

Study Notes
Financial Accounting: An Introduction to
Concepts, Methods, and Uses, 14e
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1 Example 3

Cash basis of accounting. Joan Adam opens an art supply store (*Adam-Art Supply*) on January 1, 2013. The financing of the store consists of €150,000.00 in cash, provided by Joan in exchange for all the common stock of the firm. The firm rents space on January 1 and pays two months' rent of €14,000.00 in advance. During January it acquires merchandise costing €140,000.00, paying €86,000.00 in cash and acquiring the rest (€54,000.00) on account for payment in February. Sales to customers during January total €140,000.00, of which €114,000.00 is for cash and €26,000.00 is on account for collection in February and March. The cost of the merchandise sold during January was €42,000.00. The firm paid €25,000.00 in salaries.

Cash Inflows	
Cash Receipts from Customers	€ 114,000.00
Total Cash Inflows	114,000.00
Cash Outflows	
Cash Paid for Rent.....	(14,000.00)
Cash Paid for Merchandise	(86,000.00)
Cash Paid for Salaries	(25,000.00)
Total Cash Outflows	(125,000.00)
Net Cash Flow	€ (11,000.00)

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