

BACHELOR of ECONOMICS



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

AC201 Fundamental Accounting

Semester 2/2012

Course Materials

Topic:

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

Session:

Sessions #2

Instructor:

Ajarn Santana Singhasaneh





✓ FINANCIAL STATEMENTS

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

Accounting Cycle

Transaction Analysis and Recording – Financing and Investing Activities

ASSETS
<ul style="list-style-type: none"> • Cash • Investments in debt and equity securities • Accounts receivable • Notes receivable • Inventory • Prepaid expenses • Property, plant, and equipment • Intangible assets • Natural resources

LIABILITIES
<ul style="list-style-type: none"> • Accounts payable • Accrued liabilities • Unearned revenues • Notes payable • Bonds payable

EQUITY
<ul style="list-style-type: none"> • Capital share <ul style="list-style-type: none"> • Preferred share • ordinary share • Retained earnings <ul style="list-style-type: none"> • Appropriated R/E • Unappropriated R/E • Treasury share

Financial Statement Items



FINANCIAL STATEMENT ANALYSIS



BACHELOR
of ECONOMICS



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

Ajarn Santana Singhasaneh
Department of Accounting
Thammasat Business School
Thammasat University



Overview of Accounting Concepts



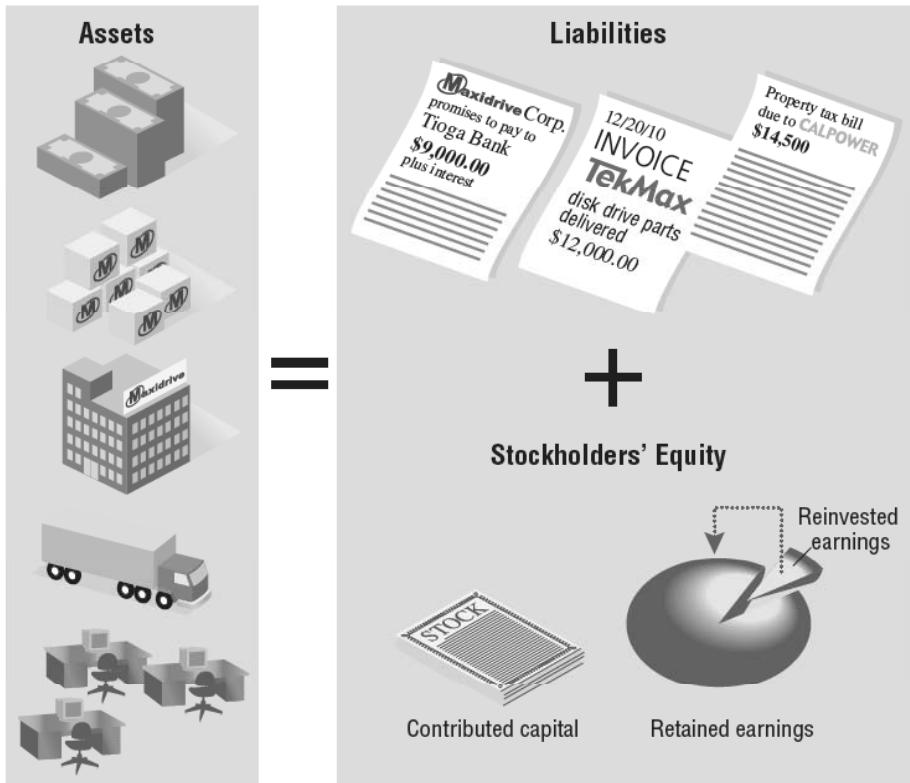
Accounting Assumptions & Principle

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 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 Position as at **December 31, 2008**

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

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

7



Papa John's Balance Sheet

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

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

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

8



What Business Activities Cause Changes in Financial Statement Amounts ?

9



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.

