

|        | Assets |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|--------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash   | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000  |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (c)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (d)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |        |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 2,000  |             |        |                  | = | 2,000             |               |   |                      |                   |

$$A = L + SE$$

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## Analyzing Transactions (2)

(b) Papa John's borrows \$6,000 from the bank signing a three-year note.

### Step 1: Identify and classify accounts and effects

1. Cash (+A) \$6,000.
2. Notes Payable (+L) \$6,000.

### Step 2: Is the accounting equation in balance?

|        | Assets |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|--------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash   | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000  |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000  |             |        |                  |   | 6,000             |               |   |                      |                   |
| (c)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (d)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |        |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 8,000  |             |        |                  | = | 8,000             |               |   |                      |                   |

$$A = L + SE$$

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## Analyzing Transactions (3)

(c) Papa John's purchases new ovens, counters, refrigerators, and other equipment costing \$10,000, paying \$2,000 in cash and signing a two-year note for the balance.

### Step 1: Identify and classify accounts and effects

1. Equipment (+A) \$10,000.
2. Cash (-A) \$2,000
- Notes Payable (+L) \$8,000.

### Step 2: Is the accounting equation in balance?

|        | Assets  |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|---------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash    | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000   |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000   |             |        |                  |   | 6,000             |               |   |                      |                   |
| (c)    | (2,000) |             | 10,000 |                  |   | 8,000             |               |   |                      |                   |
| (d)    |         |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |         |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |         |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 16,000  |             |        |                  | = | 16,000            |               |   |                      |                   |

$$A = L + SE$$

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## Analyzing Transactions (4)

- (d) Papa John's lends \$3,000 cash to new franchisees who sign notes to be repaid in five years.

### Step 1: Identify and classify accounts and effects

1. Notes Receivable (+A) \$3,000. 2. Cash (-A) \$3,000.

### Step 2: Is the accounting equation in balance?

|        | Assets  |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|---------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash    | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Contributed Capital  | Retained Earnings |
| (a)    | 2,000   |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000   |             |        |                  |   |                   | 6,000         |   |                      |                   |
| (c)    | (2,000) |             | 10,000 |                  |   |                   | 8,000         |   |                      |                   |
| (d)    | (3,000) |             |        | 3,000            |   |                   |               |   |                      |                   |
| (e)    |         |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |         |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 16,000  |             |        |                  | = | 16,000            |               |   |                      |                   |

$$A = L + SE$$

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## Analyzing Transactions (5)

- (e) Papa John's purchases the stock of another company as a long-term investment, paying \$1,000 in cash.

### Step 1: Identify and classify accounts and effects

1. Investment (+A) \$1,000. 2. Cash (-A) \$1,000.

### Step 2: Is the accounting equation in balance?

|        | Assets  |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|---------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash    | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000   |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000   |             |        |                  |   |                   | 6,000         |   |                      |                   |
| (c)    | (2,000) |             | 10,000 |                  |   |                   | 8,000         |   |                      |                   |
| (d)    | (3,000) |             |        | 3,000            |   |                   |               |   |                      |                   |
| (e)    | (1,000) | 1,000       |        |                  |   |                   |               |   |                      |                   |
| (f)    |         |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 16,000  |             |        |                  | = | 16,000            |               |   |                      |                   |

$$A = L + SE$$

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## Analyzing Transactions (6)

- (f) The board of directors declares that Papa John's will pay \$3,000 in cash dividends to shareholder next month.

### Step 1: Identify and classify accounts and effects

1. Retained Earnings (-SE) \$3,000.    2. Dividends Payable (+L) \$3,000.

### Step 2: Is the accounting equation in balance?

|        | Assets  |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|---------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash    | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000   |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000   |             |        |                  |   |                   | 6,000         |   |                      |                   |
| (c)    | (2,000) |             | 10,000 |                  |   |                   | 8,000         |   |                      |                   |
| (d)    | (3,000) |             |        | 3,000            |   |                   |               |   |                      |                   |
| (e)    | (1,000) | 1,000       |        |                  |   |                   |               |   |                      |                   |
| (f)    |         |             |        |                  |   | 3,000             |               |   |                      | (3,000)           |
| Effect | 16,000  |             |        |                  | = | 16,000            |               |   |                      |                   |

$$A = L + SE$$

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## How do Companies Keep Track of Account Balances ?

