

# Chapter 2

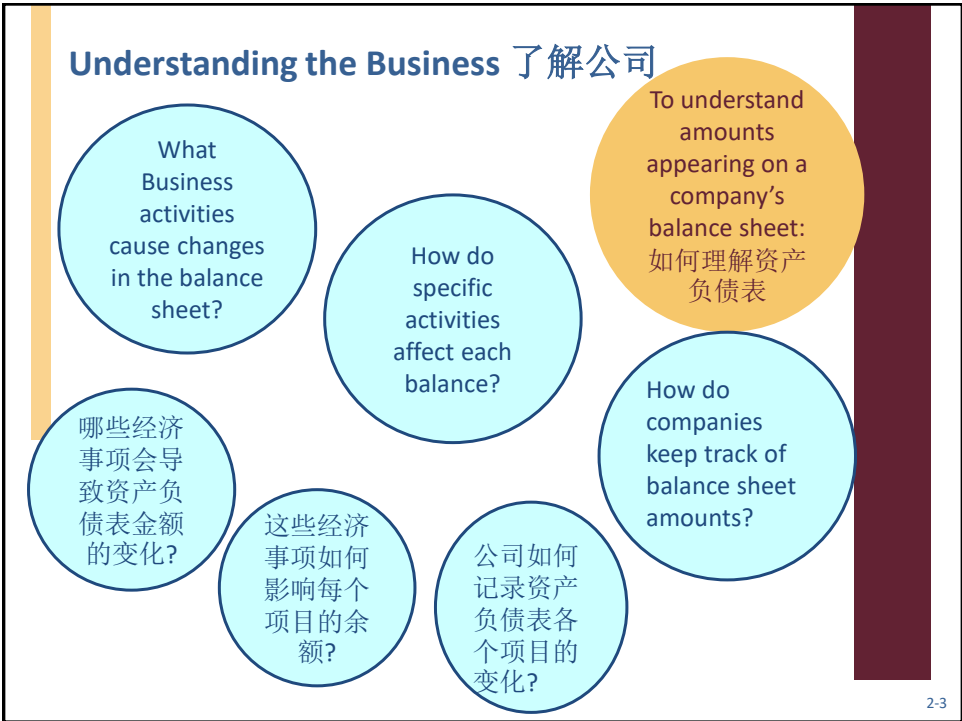
## Investing and Financing Decisions and the Accounting System

### Learning Objectives

After studying this chapter, you should be able to:

- 2-1** Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.
- 2-2** Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.
- 2-3** Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .
- 2-4** Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.
- 2-5** Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.
- 2-6** Identify investing and financing transactions and demonstrate how they impact cash flows.

2-2



**Learning Objective 2-1**

**2-1** Define the objective of financial reporting, the elements of the balance sheet, and the related key accounting assumptions and principles.

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## Exhibit 2.1<sup>(1)</sup> Financial Accounting and Reporting Conceptual Framework 财务会计报告概念框架

### Objective of Financial Reporting to External Users: 目标(in Ch. 2)

To provide financial information about the reporting entity that is **useful** 有用性 to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity

- **Pervasive Cost-Benefit Constraint:** Benefits of providing information should outweigh its costs 成本收益约束

### Fundamental Qualitative Characteristics of Useful Information: 质量特征(Ch. 2)

Relevance (including materiality) 相关性 and Faithful Representation 可靠性

#### **Attributes That Enhance Qualitative Characteristics:**

Comparability 可比性(including consistency 一致性), Verifiability 可验证性, Timeliness 及时性, and Understandability 可理解性

2-5

## Exhibit 2.1<sup>(2)</sup> Financial Accounting and Reporting Conceptual Framework

### Elements to Be Measured and Reported: 会计要素

Assets, Liabilities, Stockholders' Equity, Investments by Owners 投资, and Distributions to Owners 分配 (in Ch. 2)

Revenues 收入, Expenses 费用, Gains 利得, and Losses 损失 (in Ch. 3)

Comprehensive Income 综合收益 (in Ch. 5)

### Recognition, Measurement, and Disclosure Concepts:

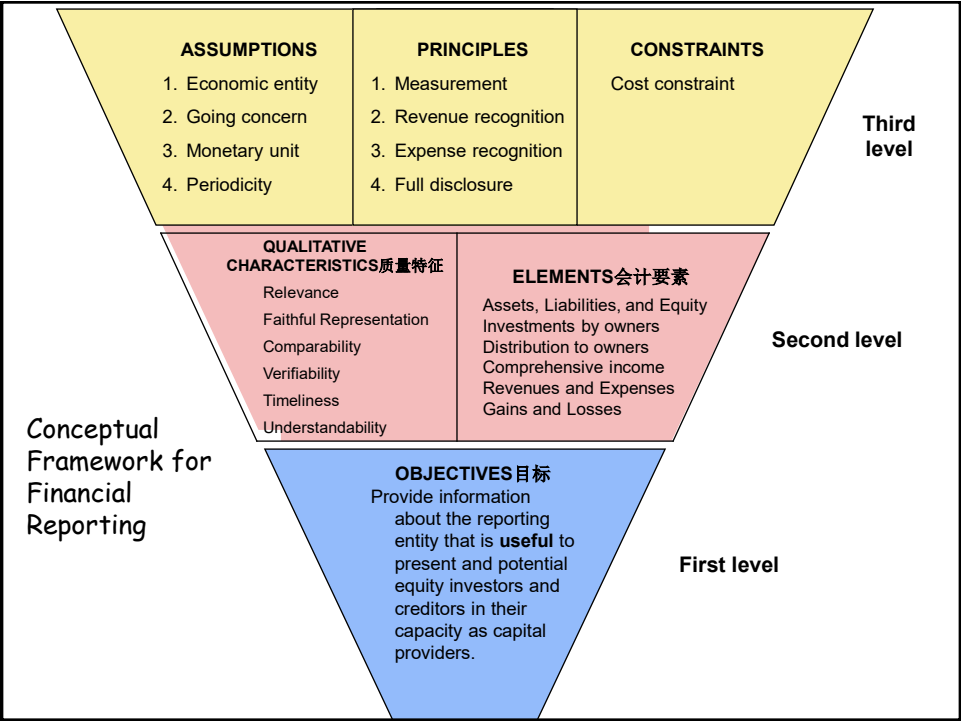
**Assumptions:** Separate Entity 独立主体, Going Concern 持续经营, and Monetary Unit 货币计量 (in Ch. 2), Time Period 会计分期 (in Ch. 3)

**Principles:** Mixed-Attribute Measurement 混合计量(历史成本计量/公允价值计量)(in Ch. 2)

Revenue Recognition 收入确认 and Expense Recognition 费用确认(in Ch. 3)

Full Disclosure 充分披露 (in Ch. 5)

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### Elements of the Balance Sheet

**A**

**=**

**L**

**+**

**SE**

**Assets**

Economic resources with probable future benefits owned or controlled by the entity.

**Liabilities**

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.

**Stockholders' Equity**

The financing provided by the owners and the operations of the business.

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Exhibit 2.2

Chipotle Mexican Grill, Inc., Balance Sheet

*\*The information has been adapted from actual statements and simplified for this chapter.*

CHIPOTLE MEXICAN GRILL, INC. Consolidated Balance Sheet December 31, 2017 (in millions of dollars, except per share data)		EXPLANATIONS
ASSETS		"Consolidated" means all subsidiaries are combined. Point in time for which the balance sheet was prepared.
Current Assets:	\$ 186	
Cash	324	Ownership of other companies' stocks and bonds
Short-term investments	49	Amounts due from customers and others
Accounts receivable	20	Food, beverage, and packaging supplies on hand
Supplies	51	Rent, advertising, and insurance paid in advance
Prepaid expenses	630	Summary of assets to be used or turned into cash within one year
Total current assets		
Property and equipment:		
Land	13	
Buildings	1,677	
Equipment	627	Includes furniture and fixtures
Total cost	2,317	Cost of property and equipment at date of acquisition
Accumulated depreciation	(979)	Amount of cost used in past operations
Net property and equipment	1,358	
Intangible assets	78	Rights, such as patents, trademarks, and licenses
Total assets	\$2,046	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:	\$ 82	Amount due to suppliers
Accounts payable	64	Unredeemed gift cards
Unearned revenue	18	Amount due to governments
Income taxes payable		
Accrued expenses payable:		
Wages payable	83	Amount due to employees
Utilities payable	77	Amount due for electric, gas, and telephone usage
Total current liabilities	324	Summary of liabilities to be settled within one year
Notes payable	78	Amount owed on basis from banks
Other liabilities	279	Summary of other liabilities (e.g., pension plan, leases) due beyond one year
Total liabilities	681	
Stockholders' Equity:		
Common stock (\$0.01 par value)	1	Total par value of stock issued by company to investors
Additional paid-in capital	1,305	Excess of amount received from investors over par
Treasury stock	(2,334)	Amount paid to repurchase its own stock from investors
Retained earnings	2,293	Undistributed earnings reinvested in the company
Total stockholders' equity	1,365	
Total liabilities and stockholders' equity	\$2,046	

\*The information has been adapted from actual statements and simplified for this chapter.

