## Transaction 4: Development of Company Logo with cash

Rose Designs spends $5,000 in the development of a company logo. A company logo is an example of an intangible asset. Intangible assets are long-term assets that convey special rights, such as the exclusive right to produce or sell an invention (patent) or book (copyright), or the symbol or image of a distinctive brand (trademark).

Intangible asset: An asset with no physical form that is valuable because of the special rights it carries.

The effect on the accounting equation is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **ASSETS** | | | | | **=** | **LIABILITIES** | **+** | **STOCKHOLDERS’ EQUITY** | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | **Retained Earnings** | | | | |
|  | Cash | + | Equipment | + | Trademark | = | Notes Payable | + | Common  Stock | − | Dividends | + | Revenues | − | Expenses |
| Bal. | $ 90,000 | + | $ 10,000 |  |  | = | $ 80,000 | + | $ 20,000 |  |  |  |  |  |  |
| (4) | (5,000) |  |  |  | +5,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | $ 85,000 | + | $ 10,000 | + | $ 5,000 | = | $ 80,000 | + | $ 20,000 |  |  |  |  |  |  |

**Note:** *Try changing Cash and Trademark values in the green boxes of the Accounting Equation above. The impacting changes will reflect in the Balance Sheet and Statement of Cash Flow tables.*

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 Cash (Asset) and Trademark (Asset).

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

Cash decreases. The business paid cash to develop the trademark. Trademark increases. The business now has a company logo that will be of benefit in the future.

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

The balance sheet reflects a $5,000 decrease to the asset, Cash, and a $5,000 increase to the asset, Trademark. The statement of cash flows, investing, decreases by $5,000**.**

## Test your understanding