10



Nature of Business Transactions

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

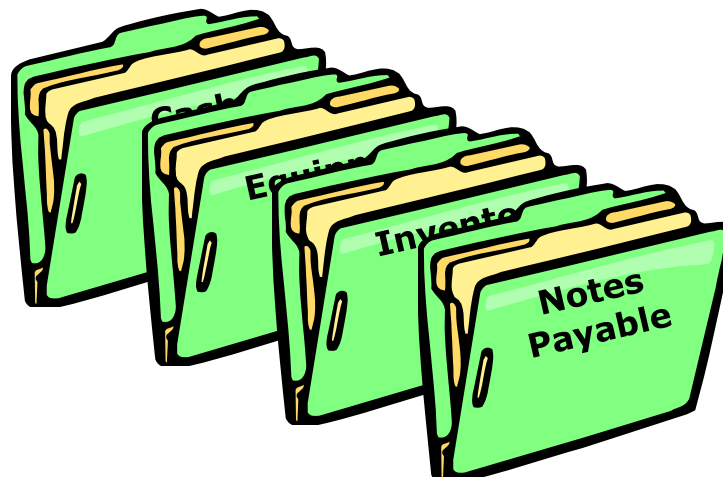


11



Accounts

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



12



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

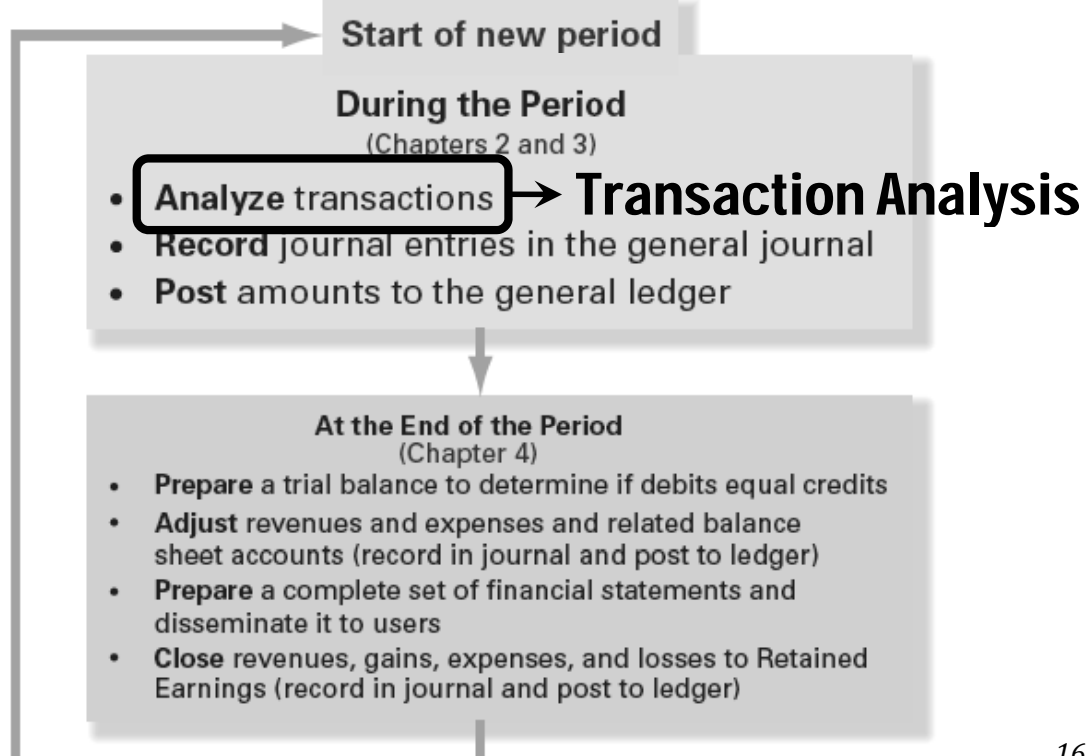
- Contributed Capital
- Retained Earnings



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					=					

19



Transaction Analysis: Example

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)		
ASSETS		
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	13,000	<i>a summary of several current assets with smaller balances</i>
Total current assets	75,000	
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	36,000	<i>a summary of several long-term assets with smaller balances</i>
Total assets	\$387,000	

