



BACHELOR of ECONOMICS



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

AC201 Fundamental Accounting

Semester 2/2014

Course Materials

Topic:

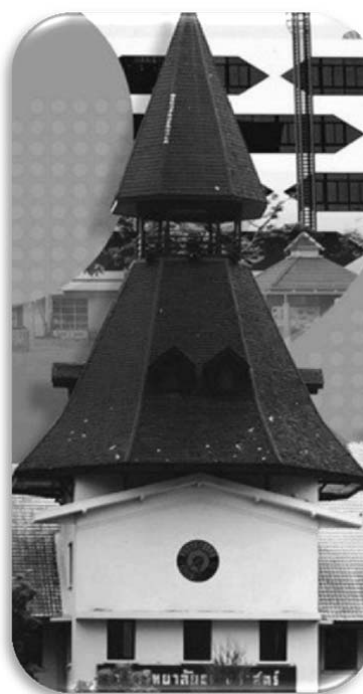
Chapter 3 Operating Decisions and the
Accounting System

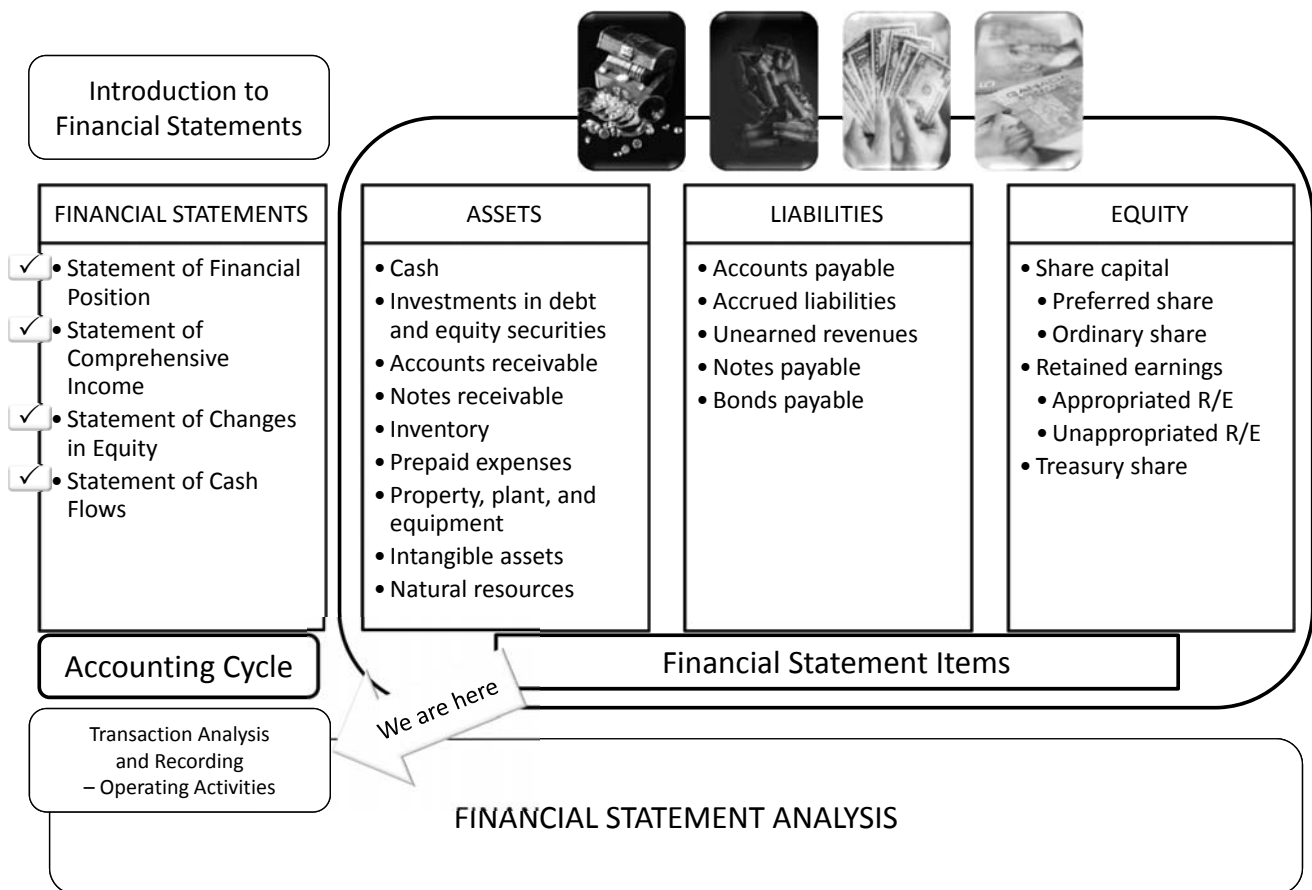
Session:

Sessions #4

Instructor:

Ajarn Santana Singhasaneh





AC201 Fundamental Accounting



**BACHELOR
of ECONOMICS**



CHAPTER 3: OPERATING DECISIONS AND THE ACCOUNTING SYSTEM

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Thammasat Business School
Thammasat University



How do Business Activities Affect the Statement of Income ?