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## How Do Companies Keep Track of Account Balances ?

- There are difficulties of tracking multiple accounts, involving hundreds of transactions, using the spreadsheet method below while doing all the computations by hand.

|        | Assets  |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|---------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash    | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000   |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000   |             |        |                  |   |                   | 6,000         |   |                      |                   |
| (c)    | (2,000) |             | 10,000 |                  |   |                   | 8,000         |   |                      |                   |
| (d)    | (3,000) |             |        | 3,000            |   |                   |               |   |                      |                   |
| (e)    | (1,000) | 1,000       |        |                  |   |                   |               |   |                      |                   |
| (f)    |         |             |        |                  |   | 3,000             |               |   |                      | (3,000)           |
| Effect | 16,000  |             |        |                  | = | 16,000            |               |   |                      |                   |



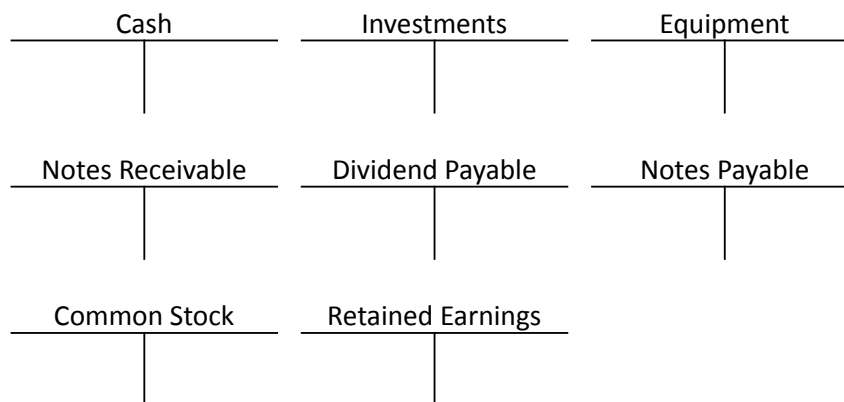
## How Do Companies Keep Track of Account Balances ?

- The problem can be solved by separating the “+” and the “-” for each account into separate columns, totaling each column, and then computing the difference between the columns to arrive at an ending balance.
- The simplest, most fundamental format is the configuration of the letter T. This is called a **T-account**.
- A T-account is an abbreviated representation of an actual account (illustrated later) and is used as a teaching and learning tool.



## How Do Companies Keep Track of Account Balances ?

- The followings are examples of T-accounts, representing the transactions described previously.
- The account title (Cash, for example) appears at the top of the T-account. Transaction amounts may be recorded on both the left side and the right side of the T-account.



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## How Do Companies Keep Track of Account Balances ?

- Instead of using the terms left and right to indicate which side of a T-account is affected, terms unique to accounting were developed.
- **Debit** (abbreviated Dr) is used to indicate the left side of a T-account.
- **Credit** (abbreviated Cr) is used to indicate the right side of a T-account.
- **Debit means left, credit means right.**

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## How Do Companies Keep Track of Account Balances ?

| Assets                              |               | = | Liabilities  |                                      | + | Stockholders' Equity |                                      |
|-------------------------------------|---------------|---|--------------|--------------------------------------|---|----------------------|--------------------------------------|
| <b>Debit</b>                        | <b>Credit</b> |   | <b>Debit</b> | <b>Credit</b>                        |   | <b>Debit</b>         | <b>Credit</b>                        |
| (+)                                 | (-)           |   | (-)          | (+)                                  |   | (-)                  | (+)                                  |
| Accounts have normal debit balances |               |   |              | Accounts have normal credit balances |   |                      | Accounts have normal credit balances |

### Asset accounts

are increased by *debits* and decreased by *credits*.

→ Assets accounts have **normal debit balances**.

### Liability and owners' equity accounts

are decreased by *debits* and increased by *credits*.

→ Liability and owners' equity accounts have **normal credit balances**.

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## How Do Companies Keep Track of Account Balances ?

