

EXERCISE

INTRODUCTION TO FINANCIAL STATEMENTS

Background

Your friend Anna recently started a business selling athletic clothes. Anna doesn't have much experience with financial statements and has asked you to help her understand how certain recent transactions would appear on her financials.

These are the transactions:

Transaction 1: Anna started the business with \$250,000, which came from \$150,000 in cash from savings, and \$100,000 in cash that she got through a small business loan. She issued herself common stock for the \$150,000.

Transaction 2: Anna invested some of the capital by purchasing inventory for \$60,000.

Transaction 3: Anna sold a range of yoga wear to a local gym for \$15,000. The customer promised to pay within 30 days. The cost of the inventory was \$10,000.

Instructions

In preparation for your meeting with Anna, use the worksheet on the following page to indicate how these transactions would affect each of the balance sheet, income statement and cash flow statement.

Transaction 1

Balance Sheet		Income Statement	Cash Flow Statement
<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Operating</u>
	<i>Total</i>	<i>Total</i>	<u>Investing</u>
		<u>Expenses</u>	
	<u>Shareholders' Equity</u>		
			<u>Financing</u>
		<i>Total</i>	
<i>Total</i>	<i>Total</i>	<u>Net Income</u>	<i>Total</i>

Transaction 2

Balance Sheet		Income Statement	Cash Flow Statement
<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Operating</u>
	<i>Total</i>	<i>Total</i>	<u>Investing</u>
		<u>Expenses</u>	
	<u>Shareholders' Equity</u>		
			<u>Financing</u>
		<i>Total</i>	
<i>Total</i>	<i>Total</i>	<u>Net Income</u>	<i>Total</i>

Transaction 3

Balance Sheet		Income Statement	Cash Flow Statement
<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Operating</u>
	<i>Total</i>	<i>Total</i>	<u>Investing</u>
		<u>Expenses</u>	
	<u>Shareholders' Equity</u>		
			<u>Financing</u>
		<i>Total</i>	
<i>Total</i>	<i>Total</i>	<u>Net Income</u>	<i>Total</i>