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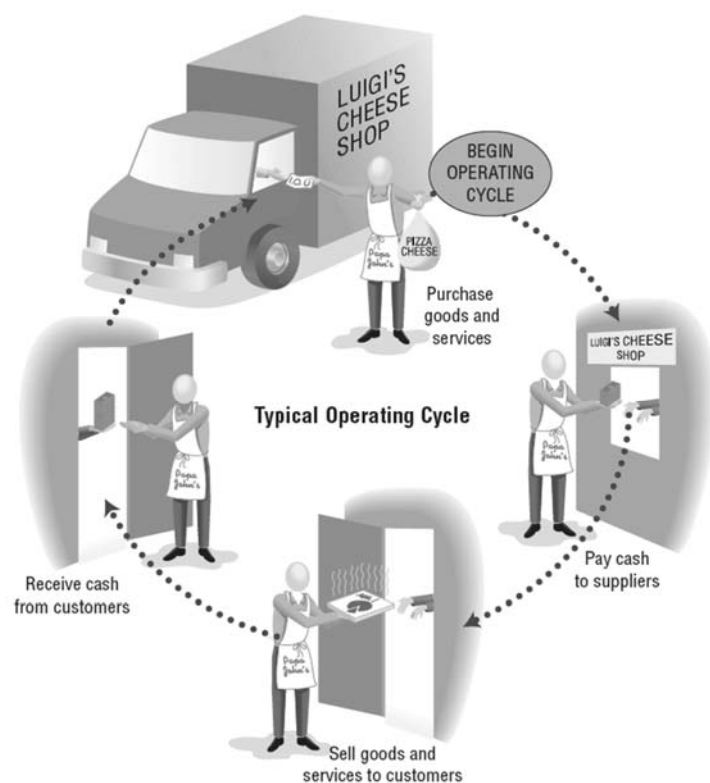
The Operating Cycle

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 periods.



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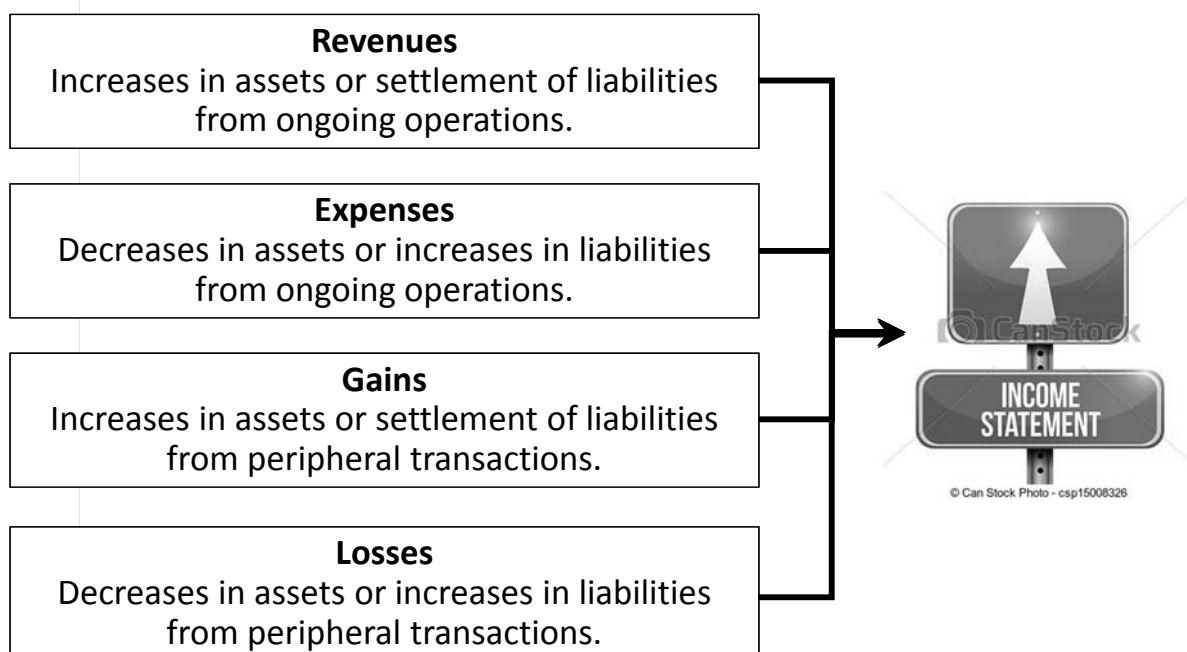
The Operating Cycle

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 of the Statement of Income



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		
Advertising expense	49,000		
General and administrative expenses	100,000		
Depreciation expense	33,000		
Other operating expenses	172,000		
Total expenses	1,065,000		
Operating Income	67,000		
Other Items			
Investment income	1,000		
Interest expense	(8,000)		
Loss on restaurants sold	(3,000)		
Income before Income Taxes	57,000		
Income tax expense	20,000		
Net Income	<u>\$ 37,000</u>		
Earnings per Share	<u>\$ 1.32</u>		

Operating activities (central focus of the business)

Includes insurance, repairs, utilities, and fuel expenses

Subtotal of operating revenues minus operating expenses

Peripheral activities (not the main focus of the business)

Subtotal of all revenues minus all expenses except taxes

= \$37,000,000 Net Income ÷ 28,100,000 Average Number of Shares Outstanding (from Papa John's annual report)

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AC201 Fur

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

Papa John's
Primary Operating Expenses

Cost of sales
(used inventory)

Salaries
and benefits to
employees

Other costs
(like advertising,
insurance, and
depreciation)

Operating Revenues		
Restaurant sales revenue	\$ 996,000	
Franchise fee revenue	136,000	
Total revenues	1,132,000	
Operating Expenses		
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Earnings per Share	<u>\$ 1.32</u>	

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International Perspective: Statement of Income Differences



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 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.

