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

AC201
Fundamental Accounting

Semester 1/2013

Course Materials

Topic:

Chapter 2 Investing and Financing Decisions and the Statement of Financial Position

Session:

Sessions #2

Instructor:

Ajarn Santana Singhasaneh

Introduction to Financial Statements

FINANCIAL STATEMENTS

- ✓ Statement of Financial Position
- ✓ Statement of Comprehensive Income
- ✓ Statement of Changes in Equity
- ✓ Statement of Cash Flows

ASSETS

- Cash
- Investments in debt and equity securities
- Accounts receivable
- Notes receivable
- Inventory
- Prepaid expenses
- Property, plant, and equipment
- Intangible assets
- Natural resources

LIABILITIES

- Accounts payable
- Accrued liabilities
- Unearned revenues
- Notes payable
- Bonds payable

EQUITY

- Share capital
  - Preferred share
  - Ordinary share
- Retained earnings
  - Appropriated R/E
  - Unappropriated R/E
- Treasury share

Accounting Cycle

Financial Statement Items

We are here

Transaction Analysis and Recording – Financing and Investing Activities

FINANCIAL STATEMENT ANALYSIS

AC201 Fundamental Accounting

CHAPTER 2: INVESTING AND FINANCING DECISIONS AND THE STATEMENT OF FINANCIAL POSITION

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Overview of Accounting Concepts

Accounting Assumptions & Principle

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

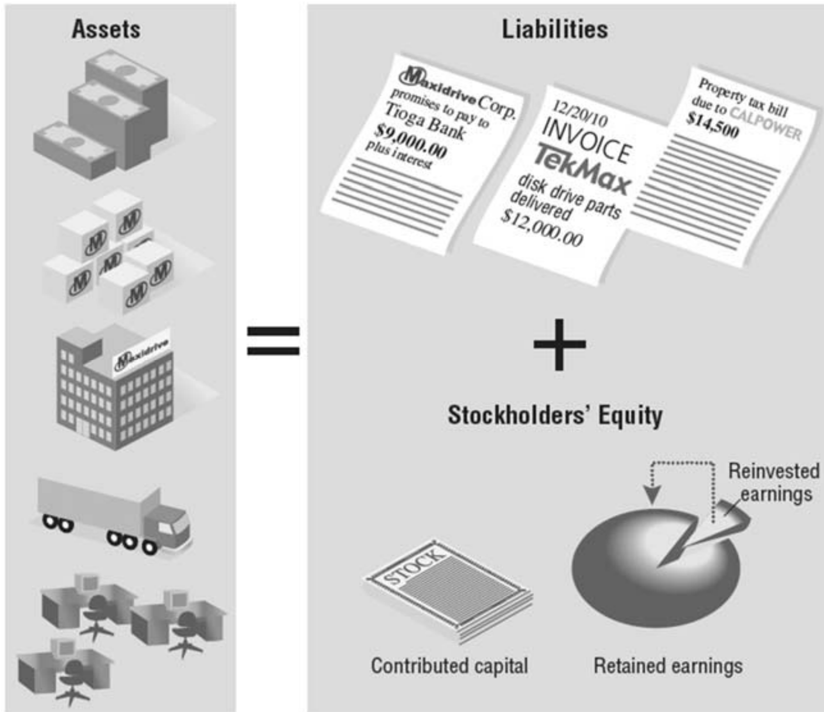
a) **Separate-entity assumption** –
transactions of the business are accounted for separately from transactions of the owner.

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

$$A = L + SE$$

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 contributed capital.

