## Transaction 2: Obtain Loan from Bank

Sophie knows that $20,000 is not going to be enough money for the business to purchase equipment and supplies necessary to operate the business. She decides to approach her local bank for a 4-year, $80,000 loan. One of the disadvantages of debt financing when compared to equity financing is that debt financing requires that the loan be repaid to the creditor. When companies use debt financing, they typically must make monthly payments, including interest, to the creditor. When companies secure equity financing, there is no required payment to its investors.

Let’s see how obtaining a loan from a bank affects Rose Designs:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **ASSETS** | **=** | **LIABILITIES** | **+** | **STOCKHOLDERS’ EQUITY** | | | | | | |
|  |  |  |  |  |  |  | **Retained Earnings** | | | | |
|  | Cash | = | Notes Payable | + | Common  Stock | − | Dividends | + | Revenues | − | Expenses |
| Bal. | $ 20,000 | = |  |  | $ 20,000 |  |  |  |  |  |  |
| (2) | +80,000 |  | +80,000 |  |  |  |  |  |  |  |  |
| Bal. | $ 100,000 | = | $ 80,000 | + | $ 20,000 |  |  |  |  |  |  |

**Note:** *Try changing Cash and Notes Payable values in the blue 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 |
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