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How are Operating Activities Recognized and Measured ?



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How Are Operating Activities Recognized and Measured?

Cash Basis Accounting:

records only **CASH** transactions. Cash receipts are treated as revenues, and cash payments are treated as expenses.

Accrual Basis Accounting:

records the impact of business transactions on the entity's assets and liabilities **in the period in which those transactions occur**, even if the resulting cash receipts or payments occur in a prior or future period.

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How Are Operating Activities Recognized and Measured?

Cash Basis Accounting

Revenues are recorded when cash is received and
Expenses are recorded when cash is paid.

Income Measurement

Revenues [= cash receipts]
- Expenses [= cash payments]
Net income [cash basis]

Accrual Basis Accounting ✓

Revenues are recorded when earned and
Expenses are recorded when incurred, regardless of the timing of cash receipts or payments.

Income Measurement

Revenues [= when earned]
- Expenses [= when incurred]
Net income [accrual basis]

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Example: Cash Basis v/s Accrual Basis Accounting

- During 2014, Canine Consulting billed its client for \$55,000. On December 31, 2014, it had received \$2,500, with the remaining \$52,500 to be received in 2015. Total expenses during 2014 were \$34,000 with \$33,000 of these costs not yet paid at December 31, 2014. Determine net income for the year 2014 under both method.

Cash Basis: Income Measurement

Revenues	2,500	[= cash receipts]
- Expenses	(1,000)	[= cash payments]
<u>Net income</u>	<u>1,500</u>	[cash basis]

Accrual Basis: Income Measurement

Revenues	55,000	[= when earned]
- Expenses	(34,000)	[= when incurred]
<u>Net income</u>	<u>21,000</u>	[accrual basis] ✓

Accrual basis accounting allows for a better measure of a company's economic measurement

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How Are Operating Activities Recognized and Measured?

Accrual Basis Accounting ✓

In accrual basis accounting, revenues and expenses are recognized (recorded) when the transaction that causes them occurs, **NOT** necessarily when cash is received or paid.

Revenues are recorded when earned,
Expenses are recorded when incurred,
regardless of the timing of cash receipts or payments.

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

1. Revenue realization principle
2. Expense matching principle

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Accrual Basis: Revenue Realization Principle



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Revenue Realization Principle

Under the Revenue Realization 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.

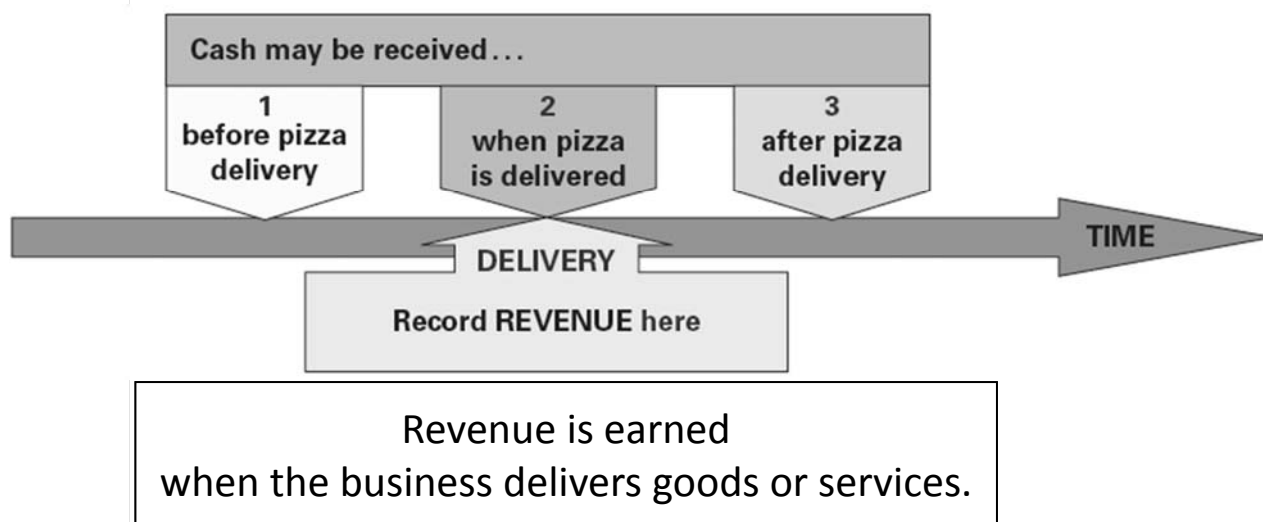
For most businesses, these conditions are met
at the point of delivery of goods or services,
regardless of when cash is received.

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Revenue Realization Principle

