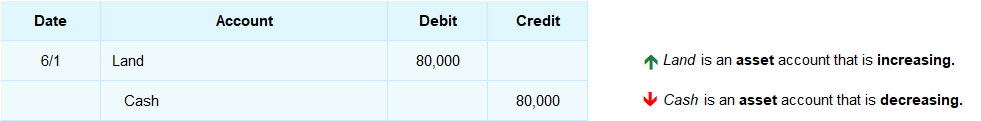
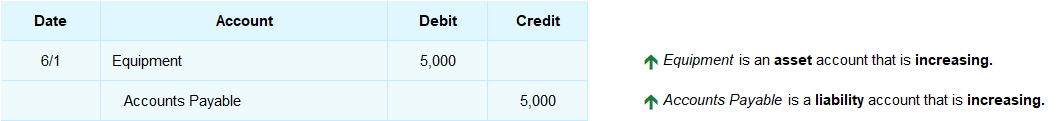
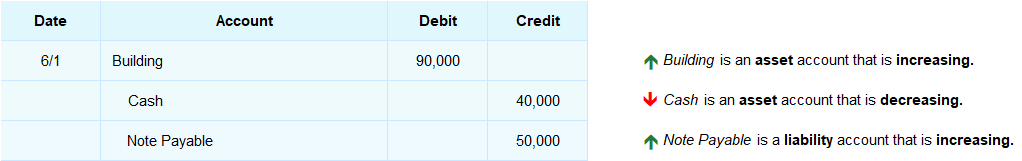
1.  Core Fitness purchases land, paying $80,000 cash.



2. Core Fitness purchases new gym equipment for $5,000 on account.



3. A company purchases a building that costs $90,000. The company pays a down payment of $40,000 and takes out a loan for the remaining $50,000.



[Notes Box]

*“Transaction #3 is called a* ***compound transaction*** *because there is more than one credit. (A compound transaction could also have more than one debit, if required.) The total of the debits must equal the total of the credits in each transaction.]*

In transactions #1, 2, and 3, the accounts debited are *Land*, *Equipment*, and *Building* – often called **fixed assets.** These purchases are recorded as assets rather than expenses because they will last more than one accounting period and because their costs are significant amounts.

[Notes Box]

*“In practice, the cost of a fixed asset becomes an expense over the time the asset is used rather than all at once at the time of purchase.”*

## Interactive Exercise 11 – Asset purchase transaction

Instructions:  1. Journalize the following transaction.

A company purchases equipment that costs $17,500. The company pays a down payment of $8,500 and takes out a loan for the remainder.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | | | | | |  |
| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 |  |  |  |  |  | | | | | | |
|  |  |  |  |  |  | | | | | | |
|  |  |  |  |  |  | | | | | | |
|  |  |  |  |  |  | | | | | | |

*[Hint:* An asset is increasing; another is decreasing. A liability account is also increasing.]

*[ANSWER KEY]*

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | | | | | |  |
| **Date** | **Account** |  | **Debit** | **Credit** |  |  |  |  |  |  |  |
| 6/1 | Equipment |  | 17,500 |  |  | | | | | | |
|  | Cash |  |  | 8,500 |  | | | | | | |
|  | Note Payable |  |  | 9,000 |  | | | | | | |
|  |  |  |  |  |  | | | | | | |

## Test Your Understanding

Which account could not be used as the credit account in a transaction for the purchase of equipment?

a. Fees Earned   
b. Note Payable   
c. Cash   
d. Accounts Payable