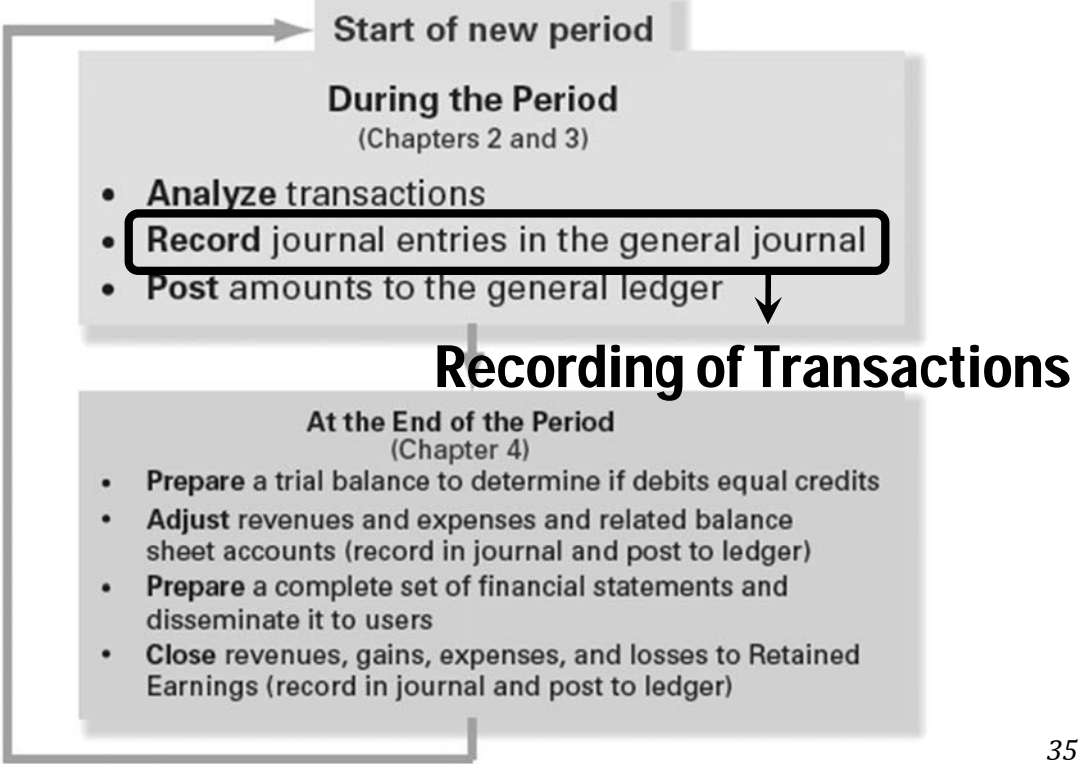
### Basic facts regarding **double-entry accounting**:

1. Debits are always entered on the left side of an account and credits on the right side.
2. For every transaction, there must be at least one debit and one credit.
3. Debits must always equal credits for each transaction.

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# The Accounting Cycle



# Recording of Transactions (1)

Two important tools used by accountants:

- Journal Entries** – After analyzing a transaction, the effects of the transaction is recorded in a debits-equal-credits format.  
The accounts and amounts to be debited are listed first. Then the accounts and amounts to be credited are listed below the debits and indented, resulting in debits on the left and credits on the right.

**General Journal Entry Format**

|      |                    |    |    |
|------|--------------------|----|----|
| Date | Debit Entry .....  | XX |    |
|      | Credit Entry ..... |    | XX |
|      | Explanation.       |    |    |



## Recording of Transactions (2)

A journal entry might look like this:

|     |                             | Debit  | Credit |
|-----|-----------------------------|--------|--------|
| (c) | Property and Equipment (+A) | 10,000 |        |
|     | Cash (-A)                   |        | 2,000  |
|     | Notes Payable (+L)          |        | 8,000  |

Reference:  
Letter,  
number, or  
date.

Account Titles:  
Debited accounts on top.  
Credited accounts on bottom  
usually indented.

Amounts:  
Debited amounts on left.  
Credited amounts on right.

