Rose Designs buys equipment, $10,000 with cash. This transaction increases and decreases the assets of the business as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **ASSETS** | | | **=** | **LIABILITIES** | **+** | **STOCKHOLDERS’ EQUITY** | | | | | | |
|  |  |  |  |  |  |  |  |  | **Retained Earnings** | | | | |
|  | Cash | + | Equipment | = | Notes Payable | + | Common  Stock | − | Dividends | + | Revenues | − | Expenses |
| Bal. | $ 100,000 |  |  | = | $ 80,000 | + | $ 20,000 |  |  |  |  |  |  |
| (3) | (10,000) |  | +10,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $ 90,000 | + | $ 10,000 | = | $ 80,000 | + | $ 20,000 |  |  |  |  |  |  |

Following table illustrates the impact of this transaction on the "Financial Statements" of Rose Designs:

|  |
| --- |
| This table will be replaced by Leonardo item = leo-leonardo-dev-482 |
|  |
|  |
|  |

**Step 1: Identify the accounts and account type**.

The two accounts involved are Equipment (Asset) and Cash (Asset). Equipment is an asset, not an expense, because the equipment is of value to the company and will benefit it in the future.

Why does a business record the purchase of equipment as an asset instead of an expense?

**Step 2: Decide if each account increases or decreases.**

Equipment increases. The business now has more equipment than it had before. Cash decreases. The business now has less cash than it did before.

**Step 3: Determine the impact on the financial statements**.

The balance sheet reflects a $10,000 decrease to the asset, Cash, and a $10,000 increase to the asset, Equipment. The statement of cash flows, investing, is decreased by $10,000.

## Test your understanding