Introduction to Financial Statements

| FINANCIAL STATEMENTS | ASSETS | LIABILITIES | EQUITY |
|---|---|---|---|
| ✓ • Statement of Financial Position<br>✓ • Statement of Comprehensive Income<br>✓ • Statement of Changes in Equity<br>✓ • Statement of Cash Flows | • Cash<br>• Investments in debt and equity securities<br>• Accounts receivable<br>• Notes receivable<br>• Inventory<br>• Prepaid expenses<br>• Property, plant, and equipment<br>• Intangible assets<br>• Natural resources | • Accounts payable<br>• Accrued liabilities<br>• Unearned revenues<br>• Notes payable<br>• Bonds payable | • Share capital<br>  • Preferred share<br>  • Ordinary share<br>• Retained earnings<br>  • Appropriated R/E<br>  • Unappropriated R/E<br>• Treasury share |

Accounting Cycle

Financial Statement Items

We are here

Transaction Analysis and Recording – Operating Activities

FINANCIAL STATEMENT ANALYSIS



AC201 Fundamental Accounting


# CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

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**Department of Accounting**
**Thammasat Business School**
**Thammasat University**

## How do Business Activities Affect the Statement of Comprehensive Income ?

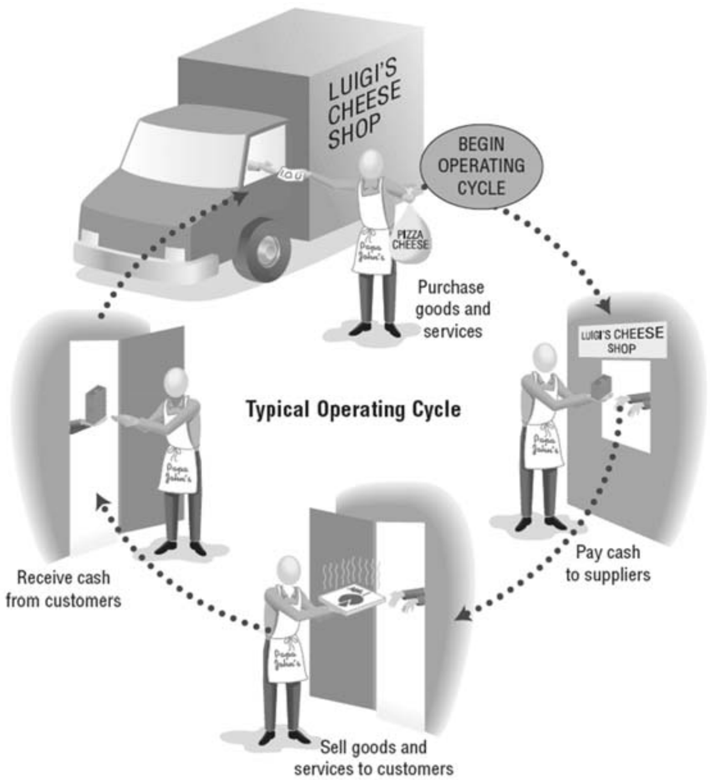





## The Operating Cycle

**Operating (Cash-to Cash) Cycle:**
is the time it takes to receives goods or services from suppliers, to pay cash to suppliers, to sell them to customers, and to collect cash from customers.

**Time Period Assumption:**
To measure and report financial information periodically,
we assume that the long life of a company
can be cut into shorter period.

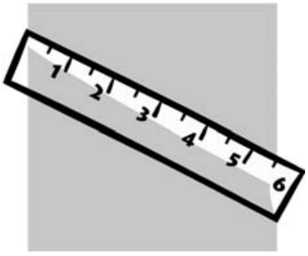


## The Operating Cycle

Issues arise in reporting periodic income to users:

1. ***Recognition Issues***:
   ***When*** should the effects of operating activities be recognized (recorded)?

2. ***Measurement Issues***:
   ***What amounts*** should be recognized ?







## Elements on the Statement of Income

**Revenues**
Increases in assets or settlement of liabilities from ongoing operations.

**Expenses**
Decreases in assets or increases in liabilities from ongoing operations.

**Gains**
Increases in assets or settlement of liabilities from peripheral transactions.

**Losses**
Decreases in assets or increases in liabilities from peripheral transactions.

PAPA JOHN'S INTERNATIONAL, INC.
**Consolidated Statement of Income**
**For the Year Ended December 31, 2008**
**(dollars in thousands)**