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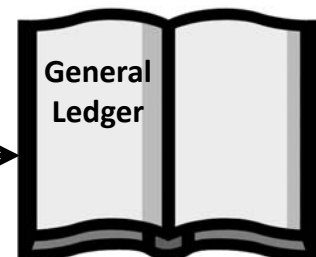


## Posting the Transactions (1)

After journal entries are prepared, the accountant **posts** (transfers) the dollar amounts to each account affected by the transaction to the **General Ledger**

|     |                             | Debit  | Credit |
|-----|-----------------------------|--------|--------|
| (c) | Property and Equipment (+A) | 10,000 |        |
|     | Cash (-A)                   |        | 2,000  |
|     | Notes Payable (+L)          |        | 8,000  |

Post →



Journal entries  
do NOT provide  
the account balances

Posting to general ledgers  
help determining  
the account balances

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## Posting the Transactions (2)

### 2. T-Account

- a simplified representation of a ledger account
- a useful tool for summarizing the transactions effects and determining the balances for each account.

| 101 - Cash    |        |
|---------------|--------|
| 12/31/08 Bal. | 11,000 |
| 1/2/09        | 2,000  |
| 1/6/09        | 6,000  |
|               | <hr/>  |
|               | 19,000 |

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## Analyzing the Transaction - Transaction (a)

- (a) Papa John's issues \$2,000 of additional common stock to new investors for cash.

### Step 1: Identify and classify accounts and effects

1. Cash (+A) \$2,000.                      2. Common stock (+SE) \$2,000.

### Step 2: Is the accounting equation in balance?

|        | Assets |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|--------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash   | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000  |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (c)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (d)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |        |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 2,000  |             |        |                  | = | 2,000             |               |   |                      |                   |

$$A = L + SE$$

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## Recording & Posting - Transaction (a)

- (a) Papa John's issues \$2,000 of additional common stock to new investors for cash.

| General Journal |                                |      |       |        |
|-----------------|--------------------------------|------|-------|--------|
| Date            | Account Titles and Explanation | Ref. | Debit | Credit |
| 1/2/09          | Cash                           | 101  | 2,000 |        |
|                 | Common Stock                   | 301  |       | 2,000  |
|                 | Investment by stockholders     |      |       |        |

| 101 - Cash    |        |
|---------------|--------|
| 12/31/08 Bal. | 11,000 |
| 1/2/09        | 2,000  |
| 13,000        |        |

| 301 - Common Stock |       |
|--------------------|-------|
| 12/31/08 Bal.      | 7,000 |
| 1/2/09             | 2,000 |
| 9,000              |       |

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## Analyzing the Transaction - Transaction (b)

- (b) Papa John's borrows \$6,000 from the bank signing a three-year note.

### Step 1: Identify and classify accounts and effects

1. Cash (+A) \$6,000.                      2. Notes Payable (+L) \$6,000.

### Step 2: Is the accounting equation in balance?

|        | Assets |             |        |                  | = | Liabilities       |               | + | Stockholders' Equity |                   |
|--------|--------|-------------|--------|------------------|---|-------------------|---------------|---|----------------------|-------------------|
|        | Cash   | Investments | Equip. | Notes Receivable |   | Dividends Payable | Notes Payable |   | Common Stock         | Retained Earnings |
| (a)    | 2,000  |             |        |                  |   |                   |               |   | 2,000                |                   |
| (b)    | 6,000  |             |        |                  |   |                   | 6,000         |   |                      |                   |
| (c)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (d)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (e)    |        |             |        |                  |   |                   |               |   |                      |                   |
| (f)    |        |             |        |                  |   |                   |               |   |                      |                   |
| Effect | 8,000  |             |        |                  | = | 8,000             |               |   |                      |                   |

A = L + SE

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## Recording & Posting - Transaction (b)

(b) Papa John's borrows \$6,000 from the bank signing a three-year note.