20



Transaction Analysis: Example

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

Current liabilities

Noncurrent liabilities

LIABILITIES AND STOCKHOLDERS' EQUITY

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>

Total current liabilities 100,000

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 27,000

Total liabilities 257,000

Stockholders' Equity*

Contributed capital	7,000	<i>amounts received from contributors (investors)</i>
Retained earnings	<u>123,000</u>	<i>cumulative profits not distributed to investors</i>

Total stockholders' equity 130,000

Total liabilities and stockholders' equity \$387,000



Transaction Analysis: Example

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

- (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				

$$A = L + SE$$

23



Analyzing Transactions

- (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				

$$A = L + SE$$

24



Analyzing Transactions

- (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				

$$A = L + SE$$

27



Analyzing Transactions

- (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				

$$A = L + SE$$

28



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.

Cash	Investments	Equipment
Notes Receivable	Dividend Payable	Notes Payable
Contributed Capital	Retained Earnings	



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 (+)	Credit (-)		Debit (-)	Credit (+)		Debit (-)	Credit (+)
Accounts have debit balances				Accounts have credit balances			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 ?

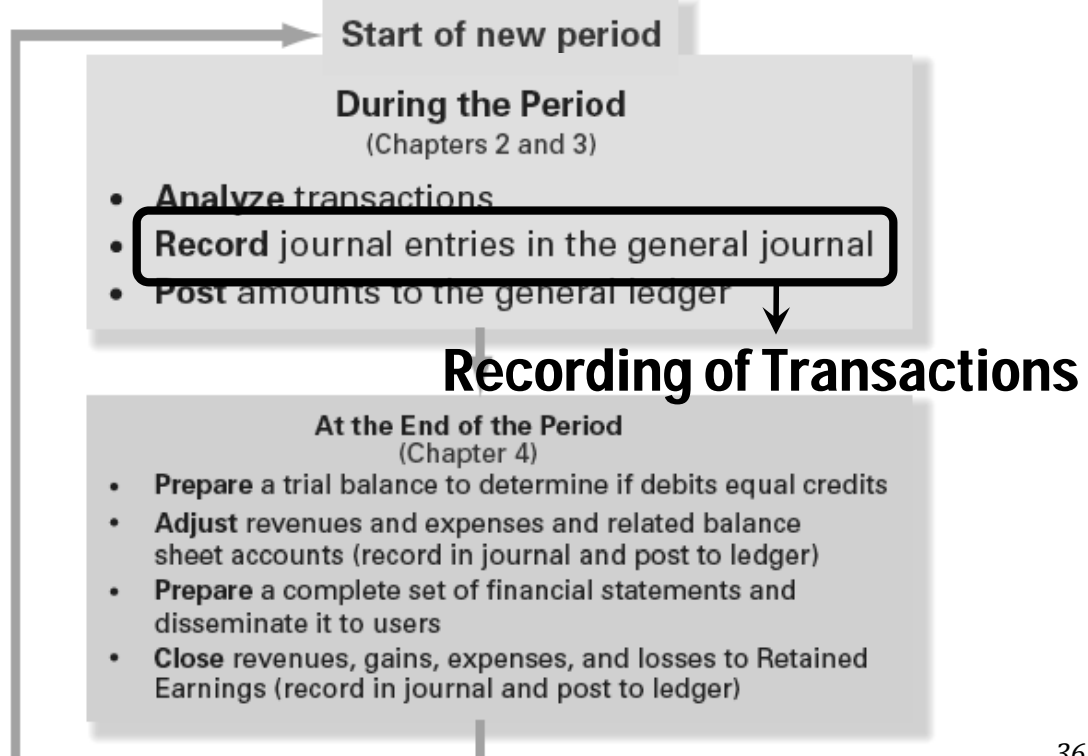
Basic facts regarding **double-entry accounting**:

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.

35



The Accounting Cycle



36



Recording of Transactions

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

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.