| | | |
|---|---|---|
| **Operating Revenues** | | |
| Restaurant sales revenue | $ 996,000 | |
| Franchise fee revenue | 136,000 | |
| Total revenues | 1,132,000 | |
| **Operating Expenses** | | |
| Cost of sales | 483,000 | |
| Salaries expense | 193,000 | |
| Rent expense | 35,000 | *Operating activities* (central focus of the business) |
| Advertising expense | 49,000 | |
| General and administrative expenses | 100,000 | ← *Includes insurance, repairs, utilities, and fuel expenses* |
| Depreciation expense | 33,000 | |
| Other operating expenses | 172,000 | |
| Total expenses | 1,065,000 | |
| **Operating Income** | 67,000 | ← *Subtotal of operating revenues minus operating expenses* |
| **Other Items** | | |
| Investment income | 1,000 | |
| Interest expense | (8,000) | *Peripheral activities* (not the main focus of the business) |
| Loss on restaurants sold | (3,000) | |
| **Income before Income Taxes** | 57,000 | ← *Subtotal of all revenues minus all expenses except taxes* |
| Income tax expense | 20,000 | |
| **Net Income** | **$ 37,000** | |
| **Earnings per Share** | **$ 1.32** | ← *= $37,000,000 Net Income ÷ 28,100,000 Average Number of Shares Outstanding (from Papa John's annual report)* |





Papa John's
Primary Operating Expenses

Cost of sales
(used inventory)

Salaries
and benefits to
employees

Other costs
(like advertising,
insurance, and
depreciation)

PAPA JOHN'S INTERNATIONAL, INC.
**Consolidated Statement of Income**
**For the Year Ended December 31, 2008**
**(dollars in thousands)**

| | |
|---|---|
| **Operating Revenues** | |
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| Income tax expense | 20,000 |
| **Net Income** | **$ 37,000** |
| **Earnings per Share** | **$ 1.32** |

## International Perspective

From Page 143

As indicated in Chapter 2, under IFRS, the income statement is usually titled the Statement of Operations. There is also a difference in how expenses may be reported:

| | GAAP | IFRS |
|---|---|---|
| **Presentation of Expenses**<br>• Similar expenses are reported, but may be grouped in different ways | Public companies categorize expenses by business **function** (e.g., production, research, marketing, general operations). | Companies can categorize expenses by either **function or nature** (e.g., salaries, rent, supplies, electricity). |

In addition, foreign companies often use account titles that differ from U.S. companies. For example, GlaxoSmithKline (a U.K. pharmaceutical company), Parmalat (an Italian food producer of milk, dairy products, and fruit-based beverages), and Unilever (a U.K. and Netherlands-based company supplying food, home, and personal care products such as Hellman's mayonnaise, Dove soap, and Popsicle treats) use the term *turnover* to refer to sales revenue, *finance income* for income from investments, and *finance cost* for interest expense. BMW Group, on the other hand, reports *revenues* and uses *financial result* for the difference between income from investments and interest expense. All four companies follow IFRS.

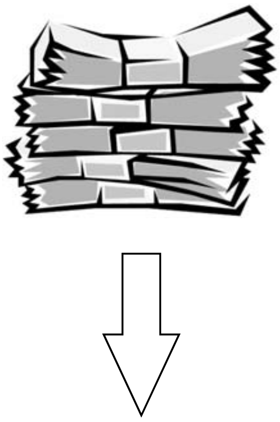


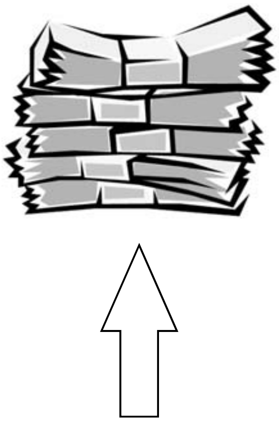


## How are Operating Activities Recognized and Measured ?

## How Are Operating Activities Recognized and Measured?

# Cash Basis





***Revenues*** are recorded when cash is received.

***Expenses*** are recorded when cash is paid.





## How Are Operating Activities Recognized and Measured?

# Accrual Basis

***Revenues*** and ***Expenses*** should be ***recognized*** (recorded) when the transaction that causes them occurs, ***NOT*** *necessarily when cash is paid or received.*

Basic accounting principles that determine ***when*** *revenues and expenses are recorded*:

1. *Revenue principle*
2. *Matching principle*

# Accrual Basis: Revenue Principle






# Revenue Principle

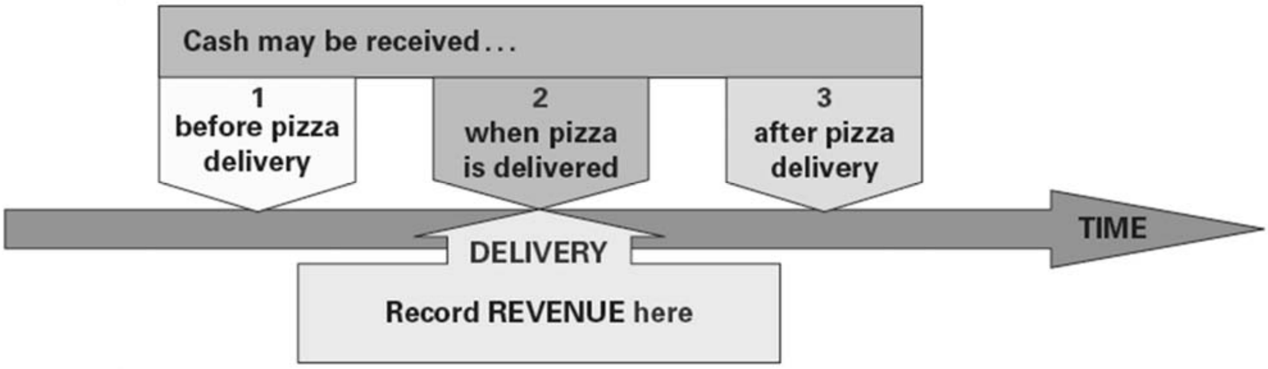
**ALL 4 criteria must be met** for ***Revenue*** to be ***recognized***:

1. Delivery has occurred or services have been rendered;
2. There is persuasive evidence of an arrangement for customer payment;
3. The price is fixed or determinable; and
4. Collection is reasonably assured.

*regardless of when cash is paid*.

## Revenue Principle

### Recording revenues v/s cash receipts



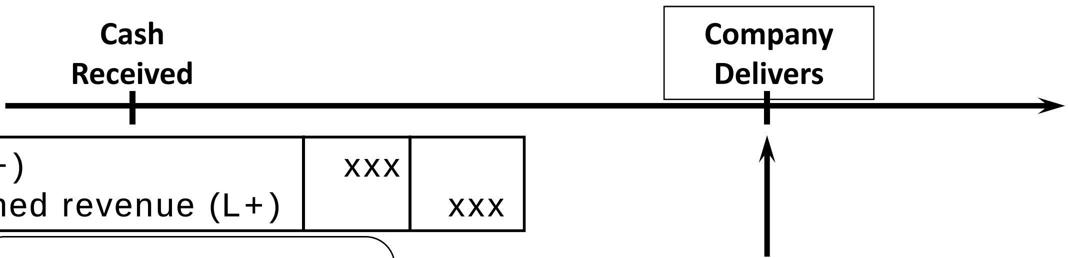





## Revenue Principle

If cash is received ***before*** the company delivers goods or services, the liability account ***UNEARNED REVENUE*** is recorded.
When the company delivers the goods or services, ***UNEARNED REVENUE*** is reduced and ***REVENUE*** is recorded.

Cash received **before** revenue is earned -




| | | |
|---|---|---|
| Cash (A+) | xxx | |
| Unearned revenue (L+) | | xxx |

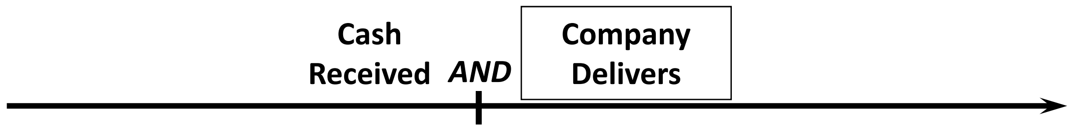
***Unearned revenue***:
A liability representing a company's obligation to provide goods or services to customers in the future.

**Revenue will be recorded when earned.**

| | | |
|---|---|---|
| Unearned revenue (L-) | xxx | |
| Service revenue (REV+) | | xxx |

# Revenue Principle

When cash is received ***on*** the date the ***Revenue*** is earned,
the following entry is made:




| | | |
|---|---|---|
| Cash (A+) | xxx | |
| Revenue (REV+) | | xxx |

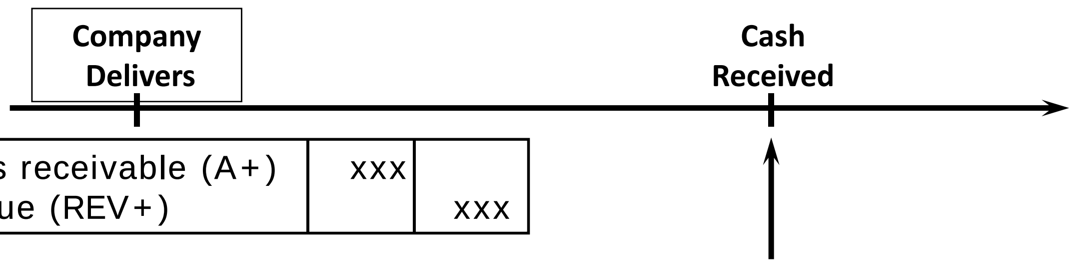




# Revenue Principle

If cash is received ***after*** the company delivers goods or services,
an asset ***ACCOUNTS RECEIVABLE*** is recorded.
When the cash is received
the ***ACCOUNTS RECEIVABLE*** is reduced.