| General Journal |                                |      |       |        |
|-----------------|--------------------------------|------|-------|--------|
| Date            | Account Titles and Explanation | Ref. | Debit | Credit |
| 1/6/09          | Cash                           | 101  | 6,000 |        |
|                 | Notes Payable                  | 204  |       | 6,000  |
|                 | Borrowed from bank             |      |       |        |

| 101 - Cash    |               |
|---------------|---------------|
| 12/31/08 Bal. | 11,000        |
| 1/2/09        | 2,000         |
| 1/6/09        | 6,000         |
|               | <u>19,000</u> |

| 204 - Notes Payable |                |
|---------------------|----------------|
| 12/31/08 Bal.       | 124,000        |
| 1/6/09              | 6,000          |
|                     | <u>130,000</u> |



Following are the T-accounts (in thousands of dollars) that **changed** during the period because of these transactions. The beginning balances are the amounts from the December 31, 2008, Papa John's balance sheet. The balances of all other accounts remained the same.

| + Cash (A) -  |               | + Investments (A) - |              | + Property and Equipment, Net (A) - |                |
|---------------|---------------|---------------------|--------------|-------------------------------------|----------------|
| 12/31/08 bal. | 11,000        | 12/31/08 bal.       | 1,000        | 12/31/08 bal.                       | 190,000        |
| (a)           | 2,000         | (e)                 | 1,000        | (c)                                 | 10,000         |
| (b)           | 6,000         | 1/31/09 bal.        | <u>2,000</u> | 1/31/09 bal.                        | <u>200,000</u> |
|               | 3,000         |                     |              |                                     |                |
|               | 1,000         |                     |              |                                     |                |
| 1/31/09 bal.  | <u>13,000</u> |                     |              |                                     |                |

| + Notes Receivable (A) - |               | - Notes Payable (L) + |                | - Dividends Payable (L) + |              |
|--------------------------|---------------|-----------------------|----------------|---------------------------|--------------|
| 12/31/08 bal.            | 8,000         | 12/31/08 bal.         | 124,000        | 12/31/08 bal.             | 0            |
| (d)                      | 3,000         | (b)                   | 6,000          | (f)                       | 3,000        |
| 1/31/09 bal.             | <u>11,000</u> | (c)                   | 8,000          | 1/31/09 bal.              | <u>3,000</u> |
|                          |               |                       | <u>138,000</u> |                           |              |
|                          |               |                       | 1/31/09 bal.   |                           |              |

| - Common Stock (SE) + |              | - Retained Earnings (SE) + |                |
|-----------------------|--------------|----------------------------|----------------|
| 12/31/08 bal.         | 7,000        | 12/31/08 bal.              | 123,000        |
| (a)                   | 2,000        | (f)                        | 3,000          |
| 1/31/09 bal.          | <u>9,000</u> | 1/31/09 bal.               | <u>120,000</u> |



## How is the Statement of Financial Position Prepared and Analyzed?

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## How is the Statement of Financial Position Prepared and Analyzed?

- After analyzing a transaction, a **JOURNAL ENTRY** is posted.
- The transaction is then posted to the **GENERAL LEDGER**.
- **T-ACCOUNTS** are used to illustrate this process.
- The **STATEMENT OF FINANCIAL POSITION** is then prepared using the balances shown in the T-accounts.

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# Papa John's Statement of Financial Position

Statements of Financial Position as at **January 31, 2009** and **December 31, 2008**

Most recent balance sheet amounts are usually listed on the left

PAPA JOHN'S INTERNATIONAL, INC.  
Consolidated Balance Sheets  
(dollars in thousands)

\$ are indicated at the top and bottom of the asset sections and of the liabilities & shareholders' equity section

|                              | January 31, 2009 | December 31, 2008 |
|------------------------------|------------------|-------------------|
| <b>ASSETS</b>                |                  |                   |
| <b>Current Assets</b>        |                  |                   |
| Cash                         | \$ 13,000        | \$ 11,000         |
| Accounts receivable          | 24,000           | 24,000            |
| Supplies                     | 17,000           | 17,000            |
| Prepaid expenses             | 10,000           | 10,000            |
| Other current assets         | 13,000           | 13,000            |
| <b>Total current assets</b>  | <b>77,000</b>    | <b>75,000</b>     |
| Investments                  | 2,000            | 1,000             |
| Property and equipment (net) | 200,000          | 190,000           |
| Notes receivable             | 11,000           | 8,000             |
| Intangibles                  | 77,000           | 77,000            |
| Other assets                 | 36,000           | 36,000            |
| <b>Total assets</b>          | <b>\$403,000</b> | <b>\$387,000</b>  |