Recording Revenues v/s Cash Receipts



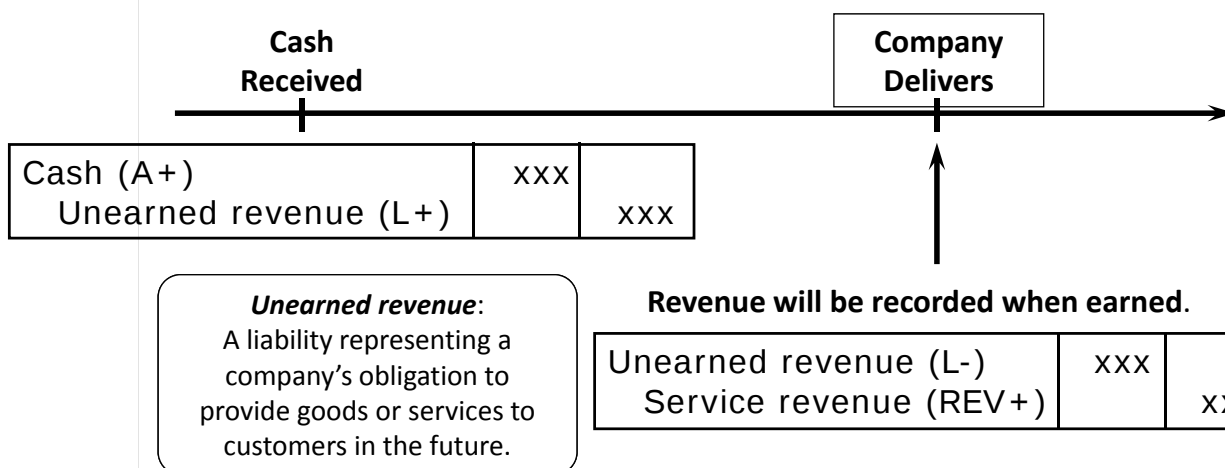
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1. Cash Received BEFORE Revenue is Earned (1)

If cash is received **BEFORE** the company delivers goods or services, a liability account **UNEARNED REVENUE** is recorded.

When the company delivers the goods or services, **UNEARNED REVENUE** is reduced and **REVENUE** is recorded.



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1. Cash Received BEFORE Revenue is Earned (2)

UNEARNED REVENUE:

Some businesses collect cash from customers before earning of revenue. This create a liability called “unearned revenue.”

Example: On August 1, ABC Company received \$16,000 cash for its services to be provided to a customer during the following 3 months. The company noted that it had provided \$10,000 worth of services in the month of August.

When cash is received	Date	Account Title & Explanation	Debit	Credit
	Aug 1	Cash (A+)	16,000	
		Unearned revenue (L+)		16,000

When revenue is earned	Date	Account Title & Explanation	Debit	Credit
	Aug 31	Unearned revenue (L-)	10,000	
		Service revenue (REV+)		10,000

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2. Cash Received WHEN Revenue is Earned

When cash is received **ON** the date the **REVENUE** is earned, the following entry is made:

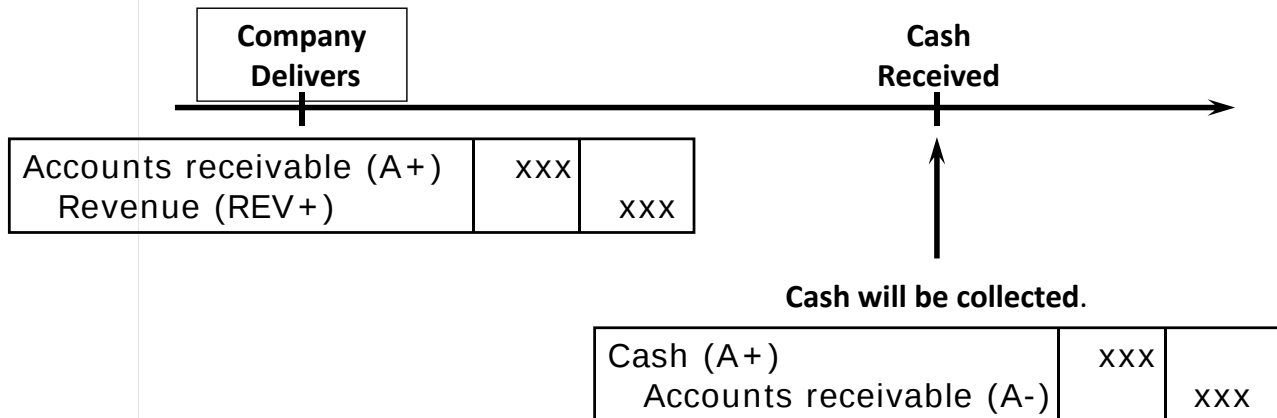
Cash Received AND		Company Delivers	
Cash (A+)	xxx	Revenue (REV+)	xxx



3. Cash Received AFTER Revenue is Earned (1)

If cash is received **AFTER** the company delivers goods or services, an asset account **ACCOUNTS RECEIVABLE** is recorded.

When the cash is received the **ACCOUNTS RECEIVABLE** is reduced.



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3. Cash Received AFTER Revenue is Earned (2)

ACCOUNTS RECEIVABLE:

Businesses may earn revenue before they receive the cash. A revenue that has been earned but not yet collected is called accounts receivable.

Example: On August 4, ABC Company delivered merchandise of \$7,100 to a customer on account. On September 3, the customer paid the amount in full.

When revenue is earned	Date	Account Title & Explanation	Debit	Credit
	Aug 4	Accounts receivable (A+)	7,100	
		Sales revenue (REV+)		7,100

When cash is received	Date	Account Title & Explanation	Debit	Credit
	Sep 3	Cash (A+)	7,100	
		Accounts receivable (A-)		7,100

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Accrual Basis: Expense Matching Principle