Cash received **after** revenue is earned -




| | | |
|---|---|---|
| Accounts receivable (A+) | xxx | |
| Revenue (REV+) | | xxx |

**Cash will be collected**.

| | | |
|---|---|---|
| Cash (A+) | xxx | |
| Accounts receivable (A-) | | xxx |

# Accrual Basis: Matching Principle



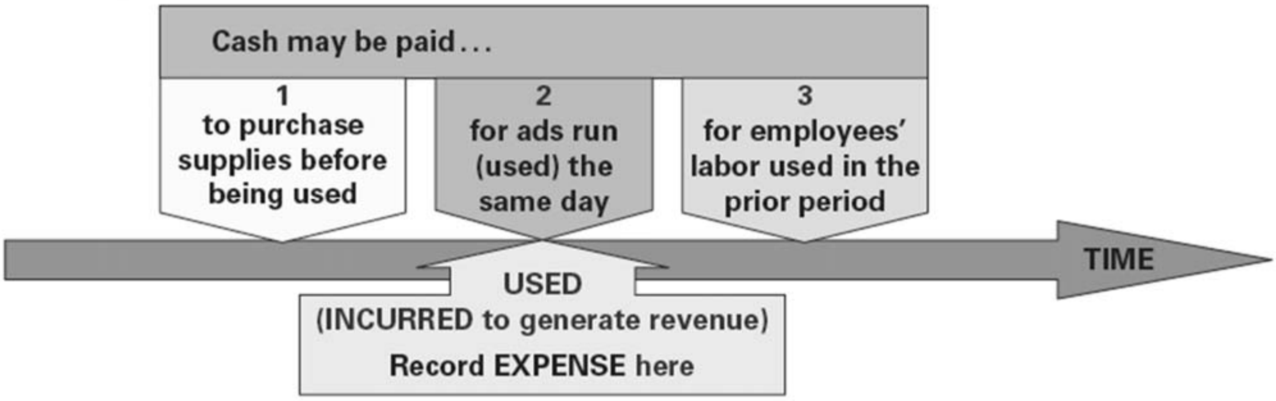



# Matching Principle

***Expenses*** are ***recognized***
when they are incurred in generating revenue,
*regardless of when cash is paid*.

# Matching Principle

## Recording expenses v/s cash payments








# Matching Principle

If cash is paid ***before*** the company receives goods or services,
an asset account, ***PREPAID EXPENSE*** is recorded.
When the expense is incurred
***PREPAID EXPENSE*** is reduced and an ***EXPENSE*** is recorded.

Cash is paid **before** expense is incurred -

**Cash Paid** → **Expense Incurred**

| | | |
|---|---|---|
| Prepaid expense (A+) | xxx | |
| Cash (A-) | | xxx |

***Prepaid expenses***:
A general account name used to describe payments made in advance of receiving future services; typically includes prepaid rent, prepaid insurance, and other pecific types of prepayments.

**Expense will be recorded when incurred**.

| | | |
|---|---|---|
| Expense (EXP+) | xxx | |
| Prepaid expense (A-) | | xxx |

# Matching Principle

Typical assets and their related expense accounts include. . .

| CASH PAID FOR | as **USED** over time becomes | EXPENSE |
|---|---|---|
| Supplies | → | Supplies expense |
| Prepaid insurance | → | Insurance expense |
| Buildings and equipment | → | Depreciation expense |

**Cash Paid**

**Expense Incurred**

| | | |
|---|---|---|
| Supplies (A+) | xxx | |
| Cash (A-) | | xxx |

| | | |
|---|---|---|
| Supplies expense (EXP+) | xxx | |
| Supplies (A-) | | xxx |



AC201 Fundamental Accounting

# Matching Principle

When cash is paid ***on*** the date the ***Expense*** is incurred, the following entry is made:

**Cash Paid** ***AND*** **Expense Incurred**

| | | |
|---|---|---|
| Expense (EXP+) | xxx | |
| Cash (A-) | | xxx |

# Matching Principle

If cash is paid ***after*** the company receives goods or services,
a liability ***PAYABLE*** is recorded.
When cash is paid, the ***PAYABLE*** is reduced.

Cash paid **after** expense is incurred -

**Expense Incurred**

**Cash Paid**

| | | |
|---|---|---|
| Expense (EXP+) | xxx | |
| Payable (L+) | | xxx |

**Cash will be paid.**

| | | |
|---|---|---|
| Payable (L-) | xxx | |
| Cash (A-) | | xxx |





# A Question of Ethics

## Management's Incentives to Violate Accounting Rules

Investors in the stock market base their decisions on their expectations of a company's future earnings. When companies announce quarterly and annual earnings information, investors evaluate how well the companies have met expectations and adjust their investing decisions accordingly. Companies that fail to meet expectations often experience a decline in stock price. Thus, managers are motivated to produce earnings results that meet or exceed investors' expectations to bolster stock prices. Greed may lead some managers to make unethical accounting and reporting decisions, often involving falsifying revenues and expenses. While this sometimes fools people for a short time, it rarely works in the long run and often leads to very bad consequences.

