An economic event that affects two or more accounts is called a **transaction**. Common business transactions include the business doing the following:

### 1. Issuing Stock for Cash

*Cash* increases AND *Common Stock* increases

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Stella and Eddie raise $5,000 from a friend of theirs, Marie, who becomes an investor in Core Fitness.  When stock is issued to Marie, Common Stock increases by $5,000 and Core Fitness receives cash of $5,000.



### 2. Pay Cash for Rent

*E*xpenses increase AND *Cash* decreases



Core Fitness pays $3,000 cash immediately to its landlord for January’s rent. Therefore, cash decreases and the rent expense increases.



### 3. Sell Services to Customers for Cash

*Cash* increases AND *Revenue* increases



Core Fitness sells annual memberships $4,000 so Revenue increases.  Cash comes into the company immediately and the cash account increases.



### 4. Purchase Supplies on Account

*Expenses* increase AND *Accounts Payable* increases



Core Fitness buys $1,000 of gym supplies that the vendor invoices now, but Core Fitness doesn’t pay until 30 days later. This increases the amount due or Account Payable by $1,000. This will decrease once Core Fitness pays the cash owed for the supplies. Since buying supplies is an expense, the expense Account increases by $1,000.



### 5. Pay Cash on Account

*Accounts Payable* decreases AND *Cash* decreases



Core Fitness pays cash for the $1,000 supplies it bought earlier but had not paid for.  Therefore, the cash account decreases by $1,000 and the Account Payable decreases by $1,000.



### 6. **Sell to Customers on Account**

*Accounts Receivable* increases AND *Revenue* increases



Core Fitness sells a membership for $500 so Revenue increases by $500.  Core Fitness invoices the customer now but receives cash later. Since the customer buys this on credit, Account Receivable increases by $500.



### 7. Receive Cash on Account

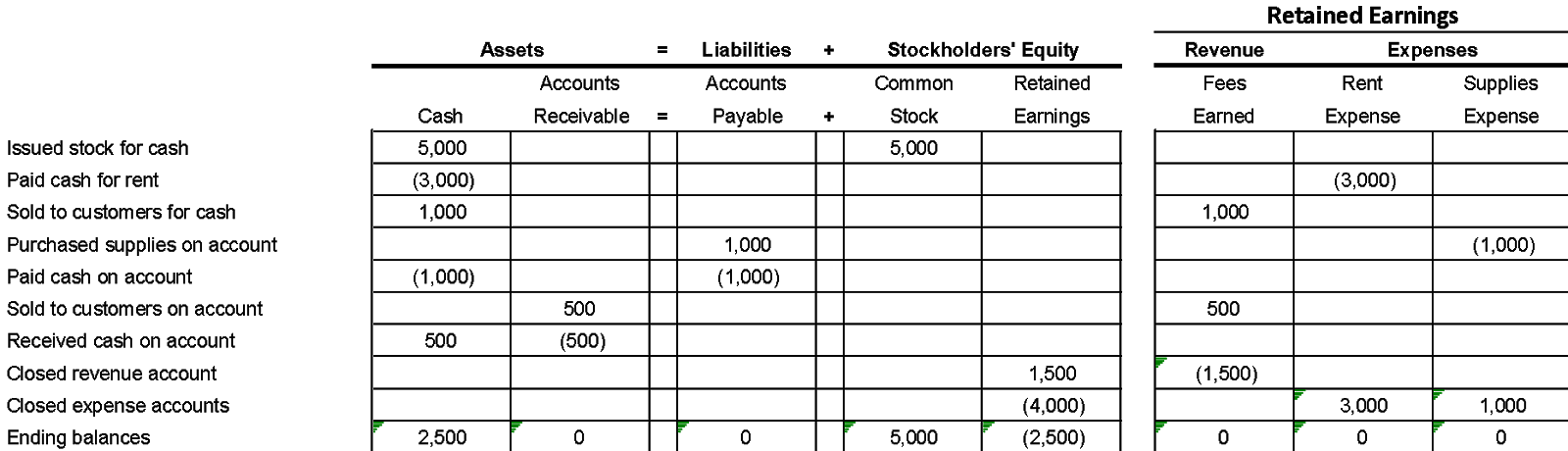
*Accounts Receivable* decreases AND *Cash* increases



Core Fitness ultimately receives $500 in cash for the membership sold on credit.  Therefore, Cash increases and Account Receivable decreases.



The following transaction grid illustrates how an aggregated picture of Core Fitness’ common business transactions we just learnt about fit into the accounting equation.



You will notice that each Core Fitness transaction impacts two accounts. For all accounts, positive numbers represent increases and negative amounts indicate decreases. The ending balances prove that total assets of $2,500 ($5,500 + $0) equal total liabilities and stockholders’ equity of $5,500 ($0 + $5,000 + $500).

The revenue and expense accounts are used temporarily during the period to record operational transactions. At the end of the period, these accounts’ ending balances are set back to zero by transferring them to the Retained Earnings account under Closed revenue account and Closed expense accounts. As a result, the Retained Earnings balance for Core Fitness increased by the net profit of $2,500.

## Test Your Understanding

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Which transaction in column A correctly matches with the corresponding account changes in column B?

   Column A                                        Column B

a. Purchase supplies on account     =>   *Retained Earnings* increases (for expense) AND *Accounts Payable* decreases

b. Sell to customers on account   =>      *Accounts Receivable* increases AND *Retained Earnings* decreases (for revenue)

c. Pay cash on account    =>          *Accounts Payable* decreases AND *Cash* decreases

d. Receive cash on account => *Cash* decreases AND *Accounts Receivable* increases

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