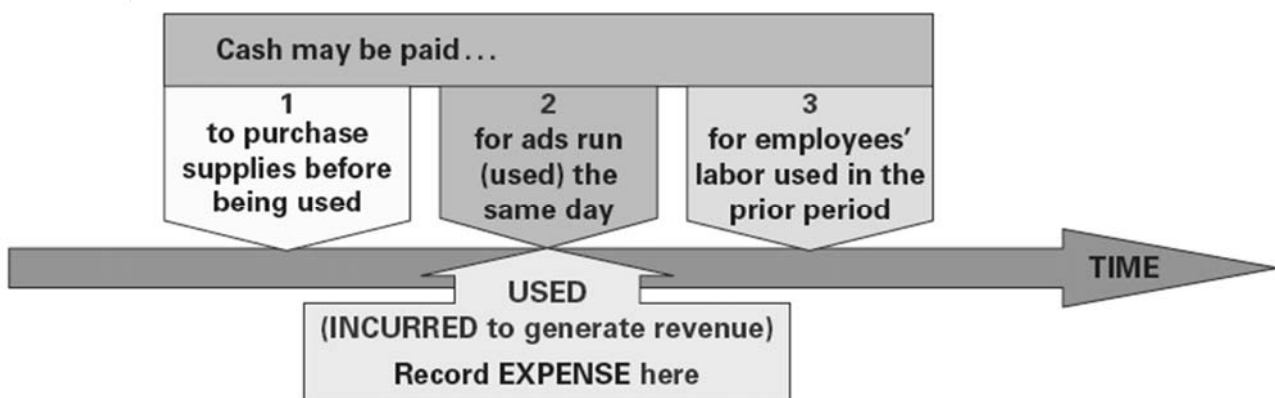


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Expense Matching Principle

Recording expenses v/s cash payments



EXPENSES are **RECOGNIZED**
when they are incurred in generating revenue,
regardless of when cash is paid.

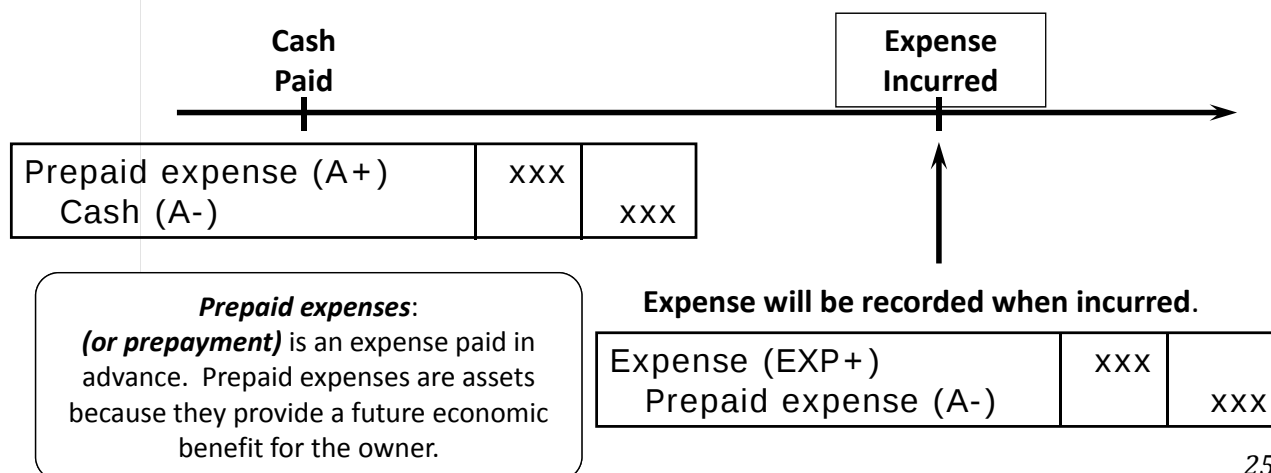
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1. Cash is Paid BEFORE Expense is Incurred (1)

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.



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1. Cash is Paid BEFORE Expense is Incurred (2)

Typical assets and their related expense accounts include. . .

CASH PAID FOR (ASSETS)	As USED over time becomes	EXPENSE
Prepaid rent	————→	Rent expense
Prepaid insurance	————→	Insurance expense
Supplies	————→	Supplies expense
Building & equipment	————→	Depreciation expense

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1. Cash is Paid BEFORE Expense is Incurred (3)

PREPAID EXPENSES:

Companies pay rent (or insurance) in advance. This prepayment creates an asset for the renter (or insurer), who can use the rented item (or be covered by the insurance policy) in the future.

Example: On August 1, ABC Company paid \$3,000 cash for 3 months' store rent.

When cash is paid	Date	Account Title & Explanation	Debit	Credit
	Aug 1	Prepaid rent (A+)	3,000	
		Cash (A-)		3,000

When expense incurred	Date	Account Title & Explanation	Debit	Credit
	Aug 31	Rent expense (EXP+)	1,000	
		Prepaid rent (A-)		1,000

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1. Cash is Paid BEFORE Expense is Incurred (4)

SUPPLIES:

Supplies are another type of prepaid expense. Companies purchase supplies for use in their operations. During the period, some supplies (assets) are used up and become expenses.

Example: On August 1, ABC Company paid \$900 cash for office supplies. On August 31, records showed that \$250 of office supplies was used up during the month.

When cash is paid	Date	Account Title & Explanation	Debit	Credit
	Aug 1	Supplies (A+)	900	
		Cash (A-)		900

When expense incurred	Date	Account Title & Explanation	Debit	Credit
	Aug 31	Supplies expense (EXP+)	250	
		Supplies (A-)		250

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1. Cash is Paid BEFORE Expense is Incurred (5)

BUILDING & EQUIPMENT:

Building & equipment are long-lived tangible assets. They have finite useful lives and the passage of time reduces their usefulness. This decline is an expense. Depreciation is the process of allocating cost of building equipment to expense over their useful lives.