Fraud is a criminal offense for which managers may be sentenced to jail. Samples of fraud cases, a few involving faulty revenue and expense accounting, are shown below. Just imagine what it must have been like to be 65-year-old Bernie Ebbers or 21-year-old Barry Minkow, both sentenced to 25 years in prison for accounting fraud.

| The CEO | The Fraud | Conviction/Plea | The Outcome |
|---|---|---|---|
| **Bernard Madoff,** 71 Madoff Investment Securities | Scammed $50 billion from investors in a Ponzi scheme in which investors receive "returns" from money paid by subsequent investors. | Confessed, December 2008 | Sentenced to 150 years |
| **Bernie Ebbers,** 65 Worldcom | Recorded $11 billion in operating expenses as if they were assets. | Convicted, July 2005 | Sentenced to 25 years |
| **Sanjay Kumar,** 44 Computer Associates | Recorded sales in the wrong accounting period. | Pleaded guilty, April 2006 | Sentenced to 12 years |
| **Martin Grass,** 49 Rite Aid Corporation | Recorded rebates from drug companies before they were earned. | Pleaded guilty, June 2003 | Sentenced to 8 years |
| **Barry Minkow,** 21 ZZZZ Best | Made up customers and sales to show profits when, in reality, the company was a sham. | Convicted, December 1988 | Sentenced to 25 years |

Many others are affected by fraud. Shareholders lose stock value, employees may lose their jobs (and pension funds, as in the case of Enron), and customers and suppliers may become wary of dealing with a company operating under the cloud of fraud. As a manager, you may face an ethical dilemma in the workplace. The ethical decision is the one you will be proud of 20 years later.

## The Expanded Transaction Analysis Model






# A = L + SE

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

| Contributed Capital | |
|---|---|
| Debit (-) | Credit (+) Investments by owners |

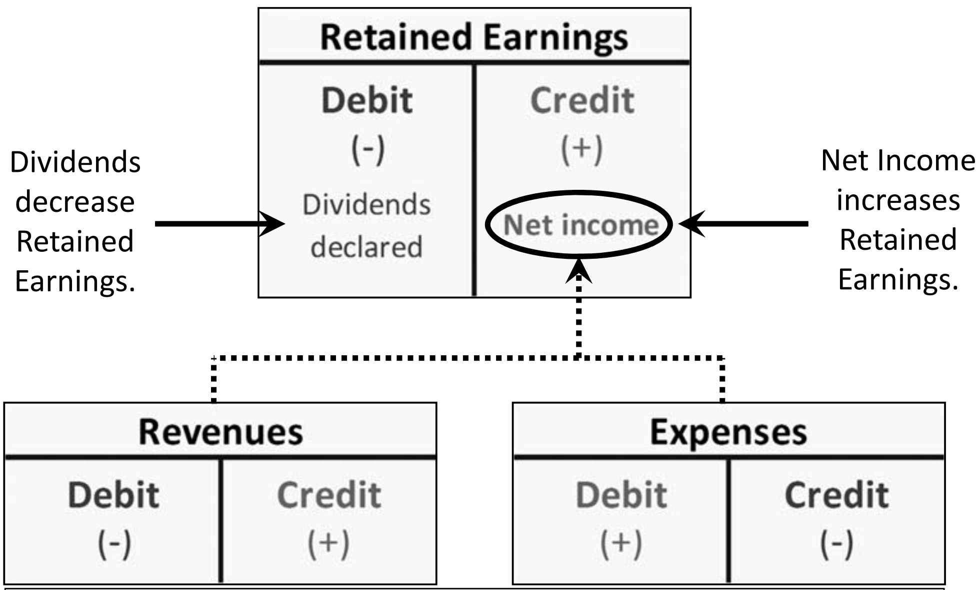
| Retained Earnings | |
|---|---|
| Debit (-) Dividends declared | Credit (+) Net income |

This is how Revenues and Expenses affect Retained Earnings.

| Revenues | |
|---|---|
| Debit (-) | Credit (+) |

| Expenses | |
|---|---|
| Debit (+) | Credit (-) |

# Expanded Transaction Analysis Model




This is how Revenues and Expenses affect Retained Earnings.





# Analyzing Some of Papa John's Transactions

(a) Papa John's restaurants sold pizza to customers for $36,000 cash and sold $30,000 in supplies to franchised restaurants, receiving $21,000 cash with the rest due on account.

| | | Debit | Credit |
|---|---|---|---|
| *(a)* | Cash (+A) [$36,000 + $21,000]. . . . . . . . . . . . . . . . . . . . | 57,000 | |
| | Accounts Receivable (+A) . . . . . . . . . . . . . . . . . . . . . . . | 9,000 | |
| | Restaurant Sales Revenue (+R, +SE) . . . . . . . . . . . . . | | 66,000 |

| Assets | | = | Liabilities | + | Stockholders' Equity | |
|---|---|---|---|---|---|---|
| Cash | +57,000 | | | | Restaurant Sales Revenue (+R) | +66,000 |
| Accounts Receivable | + 9,000 | | | | | |

Equality checks:
1. Debits $66,000 equal Credits $66,000,
2. The accounting equation is in balance.