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Learning Objective 2-2

**2-2** Identify what constitutes a business transaction and recognize common balance sheet account titles used in business.

2-10

What Business Activities经济事项 Cause Changes in the Financial Statement Amounts?

Transactions 交易include two types of events:

External Events外部事项: Exchanges between the entity and one or more parties.与一个或多个主体进行资产和负债的交换

Ex: Purchase of a machine from a supplier.

Internal Events内部事项: Events that are not exchanges between parties but that have a direct and measurable effect on the entity.没有与其他主体进行交易，但是对会计主体有直接影响

Ex: Using up insurance paid in advance.



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Accounts账户

Accounts are used by companies to accumulate the dollar effect of transactions. 企业用以综合反映交易对每一项财务报表项目金额的影响

Cash  
现金

Inventory  
存货

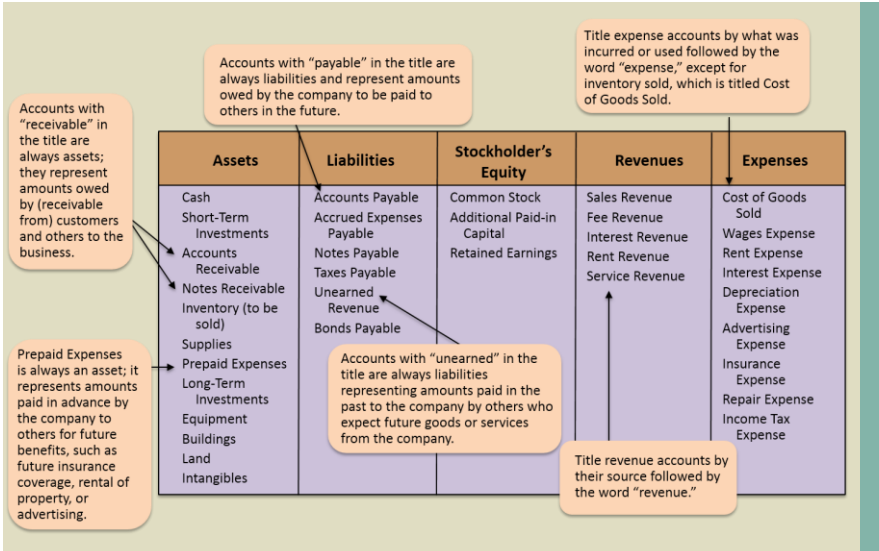
Equipment  
设备

Notes  
Payable  
应付票据

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Exhibit 2.3

Typical Account Titles 典型会计科目



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Learning Objective 2-3

**2-3** Apply transaction analysis to simple business transactions in terms of the accounting model:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .

运用会计等式分析交易

2-14

## Principles of Transaction Analysis 交易分析原则

每笔交易对会计等式至少有两项影响（双重影响）

- Every transaction affects at least two accounts. 每笔交易至少影响到两个账户

关键要判断影响到的账户及方向（增加还是减少）

- 每笔交易后会计等式仍保持平衡

$$A = L + SE$$

Assets

Liabilities

Stockholders'  
Equity

2-15

## Balancing the Accounting Equation 会计等式恒等

**The accounting equation must remain in balance after each transaction.**

Step 1: 得到/放弃？

- 账户的确认  
(e.g., Cash and Notes Payable). *Make sure at least two accounts change.*
- 账户的分类: Asset (A), Liability (L), or Stockholders' Equity (SE)  
(e.g., Cash is an asset and Notes Payable is a liability).
- 账户影响方向: The account increased (+) or decreased (-)  
(e.g., Cash increased and Notes Payable increased).

Step 2: (A = L + SE) 验证会计等式平衡

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Analysing Chipotle’s Transactions<sub>1</sub>

To illustrate the use of the transaction analysis process, let’s consider transactions of **Chipotle** that are also common to most businesses.

Assume that Chipotle engages in the **following events during the first quarter of 2018**, the first three months following the balance sheet in Exhibit 2.2.

Account titles are from that balance sheet. **All amounts are in millions, except per share data.**

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Analysing Chipotle’s Transactions<sub>2</sub>

(a) Chipotle issued (sold) 100 additional shares of common stock with a par value of \$0.01 per share at a market value of \$3.00 per share, receiving \$300 in cash from investors.

Step 1: What was received and what was given?

(account name, type of account, amount, and direction of effect)

Received: Cash (+A) \$300

Given: Additional stock shares:

Common Stock (+SE) \$1 (100 shares × \$0.01 per share)

Additional Paid-in Capital (+SE) \$299 (100 shares × \$2.99 per share)

Assets				=	Liabilities		+	Stockholders' Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
(a) +300				=				+1	+299	

Step 2: Is the accounting equation in balance?

Assets \$300 = Liabilities \$0 + Stockholders’ Equity \$300

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Analizing Chipotle’s Transactions<sub>2</sub>

(a) Chipotle 发行（出售）普通股100，每股面值\$0.01，市价每股 \$3.00, 从投资人处获得现金 \$300.

Step 1: 收到与付出?

(账户名称, 账户类型, 金额, 增减)

收到: 现金(+资产) \$300  
付出: 股份:  
普通股股本(+所有者权益) \$1 (100 股× 每股\$0.01)  
资本公积(+所有者权益) \$299 (100 股× 每股\$2.99)

资产				=	负债		+	所有者权益		
现金	投资	固定资产	无形资产		应付票据	应付股利		股本	资本公积	留存收益
(a) +300				=				+1	+299	

Step 2: 会计等式恒等吗?

资产 \$300 = 负债 \$0 + 所有者权益 \$300

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Analizing Chipotle’s Transactions<sub>3</sub>

(b) Chipotle borrowed \$2 from its local bank, signing a note to be paid in three years (a noncurrent liability).

Step 1: What was received and what was given?

(account name, type of account, amount, and direction of effect)

Received: Cash (+A) \$2      Given: Long-Term Notes Payable (+L) \$2

Assets				=	Liabilities		+	Stockholders' Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
(a) +300				=				+1	+299	
(b) +2				=	+2					

Step 2: Is the accounting equation in balance?

Assets \$2 = Liabilities \$2 + Stockholders' Equity \$0

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Analzying Chipotle’s Transactions<sub>3</sub>

(b)从银行借款 \$2，并签订3年到期的票据 (长期负债).

Step 1:

收到: 现金 \$2      付出: 长期应付票据      \$2

资产				=	负债		+	所有者权益		
现金	投资	固定资产	无形资产		应付票据	应付股利		股本	资本公积	留存收益
(a) +300				=				+1	+299	
(b) +2				=	+2					

Step 2:

资产 \$2 = 负债 \$2 + 所有者权益 \$0

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Analzying Chipotle’s Transactions<sub>4</sub>

(c) Chipotle purchased \$8 in additional land, \$34 in new buildings, \$10 in new equipment, and \$3 in additional intangible assets; paid \$54 in cash and signed a \$1 short-term note payable for the remainder amount owed.

Step 1: What was received and what was given?

(account name, type of account, amount, and direction of effect)

Received: Land (+A)	\$8	Given: Cash (-A)	\$54
Buildings (+A)	34	Short-Term Notes Payable (+L)	1
Equipment (+A)	10		
Intangible Assets (+A)	3		

Assets				=	Liabilities		+	Stockholders' Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
(a) +300				=				+1	+299	
(b) +2				=	+2					
(c) -54		+52	+3	=	+1					

Step 2: Is the accounting equation in balance?

Assets \$1 = Liabilities \$1 + Stockholders' Equity \$0

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Analizing Chipotle’s Transactions<sub>4</sub>

(c) 购买土地 \$8, 新建筑\$34, 新设备\$10, 无形资产 \$3; 支付现金\$54 并签发短期应付票据 \$1

Step 1:

收到: 土地	\$8	付出: 现金	\$54
建筑	34	短期应付票据	1
设备	10		
无形资产	3		

资产				=	负债		+	所有者权益		
现金	投资	固定资产	无形资产		应付票据	应付股利		股本	资本公积	留存收益
(a) +300				=				+1	+299	
(b) +2				=	+2					
(c) -54		+52	+3	=	+1					

Step 2: 资产 \$1 = 负债 \$1 + 所有者权益 \$0

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Analizing Chipotle’s Transactions<sub>5</sub>

(d) Chipotle paid \$1 on the short-term note payable in (c) above (ignore any interest on the loan in this chapter).