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 Positionas as at **December 31, 2008**

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Balance Sheet
December 31, 2008
(dollars in thousands)

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

High Liquidity → **Low Liquidity**

	ASSETS		
	Current Assets		
Current assets	Cash	$ 11,000	
Current assets	Accounts receivable	24,000	*payments due from franchisees and others on account*
Current assets	Supplies	17,000	*food, beverages, and paper supplies on hand*
Current assets	Prepaid expenses	10,000	*rent, advertising, and/or insurance paid in advance*
Current assets	Other current assets	13,000	*a summary of several current assets with smaller balances*
	Total current assets	75,000	
Noncurrent assets	Investments	1,000	*another company's stocks and bonds purchased with excess cash*
Noncurrent assets	Property and equipment (net)	190,000	*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)*
Noncurrent assets	Notes receivable	8,000	*long-term amounts due from franchisees*
Noncurrent assets	Intangibles	77,000	*patents, trademarks, and goodwill*
Noncurrent assets	Other assets	36,000	*a summary of several long-term assets with smaller balances*
	Total assets	$387,000	

Papa John's Statement of Financial Position

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

Shortest Maturity → **Longest Maturity**

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

What Business Activities Cause Changes in Financial Statement Amounts ?

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.

Most transactions with external parties involve an exchange where the business entity gives up something but receives something in return.

Nature of Business Transactions

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

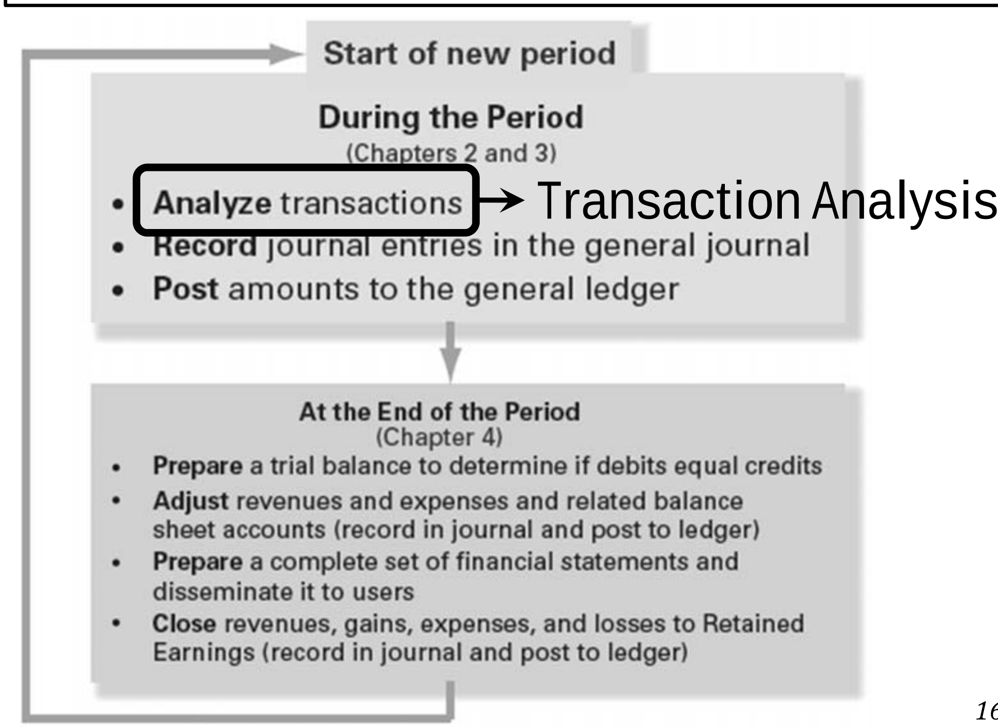
Assets
Cash
Short-Term Investment
Accounts Receivable
Notes Receivable
Inventory (to be sold)
Supplies
Prepaid Expenses
Long-Term Investments
Equipment
Buildings
Land
Intangibles

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

Stockholders' Equity
Contributed Capital
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.