# Analyzing Some of Papa John's Transactions

(b) The cost of the dough, sauce, cheese, and other supplies for the restaurant sales in (a) on the previous screen was $30,000.

| | | Debit | Credit |
|---|---|---|---|
| *(b)* | Cost of Sales (+E, −SE) . . . . . . . . . . . . . . . . . . . . . . . . | 30,000 | |
| | Supplies (−A) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | 30,000 |

| Assets | | = | Liabilities | + | Stockholders' Equity | |
|---|---|---|---|---|---|---|
| Supplies | −30,000 | | | | Cost of Sales (+E) | −30,000 |

Equality checks:
1. Debits $30,000 equal Credits $30,000,
2. The accounting equation is in balance.





# Analyzing Some of Papa John's Transactions

(c) Papa John's sold new franchises for $400 cash, earning $100 immediately by performing services for franchisees; the rest will be earned over the next several months.

for services performed

| | | Debit | Credit |
|---|---|---|---|
| *(c)* | Cash (+A) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 400 | |
| | Franchise Fee Revenue (+R, +SE) . . . . . . . . . . . . . . . | | 100 |
| | Unearned Franchise Fees (+L) . . . . . . . . . . . . . . . . . | | 300 |

| Assets | | = | Liabilities | + | Stockholders' Equity | |
|---|---|---|---|---|---|---|
| Cash | +400 | | Unearned Franchise Fees +300 | | Franchise Fee Revenue (+R) | +100 |

for services NOT yet performed

Equality checks:
1. Debits $400 equal Credits $400,
2. The accounting equation is in balance.

# Analyzing Some of Papa John's Transactions

(d) In January, Papa John's paid $7,000 for utilities, repairs, and fuel for delivery vehicles, all considered general and administrative expenses incurred during the month.

| | | Debit | Credit |
|---|---|---|---|
| *(d)* | General and Administrative Expenses (+E, −SE) . . . . | 7,000 | |
| | Cash (−A) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | 7,000 |

| Assets | | = | Liabilities | + | Stockholders' Equity | |
|---|---|---|---|---|---|---|
| Cash | −7,000 | | | | General and Administrative Expenses (+E) | −7,000 |

Equality checks:
1. Debits $7,000 equal Credits $7,000,
2. The accounting equation is in balance.





# Papa John's Statement of Financial Position Accounts

**+ Cash (A) −**

| | | | |
|---|---|---|---|
| Bal. | 13,000 | | |
| *(a)* | 57,000 | 7,000 | *(d)* |
| *(c)* | 400 | 9,000 | *(e)* |
| *(h)* | 4,000 | 14,000 | *(f)* |
| *(i)* | 15,500 | 9,000 | *(g)* |
| *(k)* | 1,000 | 10,000 | *(j)* |
| Bal. | 41,900 | | |

**+ Accounts Receivable (A) −**

| | | | |
|---|---|---|---|
| Bal. | 24,000 | | |
| *(a)* | 9,000 | 12,800 | *(i)* |
| Bal. | 20,200 | | |

**+ Supplies (A) −**

| | | | |
|---|---|---|---|
| Bal. | 17,000 | | |
| *(e)* | 29,000 | 30,000 | *(b)* |
| Bal. | 16,000 | | |

**+ Prepaid Expenses (A) −**

| | | | |
|---|---|---|---|
| Bal. | 10,000 | | |
| *(g)* | 9,000 | | |
| Bal. | 19,000 | | |

**+ Property and Equipment (A) −**

| | | | |
|---|---|---|---|
| Bal. | 200,000 | | |
| | | 1,000 | *(h)* |
| Bal. | 199,000 | | |

**− Accounts Payable (L) +**

| | | | |
|---|---|---|---|
| | | 29,000 | Bal. |
| *(j)* | 10,000 | 20,000 | *(e)* |
| | | 39,000 | Bal. |

**− Unearned Franchise Fees (L) +**

| | | | |
|---|---|---|---|
| | | 6,000 | Bal. |
| | | 300 | *(c)* |
| | | 6,300 | Bal. |

# Papa John's Statement of Income Accounts

**Beginning balances start at zero.**

| − Restaurant Sales Revenue (R) + | | | |
|---|---|---|---|
| | | 0 | Bal. |
| | | 66,000 | (*a*) |
| | | 66,000 | Bal. |

| − Franchise Fee Revenue (R) + | | | |
|---|---|---|---|
| | | 0 | Bal. |
| | | 100 | (*c*) |
| | | 2,700 | (*i*) |
| | | 2,800 | Bal. |

| − Gain on Sale of Land (R) + | | | |
|---|---|---|---|
| | | 0 | Bal. |
| | | 3,000 | (*h*) |
| | | 3,000 | Bal. |

| − Investment Income (R) + | | | |
|---|---|---|---|
| | | 0 | Bal. |
| | | 1,000 | (*k*) |
| | | 1,000 | Bal. |

| + Cost of Sales (E) − | | | |
|---|---|---|---|
| Bal. | 0 | | |
| (*b*) | 30,000 | | |
| Bal. | 30,000 | | |

| + Salaries Expense (E) − | | | |
|---|---|---|---|
| Bal. | 0 | | |
| (*f*) | 14,000 | | |
| Bal. | 14,000 | | |