Step 1: What was received and what was given?

(account name, type of account, amount, and direction of effect)

Received: Reduction in amount due:                      Given: Cash (-A)                      \$1  
Short-Term Notes Payable (-L)                      \$1

Assets				=	Liabilities		+	Stockholders' Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
(a) +300				=				+1	+299	
(b) +2				=	+2					
(c) -54		+52	+3	=	+1					
(d) -1				=	-1					

Step 2: Is the accounting equation in balance?

Assets -\$1 = Liabilities -\$1 + Stockholders' Equity \$0

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Analzying Chipotle’s Transactions<sub>5</sub>

(d)偿还短期应付票据 \$1 (本章忽略债务的利息).

Step 1:

收到: 流动负债减少: 付出: 现金 (-A) \$1  
短期应付票据 (-L) \$1

		资产		=	负债		+	所有者权益		
现金	投资	固定资产	无形资产		应付票据	应付股利	股本	资本公积	留存收益	
(a)	+300			=			+1	+299		
(b)	+2			=	+2					
(c)	-54	+52	+3	=	+1					
(d)	-1			=	-1					

Step 2:资产 -\$1 = 负债 -\$1 + 所有者权益 \$0

2-25

Analzying Chipotle’s Transactions<sub>6</sub>

(e) Chipotle purchased the stock of other companies as investments, paying \$44 cash; of this, \$9 was in short-term investments and \$35 was in long-term investments

Step 1: What was received and what was given?

(account name, type of account, amount, and direction of effect)

Received: Short-Term Investments (+A) \$9      Given: Cash (-A) \$44  
Long-Term Investments (+A) 35

		Assets		=	Liabilities		+	Stockholders' Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable	Common Stock	Additional Paid-in Capital	Retained Earnings	
(a)	+300			=			+1	+299		
(b)	+2			=	+2					
(c)	-54	+52	+3	=	+1					
(d)	-1			=	-1					
(e)	-44 +44			=						

Step 2: Is the accounting equation in balance?

Assets \$0 = Liabilities \$0 + Stockholders' Equity \$0

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Analizing Chipotle’s Transactions 6

(e) 购买其他公司股票作为投资，支付现金 \$44; 其中，短期投资\$9, 长期投资 \$35

Step 1:

收到:	短期投资 (+A)	\$9	付出: 现金 (-A)	\$44
	长期投资 (+A)	35		

		资产		=	负债		+	所有者权益		
现金	投资	固定资产	无形资产		应付票据	应付股利	股本	资本公积	留存收益	
(a)	+300			=			+1	+299		
(b)	+2			=	+2					
(c)	-54	+52	+3	=	+1					
(d)	-1			=	-1					
(e)	-44	+44		=						

Step 2: 资产 \$0 = 负债 \$0 + 所有者权益 \$0

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Analizing Chipotle’s Transactions 7

(f) Chipotle does not pay dividends but instead reinvests profits into growing the business. However, for illustration purposes, assume Chipotle’s board of directors declared that the Company will pay \$2 in cash as dividends to shareholders next quarter.

Step 1: What was received and what was given?  
(account name, type of account, amount, and direction of effect)

Received: Lower undistributed earnings	Given: Dividends Payable (+L)	\$2
Retained Earnings (-SE)		\$2

		Assets		=	Liabilities		+	Stockholders’ Equity		
Cash	Investments	Property and Equipment	Intangible Assets		Notes Payable	Dividends Payable	Common Stock	Additional Paid-in Capital	Retained Earnings	
(a)	+300			=			+1	+299		
(b)	+2			=	+2					
(c)	-54	+52	+3	=	+1					
(d)	-1			=	-1					
(e)	-44	+44		=						
(f)						+2			-2	
+230	+44	+25	+3	=	+2	+2	+1	+299	-2	

Step 2: Is the accounting equation in balance?

Assets \$0 = Liabilities \$2 + Stockholders’ Equity -\$2

Overall effects of (a)–(f): Assets \$302 = Liabilities \$4 + Stockholders’ Equity \$298

\$302 = \$302

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Analyzing Chipotle’s Transactions 7

(f) 假设公司将赚取的收益拿出 \$2，准备在下一个季度分给股东

Step 1:  
收到: 留存收益减少 (-SE)    \$2                  付出: 应付股利 (+L)    \$2

现金	投资	资产		= 负债		+ 股本	所有者权益	
		固定资产	无形资产	应付票据	应付股利		资本公积	留存收益
(a) +300				=		+1	+299	
(b) +2				=	+2			
(c) -54		+52	+3	=	+1			
(d) -1				=	-1			
(e) -44	+44			=				
(f)					+2			-2
+230	+44	+25	+3	=	+2	+1	+299	-2

Step 2: 资产 \$0 = 负债 \$2 + 所有者权益 -\$2  
(a)-(f) 汇总效果: 资产 \$302 = 负债 \$4 + 所有者权益 \$298  
\$302 = \$302

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Exercise 2-1

The following events occurred for Taylor Corporation:

- a. Received investment cash by organizers and distributed to them 1,000 shares of \$1 par value common stock to them with a market price of \$17 per share.
- b. Purchased \$4,000 of equipment, paying \$500 in cash and owing the rest on accounts payable to the manufacturer.
- c. Borrowed \$4,500 cash from a bank and issue a note.
- d. Loaned \$250 to an employee who signed a note.
- e. Purchased \$7,500 of land; paid \$2,000 in cash and signed a mortgage note for the balance.

Required:

For each of the events (a) through (e), perform transaction analysis and indicate the account, amount, and direction of the effect (+ for increase and – for decrease) on the accounting equation. Check that the accounting equation remains in balance after each transaction. Use the following headings:

Event                  Assets                  =                  Liabilities                  +                  Stockholders’ Equity

Event	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Cash	+ 17,000					Common Stock	+ 1,000
							Additional Paid-in Capital	+ 16,000
b.	Equipment	+ 4,000		Accounts Payable	+ 3,500			
	Cash	- 500						
c.	Cash	+ 4,500		Notes Payable	+ 4,500			
d.	Notes Receivable	+ 250						
	Cash	- 250						
e.	Land	+ 7,500		Mortgage Notes Payable	+ 5,500			
	Cash	- 2,000						

2019年4月29日，  
康美药业发布了一份  
《关于前期会计差错更正的公告》

- 公司**2017年**年报中出现的**14项会计错误**。其中最主要的有以下几点。
  - 一是由于公司采购付款、工程款支付以及确认业务款项时的会计处理存在错误，造成应收账款少计6.41亿元、存货少计195.46亿元、在建工程少计6.32亿元；由于公司核算账户资金时存在错误，造成货币资金多计299.44亿元。
  - 二是公司在确认营业收入和营业成本时存在错误，造成营业收入多计88.98亿元、营业成本多计76.62亿元；同时，销售费用少计4.97亿元，财务费用少计2.28亿元。
  - 三是由于第一项会计处理错误，使得公司合并现金流量表销售商品、提供劳务收到的现金、支付其他与经营活动有关的现金等多个现金项目计额错误。也因此，康美药业经营性现金流量净额由18.43亿元转为-48.4亿元。
  - 简言之就是，由于财务数据出现会计差错，造成2017年营业收入多计入88.98亿元，营业成本多计入76亿元，销售费用少计入5亿元，财务费用少计入2亿元，销售商品多计入102亿元，货币资金多计入299亿元，筹资活动有关的现金项目多计入3亿元。
- 会计等式的影响？

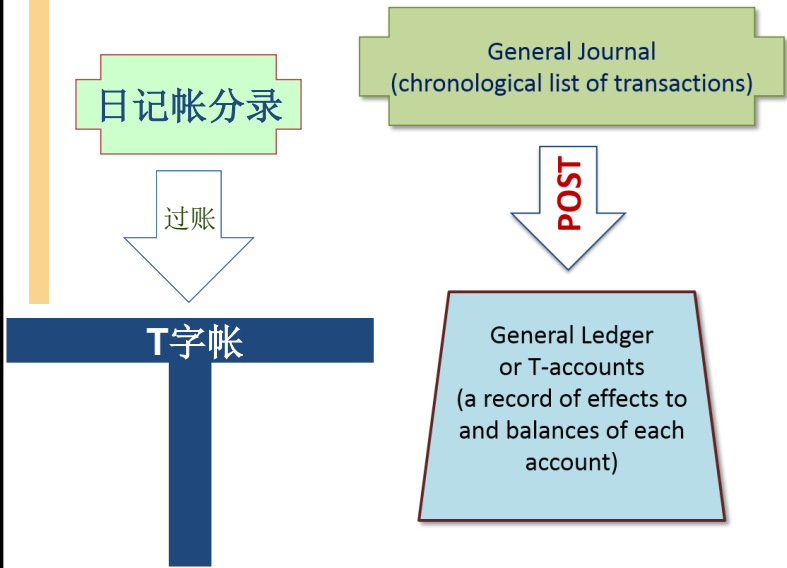


# Learning Objective 2-4

**2-4** Determine the impact of business transactions on the balance sheet using two basic tools: Journal entries and T-accounts.