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		Contributed Capital	Retained Earnings
(a)										
(b)										
(c)										
(d)										
(e)										
(f)										
Effect					=					

Transaction Analysis: Example Part I

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

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Balance Sheet
December 31, 2008
(dollars in thousands)

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

	ASSETS		
	Current Assets		
Current assets	Cash	$ 11,000	
	Accounts receivable	24,000	*payments due from franchisees and others on account*
	Supplies	17,000	*food, beverages, and paper supplies on hand*
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	Property and equipment (net)	190,000	*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)*
	Notes receivable	8,000	*long-term amounts due from franchisees*
	Intangibles	77,000	*patents, trademarks, and goodwill*
	Other assets	36,000	*a summary of several long-term assets with smaller balances*
	Total assets	$387,000	

Transaction Analysis: Example Part I

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

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

AC201 Fundamental Accounting

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.

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. **Contributed Capital (+SE) $2,000.**

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)										
(c)										
(d)										
(e)										
(f)										
Effect	2,000				=	2,000				

A = L + SE

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		Contributed Capital	Retained Earnings
(a)	2,000								2,000	
(b)	6,000						6,000			
(c)										
(d)										
(e)										
(f)										
Effect	8,000				=	8,000				

A = L + SE

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		Contributed Capital	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

AC201 Fundamental Accounting

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

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		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)	(1,000)	1,000								
(f)										
Effect	16,000				=	16,000				

A = L + SE

AC201 Fundamental Accounting

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		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)	(1,000)	1,000								
(f)						3,000				(3,000)
Effect	16,000				=	16,000				

A = L + SE

How do Companies Keep Track of Account Balances ?

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.

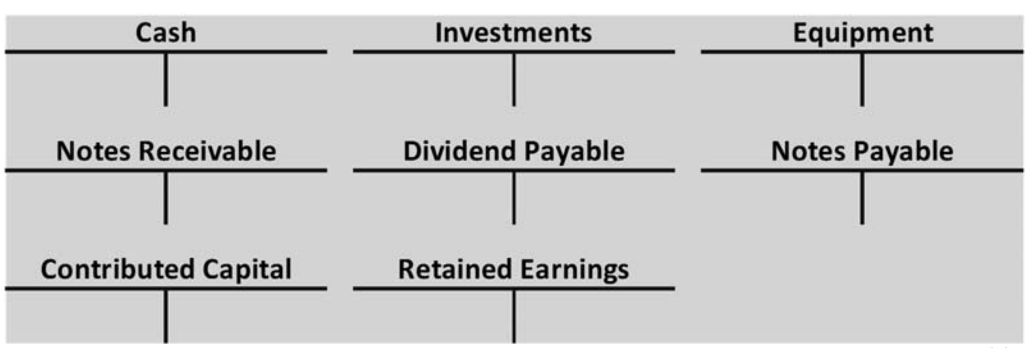
	Assets				=	Liabilities		+	Stockholders' Equity	
	Cash	Investments	Equip.	Notes Receivable		Dividends Payable	Notes Payable		Contributed Capital	Retained Earnings
(a)	2,000								2,000	
(b)	6,000						6,000			
(c)	(2,000)		10,000				8,000			
(d)	(3,000)			3,000						
(e)	(1,000)	1,000								
(f)		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



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.**

How Do Companies Keep Track of Account Balances ?

Assets		=	Liabilities		+	Stockholders' Equity	
Debit (+) Accounts have debit balances	**Credit** (-)		**Debit** (-)	**Credit** (+) Accounts have credit balances		**Debit** (-)	**Credit** (+) Accounts have credit balances