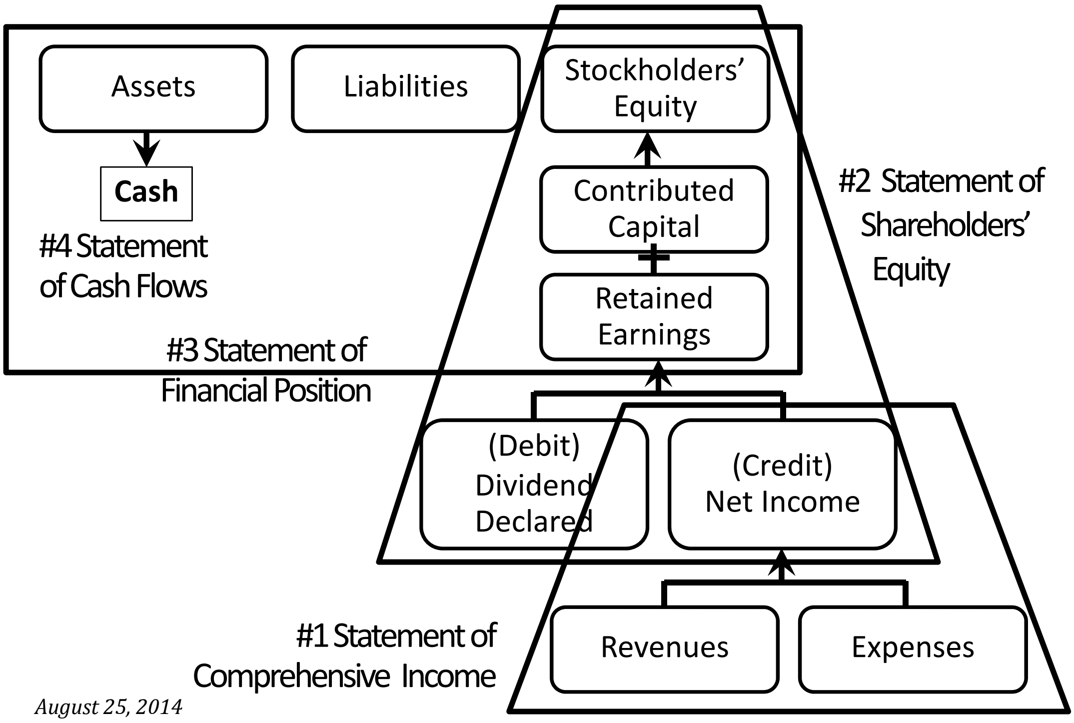
| + General and Administrative Expenses (E) − | | | |
|---|---|---|---|
| Bal. | 0 | | |
| (*d*) | 7,000 | | |
| Bal. | 7,000 | | |





## How are Financial Statements Prepared and Analyzed ?

# How Are Financial Statements Prepared and Analyzed ?








# How Are Financial Statements Prepared and Analyzed ?

| Statement | Formula |
|---|---|
| #1 Income Statement | Revenues − Expenses = Net Income |
| #2 Statement of Stockholders' Equity | Beginning Retained Earnings + Net Income − Dividends Declared = Ending Retained Earnings<br>Beginning Contributed Capital + Stock Issuances − Stock Repurchases = Ending Contributed Capital<br>Ending Stockholders' Equity |
| #3 Balance Sheet | Assets = Liabilities + Stockholders' Equity<br>(includes Cash) |
| #4 Statement of Cash Flows | Cash provided by (or used in) Operating Activities<br>+/− Cash provided by (or used in) Investing Activities<br>+/− Cash provided by (or used in) Financing Activities<br>Change in Cash<br>+ Beginning Cash<br>Ending Cash |

# 1. Statement of Comprehensive Income

PAPA JOHN'S INTERNATIONAL, INC.
**Consolidated Statement of Income (before adjustments)**
**For the Month Ended January 31, 2009**
**(dollars in thousands)**

| | |
|---|---|
| **Operating Revenues** | |
| Restaurant sales revenue | $66,000 |
| Franchise fee revenue | 2,800 |
| Total revenues | 68,800 |
| **Operating Expenses** | |
| Cost of sales | 30,000 |
| Salaries expense | 14,000 |
| General and administrative expenses | 7,000 |
| Supplies expense | 0 |
| Rent expense | 0 |
| Insurance expense | 0 |
| Utilities expense | 0 |
| Depreciation expense | 0 |
| Other operating expenses | 0 |
| Total expenses | 51,000 |
| **Operating Income** | 17,800 |
| **Other Items** | |
| Investment income | 1,000 |
| Interest expense | (0) |
| Gain on sale of land | 3,000 |
| Income before Income Taxes | 21,800 |
| Income tax expense | 0 |
| **Net Income** | **$21,800** |
| **Earnings per Share** (for the month) | $ 0.78 |