Example: On August 1, ABC Company paid \$14,400 cash for office equipment. The equipment is estimated to last 6 years.

When cash is paid	Date	Account Title & Explanation	Debit	Credit
	Aug 1	Office equipment (A+)	14,400	
		Cash (A-)		14,400

When expense incurred	Date	Account Title & Explanation	Debit	Credit
	Aug 31	Depreciation expense (EXP+)	200	
		Accumulated depreciation (XA-)		200

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2. Cash is Paid WHEN Expense is Incurred

When cash is paid **ON** the date the **EXPENSE** is incurred, the following entry is made:

Cash Paid	AND	Expense Incurred
Expense (EXP+)	xxx	xxx
Cash (A-)		

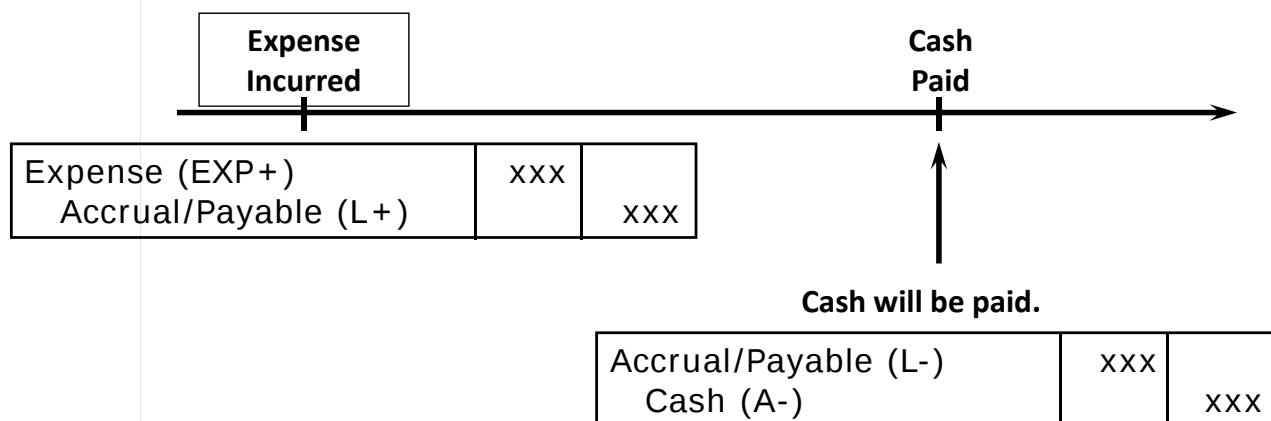
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3. Cash is Paid AFTER Expense is Incurred (1)

If cash is paid **AFTER** the company delivers goods or services, a liability account, **PAYABLE** is recorded.

When the cash is paid the **PAYABLE** is reduced.



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3. Cash is Paid AFTER Expense is Incurred (2)

ACCRUED EXPENSES/ACCOUNTS PAYABLE:

Businesses incur expenses before they pay cash. Examples include salary expense where the company's payable grows as the employees work. In effect, a liability is accrued.

Example: The payday of the month falls on Sunday, August 31. The salary of \$2,600 will be paid on Monday, September 1.

When expense Incurred	Date	Account Title & Explanation	Debit	Credit
	Aug 31	Salary expense (EXP+)	2,600	
		Accrued salary expense (L+)		2,600

When cash is paid	Date	Account Title & Explanation	Debit	Credit
	Sep 1	Accrued salary expense (L-)	2,600	
		Cash (A-)		2,600

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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.

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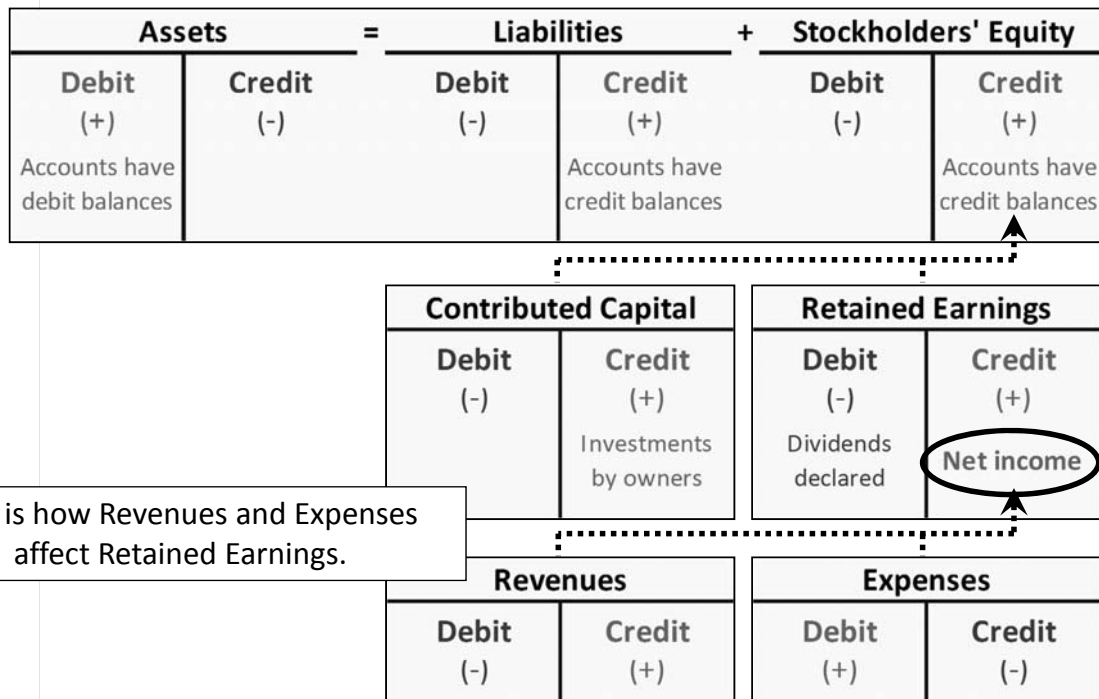
The Expanded Transaction Analysis Model