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

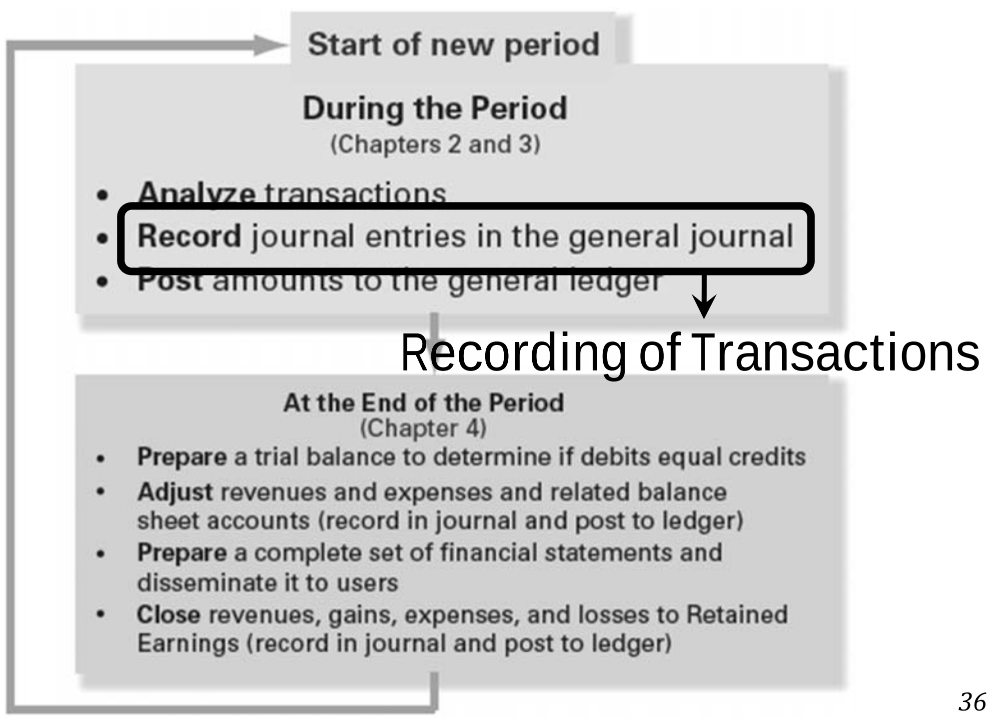
Liability and owners' equity accounts
are decreased by *debits* and increased by *credits*.

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.

The Accounting Cycle



Recording of Transactions (1)

Two important tools used by accountants:

1. **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.

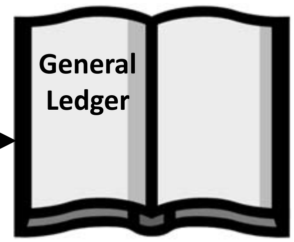
Amounts: Debited amounts on left. Credited amounts on right.

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

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	
	19,000	

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. **Contributed Capital (+SE) $2,000.**

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)										
(c)										
(d)										
(e)										
(f)										
Effect	2,000				=	2,000				

A = L + SE

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	
	Contributed Capital	301		2,000
	Investment by stockholders			

101 - Cash

12/31/08 Bal.	11,000	
1/2/09	2,000	
	13,000	

301 - Contributed Capital

	7,000	12/31/08 Bal.
	2,000	1/2/09
	9,000	

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		Contributed Capital	Retained Earnings
(a)	2,000								2,000	
(b)	6,000						6,000			
(c)										
(d)										
(e)										
(f)										
Effect	8,000				=	8,000				

A = L + SE

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	
	19,000	

204 - Notes Payable

	124,000	12/31/08 Bal.
	6,000	1/6/09
	130,000	

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) −			
12/31/08 bal.	11,000		
(a)	2,000	2,000	(c)
(b)	6,000	3,000	(d)
		1,000	(e)
1/31/09 bal.	13,000		

+ Investments (A) −			
12/31/08 bal.	1,000		
(e)	1,000		
1/31/09 bal.	2,000		

+ Property and Equipment, Net (A) −			
12/31/08 bal.	190,000		
(c)	10,000		
1/31/09 bal.	200,000		

+ Notes Receivable (A) −			
12/31/08 bal.	8,000		
(d)	3,000		
1/31/09 bal.	11,000		

− Notes Payable (L) +			
		124,000	12/31/08 bal.
		6,000	(b)
		8,000	(c)
		138,000	1/31/09 bal.