**Assets and liabilities are classified into two categories: current and noncurrent.**

**Current assets are those to be used or turned into cash within the upcoming year**

**Noncurrent assets are those that will last longer than one year**

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# Papa John's Statement of Financial Position

Statements of Financial Position as at **January 31, 2009** and **December 31, 2008**

\$ are indicated at the top and bottom of the asset sections and of the liabilities & shareholders' equity section

| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>       |                  |                  |
|---|------------------|------------------|
| <b>Current Liabilities</b>                        |                  |                  |
| Accounts payable                                  | \$ 29,000        | \$ 29,000        |
| Dividends payable                                 | 3,000            | 0                |
| Accrued expenses payable                          | 71,000           | 71,000           |
| <b>Total current liabilities</b>                  | <b>103,000</b>   | <b>100,000</b>   |
| Unearned franchise fees                           | 6,000            | 6,000            |
| Notes payable                                     | 138,000          | 124,000          |
| Other long-term liabilities                       | 27,000           | 27,000           |
| <b>Total liabilities</b>                          | <b>274,000</b>   | <b>257,000</b>   |
| <b>Stockholders' Equity</b>                       |                  |                  |
| Common Stock                                      | 9,000            | 7,000            |
| Retained earnings                                 | 20,000           | 123,000          |
| <b>Total stockholders' equity</b>                 | <b>29,000</b>    | <b>130,000</b>   |
| <b>Total liabilities and stockholders' equity</b> | <b>\$403,000</b> | <b>\$387,000</b> |

**Current liabilities are those obligations to be paid or settled within the next 12 months with current assets.**

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## Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current ratio for Papa John's:

$$2006 = 0.83$$

$$2007 = 0.68$$

$$2008 = 0.75$$

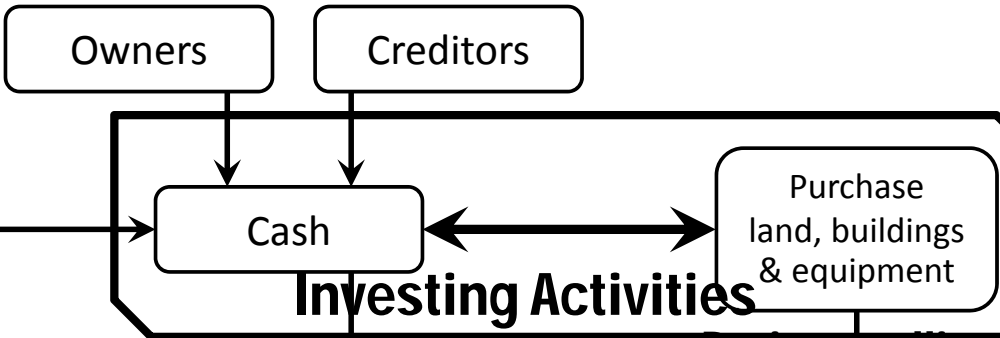
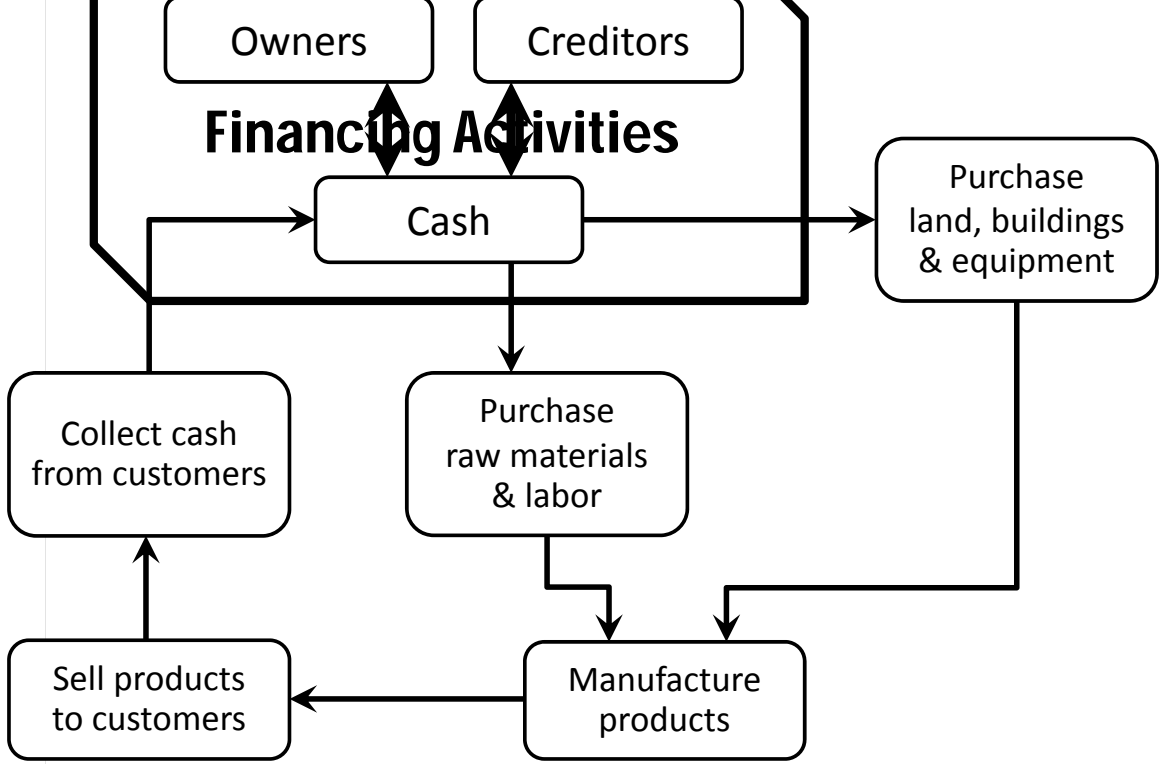
The current ratio for Papa John's shows a low level of liquidity, below 1.



