## Transaction 5: Purchase furniture on Account

Rose Designs purchases furniture, $4,000, using the company’s credit card. The company plans to pay its credit card in full in 60 days. This transaction affects the accounting equation of Rose Designs as follows:

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

**Note:** *Try changing Furniture and Accounts Payable values in the green boxes of the Accounting Equation above. The impacting changes will reflect in the Balance Sheet table.*

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 |
|  |
|  |
|  |

Let’s review the transaction using the steps we learned:

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

The two accounts involved are Furniture (Asset) and Accounts Payable (Accounts Payable). When a business uses a credit card for purchases, they agree to pay the amount borrowed in the future. The liability created by purchasing “on account” is Accounts Payable, which is a short-term liability that will be paid in the future. Some companies might also use Credit Card Payable.

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

Furniture increases. The business now has furniture. Accounts Payable increases. The business now owes more debt than it did before.

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

The balance sheet reflects a $4,000 increase to the asset, Furniture, and a $4,000 increase to the liability, Accounts Payable. There is no impact on the statement of cash flows because this transaction does not involve cash.

Why does this transaction not impact the statement of cash flows?

## Operating Activities for a Business

Take a moment to look at the balances of each account and the financial statements after the last transaction. Did you notice that none of the transactions affected the Revenue or Expense accounts? In addition, none of the transactions impacted the Income Statement. This is because Rose Designs hasn’t sold any services to customers (Revenues) or incurred any expenses. These types of activities are considered operating activities and reflect the day-to-day operations of the business. We will learn how to record a company’s operating activities in a later chapter when we learn about the income statement.

## Test your understanding