− Dividends Payable (L) +			
		0	12/31/08 bal.
		3,000	(f)
		3,000	1/31/09 bal.

− Contributed Capital (SE) +			
		7,000	12/31/08 bal.
		2,000	(a)
		9,000	1/31/09 bal.

− Retained Earnings (SE) +			
		123,000	12/31/08 bal.
(f)	3,000		
		120,000	1/31/09 bal.

How is the Statement of Financial Position Prepared and Analyzed?

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.

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

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

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

	January 31, 2009	December 31, 2008
ASSETS		
Current Assets		
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
Total current assets	77,000	75,000
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
Total assets	$403,000	$387,000

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 29,000	$ 29,000
Dividends payable	3,000	0
Accrued expenses payable	71,000	71,000
Total current liabilities	103,000	100,000
Unearned franchise fees	6,000	6,000
Notes payable	138,000	124,000
Other long-term liabilities	27,000	27,000
Total liabilities	274,000	257,000
Stockholders' Equity		
Contributed capital	9,000	7,000
Retained earnings	120,000	123,000
Total stockholders' equity	129,000	130,000
Total liabilities and stockholders' equity	$403,000	$387,000

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

Current Ratio

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

Current ratio for Papa John's:

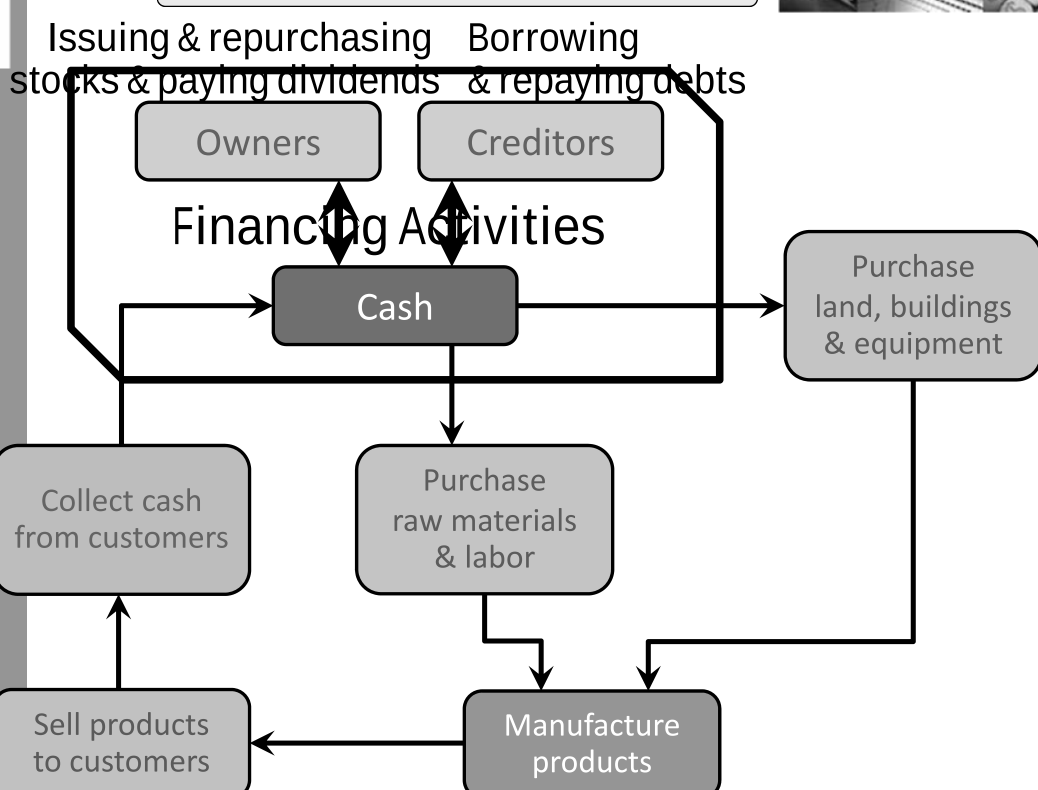
2006 = 0.83

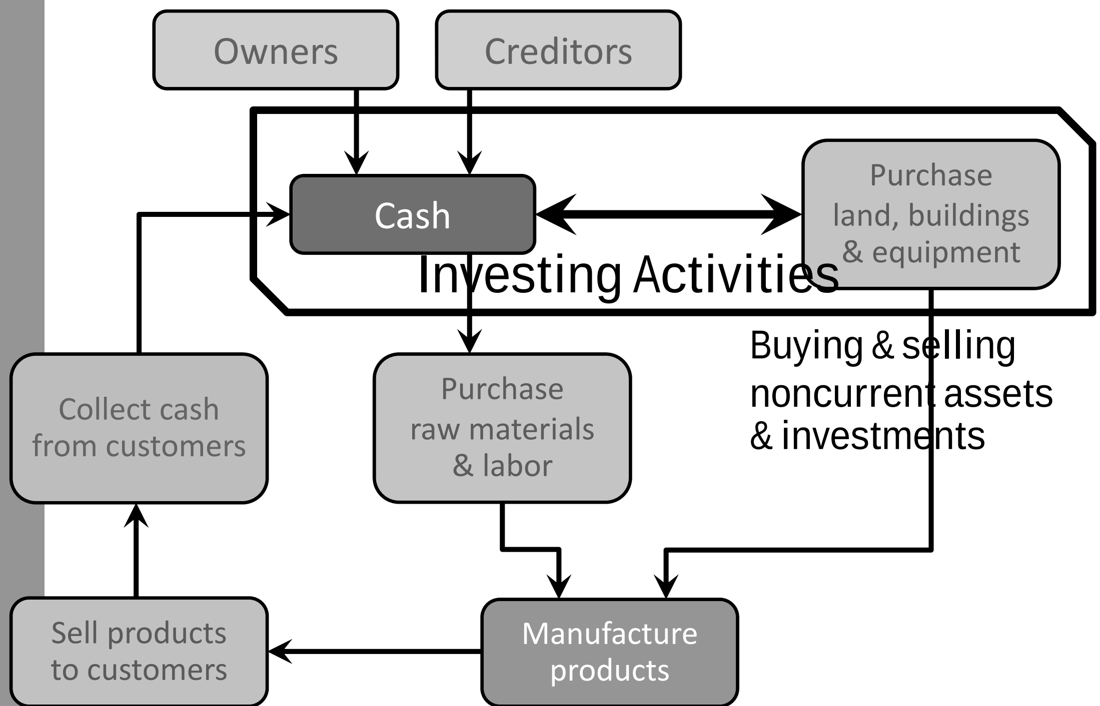
2007 = 0.68

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





Statement of Cash Flows

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

Operating activities	
(Covered in the next chapter.)	
Investing Activities	
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	+
Financing Activities	
Borrowing cash from banks	+
Repaying the principal on borrowings from banks	–
Issuing stock for cash	+
Repurchasing stock with cash	–
Paying cash dividends	–

Investing & Financing Activities

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

Operating activities		*Items are referenced to events (a) through (f) illustrated in this chapter.*
(None in this chapter.)		
Investing activities		
Purchased property and equipment (*c*)	$ (2,000)	*Also called capital expenditures.*
Purchased investments (*e*)	(1,000)	
Lent funds to franchisees (*d*)	(3,000)	
Net cash used in investing activities	**(6,000)**	
Financing activities		
Issued common stock (*a*)	2,000	
Borrowed from banks (*b*)	6,000	
Net cash provided by financing activities	**8,000**	
Net increase in cash	2,000	
Cash at beginning of month	11,000	
Cash at end of month	**$13,000**	*Agrees with the amount on the balance sheet.*

End of Chapter 2