## Focus on Cash Flows – Investing & Financing Activities



**Issuing & repurchasing  
stocks & paying dividends**      **Borrowing  
& repaying debts**



**Buying & selling  
noncurrent assets  
& investments**



## Statement of Cash Flows

Companies report cash inflows and outflows over a period in their statement of cash flows.

|  |   |
|--|---|
| <b>Operating activities</b>                          |   |
| (Covered in the next chapter.)                       |   |
| <b>Investing Activities</b>                          |   |
| Purchasing long-term assets and investments for cash | - |
| Selling long-term assets and investments for cash    | + |
| Lending cash to others                               | - |
| Receiving principal payments on loans made to others | + |
| <b>Financing Activities</b>                          |   |
| Borrowing cash from banks                            | + |
| Repaying the principal on borrowings from banks      | - |
| Issuing stock for cash                               | + |
| Repurchasing stock with cash                         | - |
| Paying cash dividends                                | - |

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## Investing & Financing Activities

PAPA JOHN'S INTERNATIONAL, INC.  
**Consolidated Statement of Cash Flows**  
 For the month ended January 31, 2009  
 (in thousands)

|   |                        |
|---|------------------------|
| <b>Operating activities</b>               |                        |
| (None in this chapter.)                   |                        |
| <b>Investing activities</b>               |                        |
| Purchased property and equipment (c)      | \$(2,000)              |
| Purchased investments (e)                 | (1,000)                |
| Lent funds to franchisees (d)             | <u>(3,000)</u>         |
| Net cash used in investing activities     | <b>(6,000)</b>         |
| <b>Financing activities</b>               |                        |
| Issued common stock (a)                   | 2,000                  |
| Borrowed from banks (b)                   | <u>6,000</u>           |
| Net cash provided by financing activities | <b>8,000</b>           |
| Net increase in cash                      | 2,000                  |
| Cash at beginning of month                | <u>11,000</u>          |
| <b>Cash at end of month</b>               | <b><u>\$13,000</u></b> |

Items are referenced to events (a) through (f) illustrated in this chapter.

Also called capital expenditures.

← Agrees with the amount on the balance sheet.

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