2-33

## How Do Companies Keep Track of Account Balances? 公司如何记录账户余额



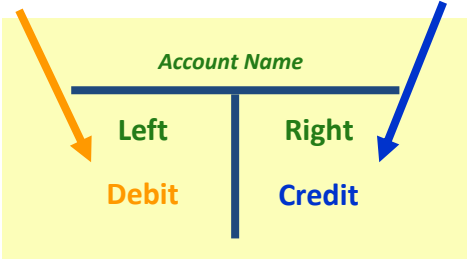
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# T-Account

Visualization of every account;  
A tool used to represent an account.

The **left** side of the  
T-account is always the  
**debit** side.

The **right** side of the  
T-account is always the  
**credit** side.

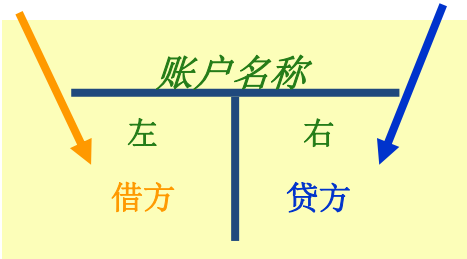


# T字帐

T字帐是用来代表账户的一种工具

T字帐的**左**边是**借**方。

T字帐的**右**边是**贷**方。



Debits and Credits

Assets

=

Liabilities

+

Equities

ASSETS

↑

Debit

+

↓

Credit

-

LIABILITIES

↓

Debit

-

↑

Credit

+

EQUITIES

↓

Debit

-

↑

Credit

+

Debit (abbreviated Dr.): An entry or balance on the left side of any account

Credit (abbreviated Cr.): An entry or balance on the right side of any account

T字账：借贷框架

借方和贷方影响会计等式如下：

A

=

L

+

SE

资产

借方

增加

贷方

减少

负债

借方

减少

贷方

增加

权益

借方

减少

贷方

增加

# Debits and Credits

## 1. Initial investment by owners, \$400,000 cash

- Analysis
  - The asset Cash increases
  - The stockholders' equity Paid-in Capital increases

Cash		Paid-in Capital	
(1)	400,000	(1)	400,000

# Debits and Credits

## 2. Borrow from bank and issue a note, \$100,000

- Analysis
  - The asset Cash increases
  - The liability Note Payable increases

Cash		Note Payable	
(1)	400,000	(2)	100,000
(2)	100,000		

# Debits and Credits

3. Acquired store equipment for cash, \$15,000

- Analysis
  - The asset Cash decreases
  - The asset Store Equipment increases

Cash				Store Equipment	
(1)	400,000	(3)	15,000	(3)	15,000
(2)	100,000				

## Expanded Accounting Equation

Assets = Liabilities + Stockholder's Equity

Assets = Liabilities + ( Paid-in Capital + Retained Earnings)

The T-accounts can be grouped in the following way:








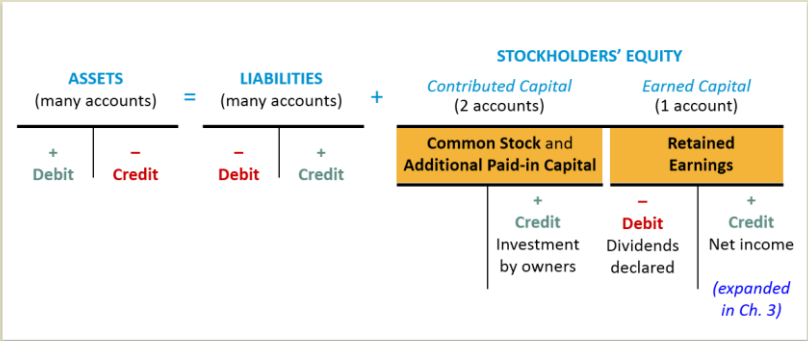
Assets		=	Liabilities		+	Paid-in Capital		+	Retained Earnings	
										
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Exhibit 2.5

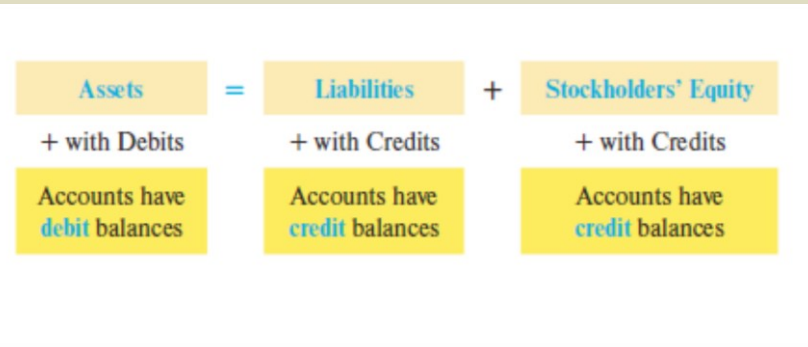
Basic Transaction Analysis Model



2-43

Debits and Credits

In Summary:



2-44

### Exercise 2-2

Terry Lewis, Inc. was organized by Terry Lewis and five other investors. The following activities occurred during the year:

- a. Received \$42,000 cash from the investors; investors were issued 1,000 shares of common stock with a par value of \$0.10 per share.
- b. Purchased equipment for use in the business at a cost of \$16,000; one-fourth was paid in cash and the company signed a note for the balance (due in six months).
- c. Signed an agreement with a cleaning service to pay \$150 per week for cleaning the corporate offices next year.
- d. Received an additional contribution from investors who provided \$1,000 in cash and land valued at \$17,000 in exchange for 1,200 shares of stock in the company.
- e. Lent \$1,200 to one of the investors who signed a note due in six months.
- f. One of the investors, Ted Granger, borrowed \$12,000 for personal use from a local bank, signing a one-year note.

**Required:**

- 1. Create T-accounts for the following accounts: Cash, Notes Receivable, Equipment, Land, Notes Payable, Common Stock, and Additional Paid-in Capital. Beginning balances are \$0. For each of the transactions (a) through (f), record the effects of the transaction in the appropriate T-accounts.
- 2. Using the balances in the T-accounts, fill in the following amounts for the accounting equation: Assets \$\_\_\_\_\_ = Liabilities \$\_\_\_\_\_ + Stockholders' Equity \$\_\_\_\_\_
- 3. Explain the response to events (c) and (f).

**Requirement 1**

+ Cash (A) -				+ Notes Receivable (A) -			
Beg.	0			Beg.	0		
(a)	42,000	4,000	(b)	(e)	1,200		
(d)	1,000	1,200	(e)				
	37,800				1,200		

+ Equipment (A) -		+ Land (A) -		- Notes Payable (L) +			
Beg.	0	Beg.	0		0	Beg.	
(b)	16,000	(d)	17,000		12,000	(b)	
	16,000		17,000		12,000		

- Common Stock (SE) +				- Additional Paid-in Capital (SE) +			
	0	Beg.			0	Beg.	
	100	(a)			41,900	(a)	
	120	(d)			17,880	(d)	
	220				59,780		

Requirement 2

Assets \$72,000 = Liabilities \$12,000 + Stockholders' Equity \$60,000

+ Cash (A) -				+ Notes Receivable (A) -			
Beg.	0			Beg.	0		
(a)	42,000	4,000	(b)	(e)	1,200		
(d)	1,000	1,200	(e)				
	<u>37,800</u>				<u>1,200</u>		

+ Equipment (A) -		+ Land (A) -		- Notes Payable (L) +	
Beg.	0	Beg.	0		0
(b)	16,000	(d)	17,000		12,000
	<u>16,000</u>		<u>17,000</u>		<u>12,000</u>

- Common Stock (SE) +		- Additional Paid-in Capital (SE) +	
	0		0
	100		41,900
	120		17,880
	<u>220</u>		<u>59,780</u>

Requirement 3

- The agreement in (c) involves no exchange or receipt of cash, goods, or services and thus does not affect any of the T-accounts.
- As transaction (f) occurs between one of the owners and others, there is no effect on the business due to the separate-entity assumption.



The Journal Entry

(a) Chipotle issued (sold) 100 additional shares of common stock with a par value of \$0.01 per share at a market value of \$3.00 per share, receiving \$300 in cash from investors.