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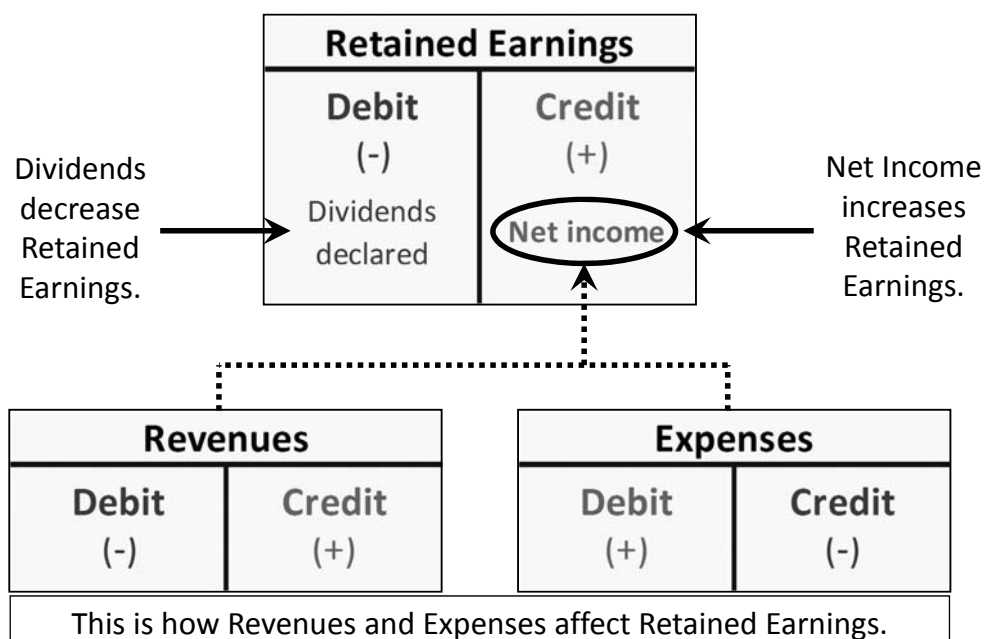
$$A = L + SE$$



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Expanded Transaction Analysis Model



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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.

		<u>Debit</u>	<u>Credit</u>
(a)	Cash (+A) [\$36,000 + \$21,000]	57,000	
	Accounts Receivable (+A)	9,000	
	Restaurant Sales Revenue (+R, +SE)		66,000
<u>Assets</u>		=	<u>Liabilities</u> + <u>Stockholders' Equity</u>
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.

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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.

		<u>Debit</u>	<u>Credit</u>
(b)	Cost of Sales (+E, -SE)	30,000	
	Supplies (-A)		30,000
<u>Assets</u>		=	<u>Liabilities</u> + <u>Stockholders' Equity</u>
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.

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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.

	<u>Debit</u>	<u>Credit</u>
(c) Cash (+A)	400	
Franchise Fee Revenue (+R, +SE)		100
Unearned Franchise Fees (+L)		300

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
Cash +400		Unearned Franchise Fees +300		Franchise Fee Revenue (+R) +100

for services
performed

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.

	<u>Debit</u>	<u>Credit</u>
(d) General and Administrative Expenses (+E, -SE)	7,000	
Cash (-A)		7,000

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
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) –				+ Accounts Receivable (A) –				+ Supplies (A) –			
Bal.	13,000			Bal.	24,000			Bal.	17,000		
(a)	57,000	7,000	(d)	(a)	9,000	12,800	(i)	(e)	29,000	30,000	(b)
(c)	400	9,000	(e)								
(h)	4,000	14,000	(f)	Bal.	<u>20,200</u>			Bal.	<u>16,000</u>		
(i)	15,500	9,000	(g)								
(k)	1,000	10,000	(j)								
Bal.	<u>41,900</u>										
+ Prepaid Expenses (A) –				+ Property and Equipment (A) –				– Accounts Payable (L) +			
Bal.	10,000			Bal.	200,000				29,000	Bal.	
(g)	9,000				1,000	(h)		(j)	10,000	20,000	(e)
Bal.	<u>19,000</u>			Bal.	<u>199,000</u>					<u>39,000</u>	Bal.
– Unearned Franchise Fees (L) +											
		6,000	Bal.								
		300	(c)								
		<u>6,300</u>	Bal.								

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Papa John's Statement of Income Accounts

Beginning balances start at zero.