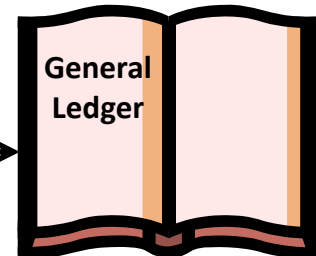


Recording of Transactions

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



Recording of Transactions

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
	<u>19,000</u>



Analyzing Transactions

- (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

41



Recording of Transactions

- (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
	<u>13,000</u>

301 - Contributed Capital	
	7,000
12/31/08 Bal.	
1/2/09	2,000
	<u>9,000</u>

42



Analyzing Transactions

(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

43



Recording of Transactions

(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>

44



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				
	3,000	1/31/09 bal.	<u>2,000</u>	1/31/09 bal.	<u>200,000</u>
	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	124,000	12/31/08 bal.	0	12/31/08 bal.
(d)	3,000	6,000	(b)	3,000	(f)
1/31/09 bal.	<u>11,000</u>	8,000	(c)		
		<u>138,000</u>	1/31/09 bal.	<u>3,000</u>	1/31/09 bal.

– Contributed Capital (SE) +		– Retained Earnings (SE) +	
	7,000	12/31/08 bal.	123,000
	2,000	(a)	3,000
		(f)	
	<u>9,000</u>	1/31/09 bal.	<u>120,000</u>

45



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 Balance Sheets

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

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

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

	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 Balance Sheets

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	20,000	123,000
Total stockholders' equity	29,000	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.

49



Current Ratio

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

Current ratio for Papa John's:

$$2006 = 0.83$$

$$2007 = 0.68$$

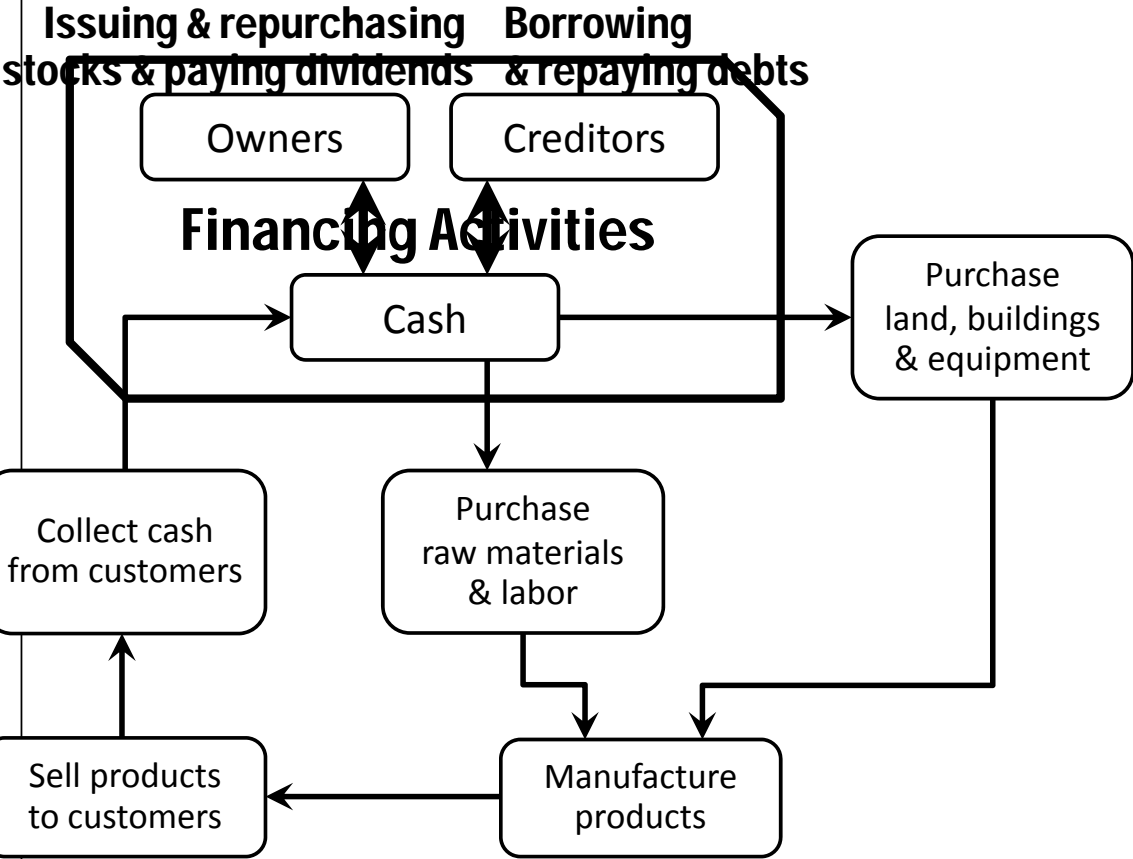
$$2008 = 0.75$$

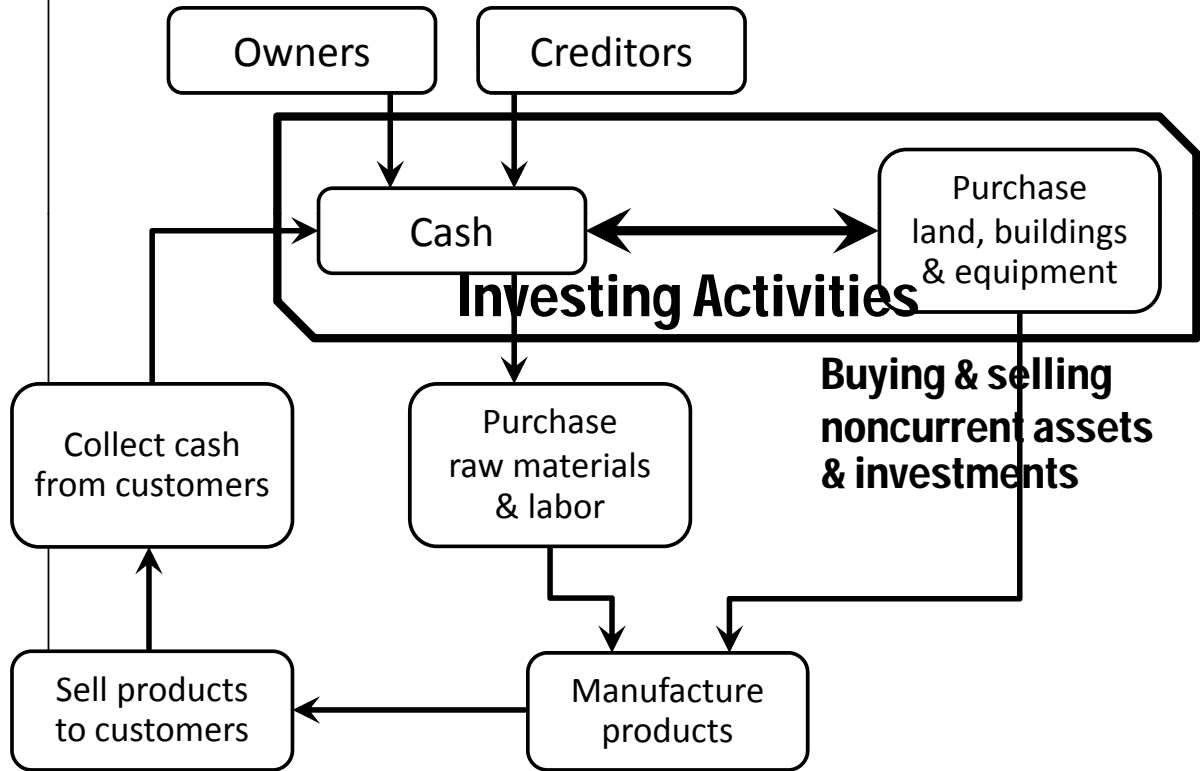
The current ratio for Papa John's shows a low level of liquidity, below 1.

50



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	
(None in this chapter.)	
Investing activities	
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	(6,000)
Financing activities	
Issued common stock (a)	2,000
Borrowed from banks (b)	<u>6,000</u>
Net cash provided by financing activities	8,000
Net increase in cash	2,000
Cash at beginning of month	<u>11,000</u>
Cash at end of month	<u>\$13,000</u>

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

Also called capital expenditures.

← Agrees with the amount on the balance sheet.



End of Chapter 2

