

# Flow of Business Transactions

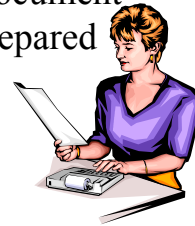
**1** Transaction authorized



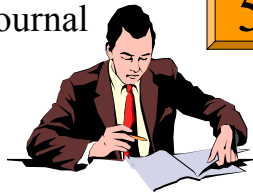
**2** Transaction takes place



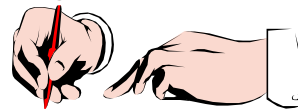
**3** Document prepared



**4** Entry recorded in journal



**5** Entry posted to ledger



# The Accounting Equation

**Assets = Liabilities + Owners' Equity**



The resources owned by a business



The rights of the creditors, which represent debts of the business

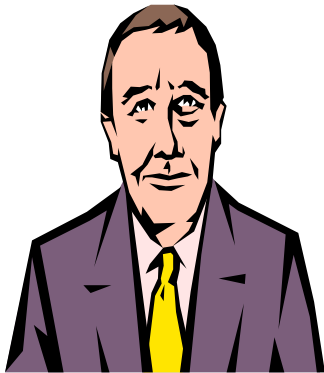


The rights of the owners

## What is a business transaction?



A business transaction is an economic event or condition that directly changes an entity's financial condition or directly affects its results of operations.



On November 1, 2005,  
Chris Clark organized  
a corporation that will  
be known as  
***NetSolutions.***

Chris Clark deposits \$25,000 in a bank account in the name of NetSolutions in return for shares of stock in the corporation.

$$\begin{array}{l}
 \text{Assets} \\
 \text{Cash} \\
 25,000
 \end{array}
 \left. \vphantom{\begin{array}{l} \text{Assets} \\ \text{Cash} \\ 25,000 \end{array}} \right\} = \left\{ \begin{array}{l}
 \text{Owners' Equity} \\
 \text{Capital Stock} \\
 25,000 \text{ Investment} \\
 \text{by stockholder}
 \end{array} \right.$$

b. NetSolutions exchanged \$20,000 for land.

$$\begin{array}{rcl}
 \text{Assets} & = & \text{Owners' Equity} \\
 \text{Cash} + \text{Land} & & \text{Capital Stock} \\
 25,000 & & 25,000 \\
 -20,000 & +20,000 & = \\
 \hline
 5,000 & 20,000 & \hline
 & & 25,000
 \end{array}$$