**Account Titles:**  
Debited accounts on top.  
Credited accounts on bottom,  
usually indented.

**Amounts:**  
Debited amounts on left.  
Credited amounts on right.

	Debit	Credit
(a) Cash (+A)	300	
Common stock (+SE)		1
Additional paid-in capital (+SE)		299

**Reference:** Letter,  
number, or date.

2-49

分析工具：日记账

提供每笔交易的记录日期或者编码

先记录借方。

普通日记账

日期	账户名称及注释	编码	借方	贷方
Jan. 1	现金		300	
	股本			1
	资本公积			299

贷方写在借方后面，并要交错着写。

借方总金额必须等于贷方总金额。

Exercise 2-3

Porsche SW, headquartered in Zuffenhausen, Germany, manufactures Porsche and Volkswagon automobiles. Financial information is reported in the euro (€) monetary unit using International Financial Reporting Standards (IFRS) as applicable to the European Union. The following activities were adapted from the annual report of Porsche SW; amounts are in millions of euros.

- a. Declared €400 in dividends to be paid next month.
- b. Ordered €1,255 of equipment.
- c. Paid €750 in dividends declared in prior months.
- d. Borrowed €3,250 in cash from banks.
- e. Sold equipment at its cost of €350 for cash.
- f. Received the equipment ordered in event (b), paying €600 in cash and signing a note for the balance.
- g. Purchased investments for €2,800 cash.

Required:

Prepare journal entries for transactions (a) through (g). Show your answers in millions of euros. Be sure to use good referencing and categorize each account as an asset (A), liability (L), or stockholders' equity (SE) item. If a transaction does not require a journal entry, explain the reason.

- g. Purchased investments for €2,800 cash.

	Account Titles and Explanation	Debit	Credit
a.	Retained earnings (-SE).....	400	
	Dividends payable (+L).....		400
b.	No transaction has occurred because there has been no exchange or receipt of cash, goods, or services.		
c.	Dividends payable (-L) .....	750	
	Cash (-A).....		750
d.	Cash (+A).....	3,250	
	Notes payable (+L).....		3,250
e.	Cash (+A).....	350	
	Equipment (-A).....		350
f.	Equipment (+A).....	1,255	
	Cash (-A).....		600
	Notes payable (+L).....		655
g.	Investments (+A).....	2,800	
	Cash (-A).....		2,800

# 分析工具：T 字账

在日记账分录记录后，会计人员将经济业务影响的每一账户金额过入到其T字帐中。

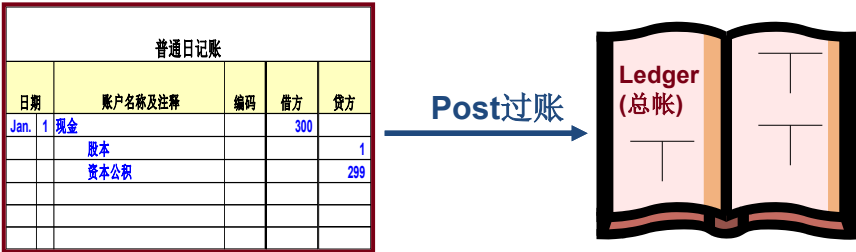


Exhibit 2.6  
Posting Transaction Effects from the Journal to the Ledger

General Journal					Page G1
Date	Account Titles and Explanation (in thousands)	Ref.	Debit	Credit	
1-2-18	Cash	101	300		
	Common stock	301		1	
	Additional paid-in Capital (Investment by stockholders.)	302		299	

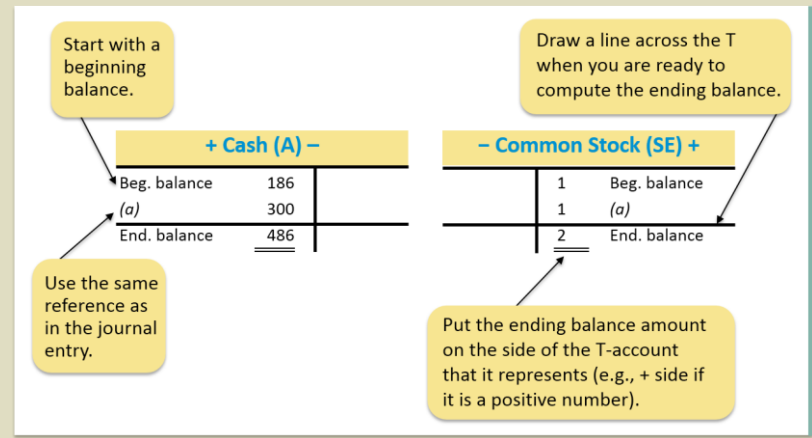
General Ledger					CASH 101
Date	Explanation	Ref.	Debit	Credit	Balance
	Balance				186
1-2-18		G1	300		486

General Ledger					COMMON STOCK 301
Date	Explanation	Ref.	Debit	Credit	Balance
	Balance				1
1-2-18		G1		1	2

General Ledger					ADDITIONAL PAID-IN CAPITAL 302
Date	Explanation	Ref.	Debit	Credit	Balance
	Balance				1,305
1-2-18		G1		299	1,604

Exhibit 2.7

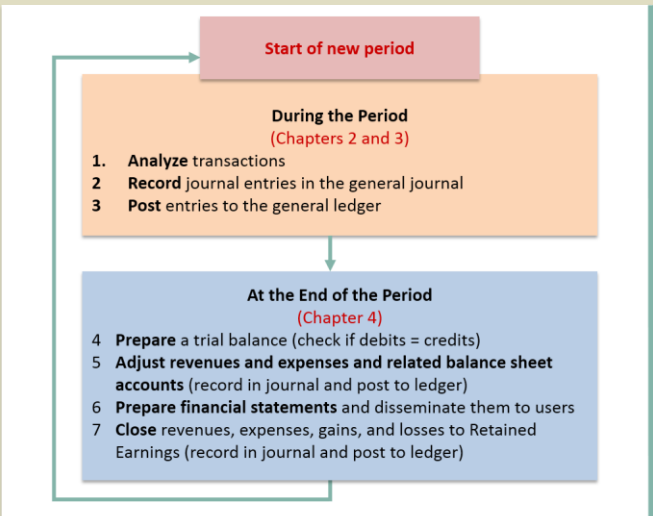
T-Accounts Illustrated



2-55

Exhibit 2.4

The Accounting Cycle 会计循环



2-56

Inferring Business Activities from T-Accounts

FINANCIAL ANALYSIS

\$\$\$

- Accounts Payable (L) +	
	600 Beg. bal.
Cash payments to suppliers?	1,500 Purchases on account
	<u>300</u> End bal.

Solution:					
Beginning Balance	+	Purchases on Account	-	Cash Payments to Suppliers	= Ending Balance
\$600	+	\$1,500	-	?	= \$ 300
		\$2,100	-	?	= \$ 300
				?	= \$1,800

2-57

Transaction Analysis Illustrated<sub>1</sub>

(a) Chipotle issued (sold) 100 additional shares of common stock with a par value of \$0.01 per share at a market value of \$3.00 per share, receiving \$300 in cash from investors.

	Debit	Credit
(a) Cash (+A)	300	
Common stock (+SE)		1
Additional paid-in capital (+SE)		299

Assets		=	Liabilities	+	Stockholders' Equity
Cash	+300				Common Stock +1 Additional Paid-in Capital +299

+ Cash (A) -		- Common Stock (SE) +		Additional Paid-in - Capital (SE) +	
1/1/18	186	1	1/1/18	1,305	1/1/18
(a)	300	1	(a)	299	(a)

2-58

Transaction Analysis Illustrated<sub>2</sub>

(b) Chipotle borrowed \$2 from its local bank, signing a note to be paid in three years (a noncurrent liability).