Note:
*Normally, accounts with zero balances are not included on formal statements. However, we include them here to indicate that there are numerous expenses and revenues to be determined and recorded in the adjustment process described in Chapter 4.*

*$21,800,000 unadjusted net income divided by approximately 28,100,000 shares (from Papa John's annual report)*





# 2. Statement of Shareholders' Equity

PAPA JOHN'S INTERNATIONAL, INC.
**Consolidated Statement of Stockholders' Equity (before adjustments)**
**Month Ended January 31, 2009**
**(dollars in thousands)**

| | Contributed Capital | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|
| Beginning balance, December 31, 2008 | $7,000 | $123,000 | $130,000 |
| Additional stock issuances | 2,000 | | 2,000 |
| Net income (prior to adjustments) | | 21,800 | 21,800 |
| Dividends declared | | (3,000) | (3,000) |
| Ending balance, January 31, 2009 | $9,000 | $141,800 | $150,800 |

The net income ($21,800) comes from
Statement of Comprehensive Income we just prepared.

# 3. Statement of Financial Position

PAPA JOHN'S INTERNATIONAL, INC.
**Consolidated Balance Sheet (before adjustments)**
**January 31, 2009**
**(dollars in thousands)**

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash | $ 41,900 |
| Accounts receivable | 20,200 |
| Supplies | 16,000 |
| Prepaid expenses | 19,000 |
| Other current assets | 13,000 |
| **Total current assets** | 110,100 |
| Investments | 2,000 |
| Property and equipment (net) | 199,000 |
| Notes receivable | 11,000 |
| Intangibles | 77,000 |
| Other assets | 36,000 |
| **Total Assets** | **$435,100** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | |
| **Current Liabilities** | |
| Accounts payable | $ 39,000 |
| Dividends payable | 3,000 |
| Accrued expenses payable | 71,000 |
| **Total current liabilities** | 113,000 |
| Unearned franchise fees | 6,300 |
| Notes payable | 138,000 |
| Other long-term liabilities | 27,000 |
| **Total liabilities** | 284,300 |
| **Stockholders' Equity** | |
| Contributed capital | 9,000 |
| Retained earnings | 141,800 |
| **Total stockholders' equity** | 150,800 |
| **Total liabilities and stockholders' equity** | **$435,100** |

$\left.\begin{matrix} \\ \\ \end{matrix}\right\}$ *From the Statement of Stockholders' Equity*





# 4. Statement of Cash Flows

| | | Effect on Cash Flows |
|---|---|---|
| **Operating activities** | | |
| Cash received: | Customers | + |
| | Interest and dividends on investments | + |
| Cash paid: | Suppliers | - |
| | Employees | - |
| | Interest on debt obligations | - |
| | Income taxes | - |
| **Cash Flows from Operating Activities** | | Total |

# 4. Statement of Cash Flows

Direct approach to preparing operating cash flows.

| | | | Effect on Cash Flows |
|---|---|---|---|
| **Operating activities** | | | |
| | Cash received: | Customers | + |
| | | Interest and dividends on investments | + |
| | Cash paid: | Suppliers | - |
| | | Employees | - |
| | | Interest on debt obligations | - |
| | | Income taxes | - |
| | **Cash Flows from Operating Activities** | | Total |
| **Investing Activities** | | | |
| | Purchase of property, plant or equipment | | - |
| | Purchase of other long-term assets | | - |
| | Sale of property, plant or equipment | | + |
| | Sale of other long-term assets | | + |
| | **Cash Flows from Investing Activities** | | Total |
| **Financing Activities** | | | |
| | Issuance of long-term debt | | + |
| | Issuance of contributed capital | | + |
| | Dividends paid | | - |
| | Repurchase of long-term debt | | - |
| | Repurchase of contributed capital | | - |
| | **Cash Flows from Financing Activities** | | Total |
| | Net increase or (decrease) in cash | | |
| | Beginning balance in cash account | | |
| | Ending balance in cash account | | |





# Total Asset Turnover Ratio

$$\text{Total Asset Turnover Ratio} = \frac{\text{Sales (or Operating) Revenues}}{\text{Average Total Assets}}$$

(Beginning total assets + ending total assets) ÷ 2

Papa John's Total Asset Turnover Ratio for 2008 (dollars in thousands):

$$\frac{\$1{,}132{,}000}{(\$402{,}000 + \$386{,}000) \div 2} = 2.87$$