– Restaurant Sales Revenue (R) +				– Franchise Fee Revenue (R) +				– Gain on Sale of Land (R) +			
	0	Bal.			0	Bal.			0	Bal.	
	66,000	(a)			100	(c)			3,000	(h)	
	<u>66,000</u>	Bal.			2,700	(i)			<u>3,000</u>	Bal.	
					<u>2,800</u>	Bal.					
– Investment Income (R) +				+ Cost of Sales (E) –				+ Salaries Expense (E) –			
	0	Bal.		Bal.	0			Bal.	0		
	1,000	(k)		(b)	30,000			(f)	14,000		
	<u>1,000</u>	Bal.		Bal.	<u>30,000</u>			Bal.	<u>14,000</u>		
+ General and Administrative Expenses (E) –											
Bal.	0										
(d)	7,000										
Bal.	<u>7,000</u>										

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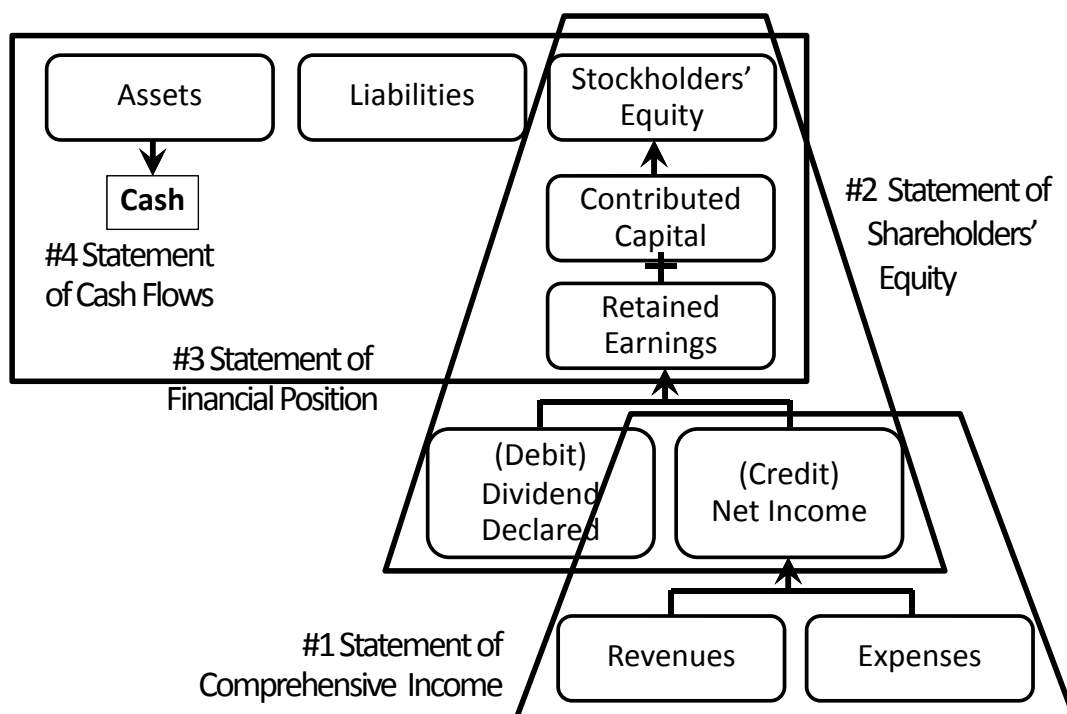
How is the Statement of Income Prepared and Analyzed ?



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How is the Statement of Income Prepared and Analyzed ?



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How is the Statement of Income Prepared and Analyzed ?

Statement	Formula
#1 Income Statement	Revenues—Expenses = Net Income
#2 Statement of Stockholders' Equity	$\text{Beginning Retained Earnings} + \text{Net Income} - \text{Dividends Declared} = \text{Ending Retained Earnings}$ $\text{Beginning Contributed Capital} + \text{Stock Issuances} - \text{Stock Repurchases} = \text{Ending Contributed Capital}$ $\text{Ending Retained Earnings} + \text{Ending Contributed Capital} = \text{Ending Stockholders' Equity}$
#3 Balance Sheet	Assets = Liabilities + Stockholders' Equity (includes Cash)
#4 Statement of Cash Flows	$\begin{aligned} &\text{Cash provided by (or used in) Operating Activities} \\ &+/- \text{Cash provided by (or used in) Investing Activities} \\ &+/- \text{Cash provided by (or used in) Financing Activities} \\ &\hline &\text{Change in Cash} \\ &+ \text{Beginning Cash} \\ &\hline &\text{Ending Cash} \end{aligned}$

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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)

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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	<u>\$9,000</u>	<u>\$141,800</u>	<u>\$150,800</u>

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

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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	<u>110,100</u>
Investments	2,000
Property and equipment (net)	199,000
Notes receivable	11,000
Intangibles	77,000
Other assets	36,000
Total Assets	<u>\$435,100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 39,000
Dividends payable	3,000
Accrued expenses payable	71,000
Total current liabilities	<u>113,000</u>
Unearned franchise fees	6,300
Notes payable	138,000
Other long-term liabilities	27,000
Total liabilities	<u>284,300</u>
Stockholders' Equity	
Contributed capital	9,000
Retained earnings	141,800
Total stockholders' equity	<u>150,800</u>
Total liabilities and stockholders' equity	<u>\$435,100</u>

From the Statement of
Stockholders' Equity

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4. Statement of 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

Effect on
Cash Flows

+

+

-

-

-

-

Total



4. Statement of Cash Flows

Direct
approach to
preparing
operating
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

Effect on
Cash Flows

+

+

-

-

-

-

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

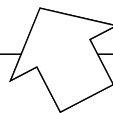
Total

Net increase or (decrease) in cash	
Beginning balance in cash account	
Ending balance in cash account	



Total Asset Turnover Ratio

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



$$(\text{Beginning total assets} + \text{ending total assets}) \div 2$$

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

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



End of Chapter 3