	Debit	Credit
(b) Cash (+A)	2	
Notes payable (+L)		2

Assets	=	Liabilities	+	Stockholders' Equity
Cash +2		Notes payable +2		

+ Cash (A) –			– Notes Payable (L) +		
1/1/18	186			78	1/1/18
(a)	300			2	(b)
(b)	2				

2-59

Transaction Analysis Illustrated<sub>3</sub>

After analyzing all transactions from (a)–(f), the balance in our T-accounts will appear as follows:

+ Cash (A) –			+ Short-Term Investments (A) –			+ Land (A) –		
1/1/18	186		1/1/18	324		1/1/18	13	
(a)	300	54 (c)	(e)	9		(c)	8	
(b)	2	1 (d)						
		44 (e)		<u>333</u>			<u>21</u>	
	<u>389</u>							
+ Buildings (A) –			+ Equipment (A) –			+ Intangible Assets (A) –		
1/1/18	1,677		1/1/18	627		1/1/18	78	
(c)	34		(c)	10		(c)	3	
	<u>1,711</u>			<u>637</u>			<u>81</u>	
+ Long-Term Investments (A) –			– Notes Payable (current) (L) +			– Notes Payable (noncurrent) (L) +		
1/1/18	0			78	1/1/18		0	1/1/18
(e)	35		(d)	2	(b)		2	(f)
	<u>35</u>			<u>80</u>			<u>2</u>	
– Dividends Payable (L) +			– Common Stock (SE) +			– Additional Paid-in Capital (SE) +		
	0	1/1/18		1,305	1/1/18		2,393	1/1/18
(d)	1	(c)		299	(a)	(f)	2	
	<u>0</u>			<u>1,604</u>			<u>2,391</u>	
– Retained Earnings (SE) +								

2-60

公司股东、董监高违规案例——短线交易

\$\$\$

**案例：**上海亚虹公司董事

**事由：**公司时任董事孙璐母亲在6个月内买入又卖出、卖出又买入其所持公司股份的行为，构成短线交易，违反《证券法》、《股票上市规则（2022年修订）》规定以及《董事（监事、高级管理人员）声明及承诺书》中承诺。

**采取处罚措施：**对公司董事孙璐予以通报批评。对于上述纪律处分，通报中国证监会，并记入上市公司诚信档案。

2-61

孙璐自2021年2月26日至2023年2月22日担任上海亚虹模具股份有限公司董事。母亲

- 2021年3月19日至2022年11月24日，合计 买入24.00 万股，买入金额398.16万元，合计卖出23.90万股，卖出金额406.38万元。
  - 2021年3月到2021年9月， 买入9.60万股，买入金额165.89万元，卖出10.00万股，卖出金额176.89万元；
  - 2021年10月到2022年4月， 买入7.90万 股，买入金额138.58 万元，卖出1.40万股，卖出金额27.95万元；
  - 2022年5月到2022年11月， 买入6.50万股，买入金额 93.70万元，卖出12.50万股，卖出金额201.55万元。
- 上述交易获利金额合计8.44 万元（含红利）。
- 根据《证券法》 相关规定，公司时任董事孙璐母亲在6个月内买入又卖出、卖出又买入其所持公司股份的行为，构成短线交易。

2-62

### 上海亚虹时任副总经理王军被监管警示：母亲短线交易

时任公司副总经理王军的母亲张晓荣于2021年4月13日至2022年12月9日期间，多次买卖公司股票。

其中，累计买入6.73万股，买入金额104.46万元；累计卖出6.63万股，卖出金额103.44万元。

前述交易共亏损1.02万元，张晓荣剩余持有公司股票1000股，并承诺作为公司关联人期间，不再买卖公司股票。

2-63

## 上海 证 券 交 易 所

上证公监函〔2023〕0055号

### 关于对上海亚虹模具股份有限公司时任 副总经理王军予以监管警示的决定

当事人：

王军，上海亚虹模具股份有限公司时任副总经理。

经查明，2023年2月14日，上海亚虹模具股份有限公司（以下简称上海亚虹或公司）披露《关于公司董事、高级管理人员亲属短线交易及致歉的公告》称，时任公司副总经理王军的母亲张晓荣于2021年4月13日至2022年12月9日期间，多次买卖公司股票。其中，累计买入6.73万股，买入金额104.46万元；累计卖出6.63万股，卖出金额103.44万元。前述交易共亏损1.02万元，张晓荣剩余持有公司股票1000股，并承诺作为公司关联人期间，不再买卖公司股票。



## 后续

王军、孙璐均因近亲属短线交易已于上月辞职。

2月22日盘后，上海亚虹发布两则人事变动公告

王军因近亲属短线交易，作为对公司和股东的致歉，申请辞去公司副总经理职务；

孙璐因近亲属短线交易，作为对公司和股东的致歉，申请辞去第四届董事会董事及专门委员会委员职务

2-65

## Learning Objective 2-5

**2-5** Prepare a trial balance and simple classified balance sheet and analyze the company using the current ratio.

2-66

Trial Balance试算平衡表

The trial balance is a listing of the ending balance in each account in the general ledger.

List accounts in financial statement order (assets, liabilities, stockholders' equity, revenues and expenses).

The purpose of the trial balance is to make sure the debits and credits are equal.

CHIPOTLE MEXICAN GRILL—TRIAL BALANCE		
(based on hypothetical investing and financing transactions only during the first quarter ended March 31, 2018)		
(in millions)	Debit	Credit
Cash	389	
Short-term investments	333	
Accounts receivable	49	
Supplies	20	
Prepaid expenses	51	
Land	21	
Buildings	1,711	
Equipment	637	
Accumulated depreciation		979
Long-term investments	35	
Intangible assets	81	
Accounts payable		82
Unearned revenue		64
Dividends payable		2
Income taxes payable		18
Wages payable		83
Utilities payable		77
Notes payable (current)		0
Notes payable (noncurrent)		80
Other liabilities		279
Common stock		2
Additional paid-in capital		1,604
Treasury stock	2,334	
Retained earnings		2,391
Total	5,661	5,661

2-67

Classified Balance Sheet

Current assets are those to be used or turned into cash within the upcoming year, whereas noncurrent assets are those that will last longer than one year.

流动资产：在一年内或一个经营周期（取二者中时间较长者）变现或耗用的资产。

Assets and liabilities are classified into two categories: current and noncurrent.

Current liabilities are those obligations to be paid or settled within the next 12 months with current assets.

流动负债：通常要在一年内用流动资产偿付的债务。

2-68

# Exhibit 2.8 <sup>(1)</sup>

Chipotle Mexican Grill's First Quarter 2018 Balance Sheet (based on investing and financing activities only)

CHIPOTLE MEXICAN GRILL, INC.		
Consolidated Balance Sheets* (in millions of dollars, except per share data)		
	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 389	\$ 186
Short-term investments	333	324
Accounts receivable	49	49
Supplies	20	20
Prepaid expenses	<u>51</u>	<u>51</u>
Total current assets	842	630
Property and equipment:		
Land	21	13
Buildings	1,711	1,677
Equipment	<u>637</u>	<u>627</u>
Total cost	2,369	2,317
Accumulated depreciation	(979)	(979)
Net property and equipment	1,390	1,338
Long-term investments	35	—
Intangible assets	<u>81</u>	<u>78</u>
Total assets	<b>\$ 2,348</b>	<b>\$ 2,046</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 82	\$ 82
Unearned revenue	64	64
Dividends payable	2	—
Income taxes payable	18	18

2-69

# Exhibit 2.8 <sup>(1)</sup>

Chipotle Mexican Grill's First Quarter 2018 Balance Sheet (based on investing and financing activities only)

CHIPOTLE MEXICAN GRILL, INC.		
Consolidated Balance Sheets* (in millions of dollars, except per share data)		
	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Accrued expenses payable:		
Wages payable	83	83
Utilities payable	<u>77</u>	<u>77</u>
Total current liabilities	326	324
Notes payable	80	78
Other liabilities	<u>279</u>	<u>279</u>
Total liabilities	685	681
Stockholders' Equity:		
Common stock (\$0.01 par value per share)	2	1
Additional paid-in capital	1,604	1,305
Treasury stock	(2,334)	(2,334)
Retained earnings	<u>2,391</u>	<u>2,393</u>
Total stockholders' equity	<u>1,663</u>	<u>1,365</u>
Total liabilities and stockholders' equity	<b>\$ 2,348</b>	<b>\$ 2,046</b>

2-70

# Exhibit 2.8 <sup>(2)</sup>

Chipotle Mexican Grill's First Quarter 2018 Balance Sheet (based on investing and financing activities only)

CHIPOTLE MEXICAN GRILL, INC.		
Consolidated Balance Sheets* (in millions of dollars, except per share data)		
	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 389	\$ 186
Short-term investments	333	324
Accounts receivable	49	49
Supplies	20	20
Prepaid expenses	<u>51</u>	<u>51</u>
Total current assets	842	630
Property and equipment:		
Land	21	13
Buildings	1,711	1,677
Equipment	<u>637</u>	<u>627</u>
Total cost	2,369	2,317
Accumulated depreciation	(979)	(979)
Net property and equipment	1,390	1,338
Long-term investments	35	—
Intangible assets	<u>81</u>	<u>78</u>
Total assets	<b>\$ 2,348</b>	<b>\$ 2,046</b>

2-71

# Exhibit 2.8 <sup>(3)</sup>

Chipotle Mexican Grill's First Quarter 2018 Balance Sheet (based on investing and financing activities only)

CHIPOTLE MEXICAN GRILL, INC.		
Consolidated Balance Sheets* (in millions of dollars, except per share data)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 82	\$ 82
Unearned revenue	64	64
Dividends payable	2	—
Income taxes payable	18	18
Accrued expenses payable:		
Wages payable	83	83
Utilities payable	<u>77</u>	<u>77</u>
Total current liabilities	326	324
Notes payable	80	78
Other liabilities	<u>279</u>	<u>279</u>
Total liabilities	685	681
Stockholders' Equity:		
Common stock (\$0.01 par value per share)	2	1
Additional paid-in capital	1,604	1,305
Treasury stock	(2,334)	(2,334)
Retained earnings	<u>2,391</u>	<u>2,393</u>
Total stockholders' equity	<u>1,663</u>	<u>1,365</u>
Total liabilities and stockholders' equity	<b>\$ 2,348</b>	<b>\$ 2,046</b>

2-72

## International Perspective

### INTERNATIONAL PERSPECTIVE



#### Understanding Foreign Financial Statements

Although IFRS differs from GAAP, it uses the same system of analyzing, recording, and summarizing the results of business activities that you have learned in this chapter. One place where IFRS differs from GAAP is in the formatting of financial statements.

Financial statements prepared using GAAP and IFRS include the same elements (assets, liabilities, revenues, expenses, etc.). However, a single, consistent format has not been mandated. Consequently, various formats have evolved over time, with those in the United States differing from those typically used internationally. The formatting differences include

	GAAP	IFRS
<b>Balance Sheet Order</b>		
Similar accounts are shown, but the order of liquidity (for assets) and the order of maturity (for liabilities) differ	<b>Assets:</b> Current Noncurrent <b>Liabilities:</b> Current Noncurrent <b>Stockholders' Equity</b>	<b>Assets:</b> Noncurrent Current <b>Stockholders' Equity</b> <b>Liabilities:</b> Noncurrent Current

On the balance sheet, GAAP begins with current items, whereas IFRS begins with noncurrent items. Consistent with this, **assets are listed in decreasing order of liquidity under GAAP, but, internationally, assets are usually listed in increasing order of liquidity.** IFRS similarly emphasizes longer-term financing sources by listing equity before liabilities and, within liabilities, by listing noncurrent liabilities before current liabilities (**decreasing time to maturity**). The key to avoiding confusion is to be sure to **pay attention to the subheadings** in the statement. Any account under the heading "liabilities" must be a liability.

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## Current Ratio

### KEY RATIO ANALYSIS

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

\$\$\$

Does a company have the short-term resources to pay its short-term debt?

The 2017 ratio for **Chipotle** is (dollars in millions):

$$\frac{\$630}{\$324} = 1.944$$

#### COMPARISONS OVER TIME Chipotle Mexican Grill, Inc.

2017	2016	2015
1.944	1.851	2.911

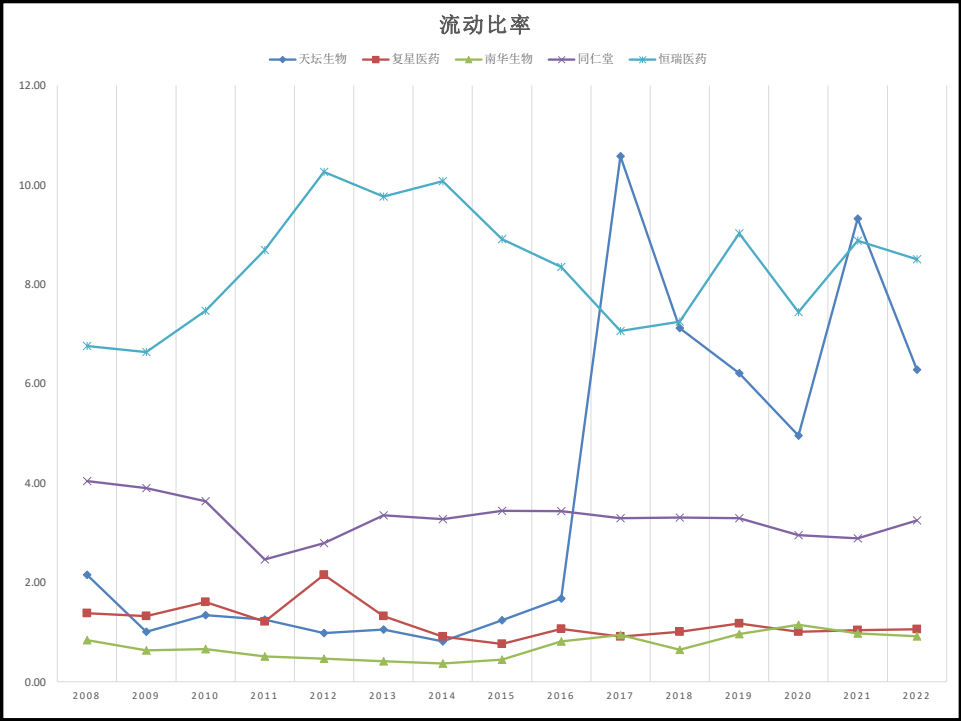
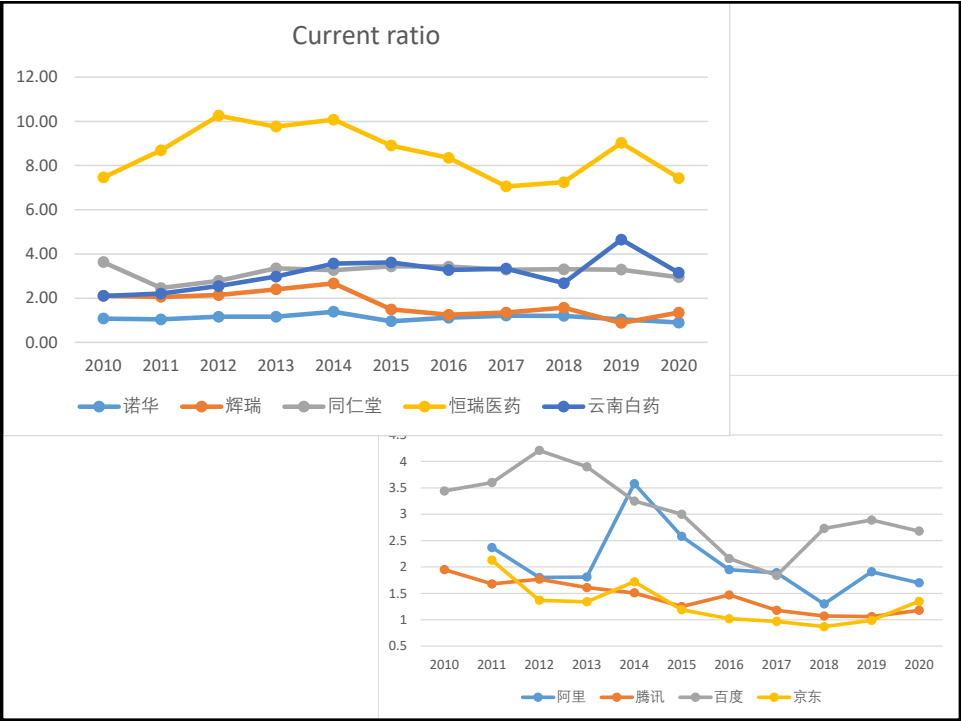
#### COMPARISONS WITH COMPETITORS El Pollo Loco Holdings, Inc.    Fiesta Restaurant Group, Inc.

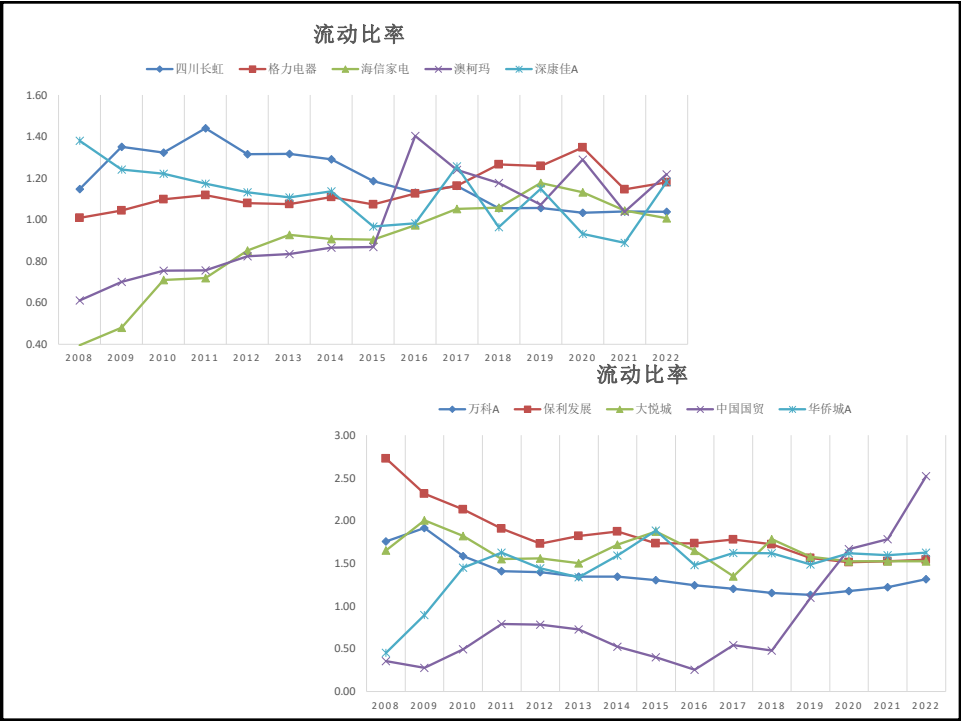
2017	2017
0.438	0.686

Offers Mexican-inspired grilled chicken and entrees

Owns Pollo Tropical and Taco Cabana

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### Exercise 2-4

WS Thompson Company began operations last year. You are a member of the management team investigating expansion ideas that will require borrowing funds from banks. On January 1, the start of the current year, Thompson’s T-account balances were as follows:

**Assets:**

Cash	Short-Term Investments	Property and Equipment
2,000	1,000	1,750

**Liabilities:**

Notes Payable (current)	Notes Payable (noncurrent)
1,100	650

**Stockholders' Equity:**

Common Stock	Additional Paid-in Capital	Retained Earnings
500	1,500	1,000

Required:

- Using the data from these T-accounts, determine the amounts for the following on January 1 of the current year:  
Assets \$ \_\_\_\_\_ = Liabilities \$ \_\_\_\_\_ + Stockholders' Equity \$ \_\_\_\_\_
- Prepare journal entries for transactions (a) through (e) for the current year. Be sure to use good referencing and categorize each account as an asset (A), a liability (L), or a stockholders' equity (SE) account. If the transaction does not require a journal entry, explain the reason.
  - Borrowed \$4,000 from a local bank, signing a note due in four years.
  - Sold \$500 of the investments for \$500 cash.
  - Sold one-half of the property and equipment for \$875 in cash.
  - Declared \$150 in cash dividends to stockholders.
  - Paid dividends to stockholders.
- Enter the effects of the transactions in 2. above in the T-accounts. You will need to create a new T-account for Dividends Payable as well, with a \$0 beginning balance. Be sure to use good referencing.
- Prepare a trial balance at December 31.
- Prepare a classified balance sheet at December 31 of the current year in good form.
- Calculate the current ratio at December 31 of the current year, rounding your answer to two decimal places. If the industry average for the current ratio is 1.50, what does your computation suggest to you about Thompson Company? Would you suggest that Thompson Company increase its short-term liabilities? Why or why not?

- Using the data from these T-accounts, determine the amounts for the following on January 1 of the current year:

Assets \$ \_\_\_\_\_ = Liabilities \$ \_\_\_\_\_ + Stockholders' Equity \$ \_\_\_\_\_

**Assets \$4,750 = Liabilities \$1,750 + Stockholder's Equity \$3,000**

**Assets:**

Cash	Short-Term Investments	Property and Equipment
2,000	1,000	1,750

**Liabilities:**

Notes Payable (current)	Notes Payable (noncurrent)
1,100	650

**Stockholders' Equity:**

Common Stock	Additional Paid-in Capital	Retained Earnings
500	1,500	1,000



2. Prepare journal entries for transactions (a) through (e) for the current year. Be sure to use good referencing and categorize each account as an asset (A), a liability (L), and or a stockholders' equity (SE) account. If the transaction does not require a journal entry, explain the reason.
- a. Borrowed \$4,000 from a local bank, signing a note due in four years.
  - b. Sold \$500 of the investments for \$500 cash.
  - c. Sold one-half of the property and equipment for \$875 in cash.
  - d. Declared \$150 in cash dividends to stockholders.
  - e. Paid dividends to stockholders.

	Account Titles and Explanation	Debit	Credit
a.	Cash (+A).....	4,000	
	Notes payable (+L).....		4,000
b.	Cash (+A).....	500	
	Investments (-A).....		500
c.	Cash (+A).....	875	
	Property and equipment (-A).....		875
d.	Retained earnings (-SE).....	150	
	Dividends payable (+L).....		150
e.	Dividends payable (-L) .....	150	
	Cash (-A).....		150

2B. Prepare T-accounts for each of the following accounts. Use the data provided to create a new T-account for Dividends Payable as well, with a \$0 beginning balance. Be sure to use good referencing.

<b>+ Cash (A) -</b>	<b>+ Short-term Investments (A) -</b>	<b>+ Property and Equipment (A) -</b>
Beg. 2,000	Beg. 1,000	Beg. 1,750
(a) 4,000	500 (b)	875 (c)
(b) 500		
(c) 875 150 (e)		
End. 7,225	End. 500	End. 875
<b>- Notes Payable (current) (L) +</b>	<b>- Notes Payable (noncurrent) (L) +</b>	<b>- Dividends Payable (L) +</b>
1,100 Beg.	650 Beg.	0 Beg.
	4,000 (a)	(e) 150 150 (d)
1,100 End.	4,650 End.	0 End.
<b>- Common Stock (SE) +</b>	<b>- Additional Paid-in Capital (SE) +</b>	<b>- Retained Earnings (SE) +</b>
500 Beg.	1,500 Beg.	1,000 Beg.
		(d) 150
500 End.	1,500 End.	850 End.

4. Prepare a trial balance at December 31.

WS THOMPSON COMPANY – TRIAL BALANCE		
December 31 of the current year		
	Debit	Credit
Cash	7,225	
Short-term investments	500	
Property and equipment	875	
Notes payable (current)		1,100
Notes payable (noncurrent)		4,650
Common stock		500
Additional paid-in capital		1,500
Retained earnings		850
Total	8,600	8,600

5. Prepare a classified balance sheet at December 31 of the current year in good form.

WS THOMPSON COMPANY	
Balance Sheet	
December 31 of the current year	
<b>ASSETS</b>	
Current Assets:	
Cash	\$7,225
Short-term investments	500
Total current assets	<u>7,725</u>
Property and equipment:	
Property and equipment	875
Total assets	<u><b>\$8,600</b></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current Liabilities:	
Notes payable (current)	<u>\$1,100</u>
Total current liabilities	1,100
Notes payable (noncurrent)	<u>4,650</u>
Total liabilities	5,750
Stockholders' Equity:	
Common stock	500
Additional paid-in capital	1,500
Retained earnings	<u>850</u>
Total stockholders' equity	<u>2,850</u>
Total liabilities and stockholders' equity	<u><b>\$8,600</b></u>

6. Calculate the current ratio at December 31 of the current year, rounding your answer to two decimal places. If the industry average for the current ratio is 1.50, what does your computation suggest to you about Thompson Company? Would you suggest that Thompson Company increase its short-term liabilities? Why or why not?

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$7,225 + \$500}{\$1,100} = \frac{\$7,725}{\$1,100} = 7.02$$

- This ratio indicates that, for every \$1 of current liabilities, Thompson maintains \$7.02 of current assets.
- Thompson's ratio is higher than the industry average of 1.50, indicating that Thompson maintains a lower level of short-term debt and has higher liquidity.
- However, the company may not be using its resources efficiently. Increasing short-term obligations would lower Thompson's current ratio, but this strategy alone would not help its efficiency.
- Thompson should consider investing more of its cash to generate future returns.

## Learning Objective 2-6

**2-6** Identify investing and financing transactions and demonstrate how they impact cash flows.

## Investing and Financing Activities

### FOCUS ON CASH FLOWS

Companies report cash inflows (+) and outflows (–) over a period in their statement of cash flows.

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#### 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	–

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## Exercise 2-5

JW Marriott, Inc. is one of the world’s largest hotel and leisure companies. Information taken from the company’s annual statement of cash flows indicates the following investing and financing activities during that year (simplified, in millions of dollars):

a. Additional borrowing from banks	\$ 1,100
b. Purchase of investments	50
c. Sale of assets and investments (assume sold at cost)	450
d. Issuance of stock	175
e. Purchases of property, plant, and equipment	550
f. Payment of debt principal	625
g. Dividends paid	160
h. Receipt of principal payment on a note receivable	225

**Required:**

For each of these indicate whether the activity is investing (I) or financing (F) and the direction of the effects on cash flows (+ for increases cash; – for decreases cash).

Transactions	Type of Activity (I or F)	Effect on Cash Flows (+ or -)
a. Additional borrowing from banks	F	+
b. Purchase of investments	I	-
c. Sale of assets and investments (assume sold at cost)	I	+
d. Issuance of stock	F	+
e. Purchases of property, plant, and equipment	I	-
f. Payment of debt principal	F	-
g. Dividends paid	F	-
h. Receipt of principal payment on a note receivable	I	+

HW2

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