

## SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-6

# Interactive Assessment — LO 1-6

*Work these on your own, then we'll go through them together on the screen.*

Name \_\_\_\_\_ Date \_\_\_\_\_ Section \_\_\_\_\_

**LO 1-6** Classify business events as asset source, use, or exchange transactions.**1 Source, exchange, or use?**

Classify each of Silverleaf Bakery's transactions. Write the letter. A letter may be used more than once or not at all.

**A** Asset source · **B** Asset exchange · **C** Asset use · **D** Claims exchange · **E** Not an accounting event

| ITEM                                                  | ANSWER                    |
|-------------------------------------------------------|---------------------------|
| Issued common stock for \$40,000 cash                 | <b>A — Asset source</b>   |
| Borrowed \$15,000 cash from a bank                    | <b>A — Asset source</b>   |
| Paid \$22,000 cash for a commercial oven              | <b>B — Asset exchange</b> |
| Received \$31,000 cash from customers for baked goods | <b>A — Asset source</b>   |
| Paid \$18,000 cash for wages and rent                 | <b>C — Asset use</b>      |
| Paid a \$2,000 cash dividend                          | <b>C — Asset use</b>      |

**FOR THE INSTRUCTOR**

Three sources of assets: owners, creditors, operations. The oven trades one asset for another. Expenses and dividends both use assets and reduce claims. Claims exchange is named in the chapter as a fourth category introduced later and is never correct here.

**2 What an exchange does**

Silverleaf paid \$22,000 cash for the oven. Which statement about that transaction is correct? Circle one.

- ☐ **A** Total assets decreased by \$22,000  
☐ **B** Total claims decreased by \$22,000  
☐ **C** Total assets and total claims both increased  
☒ **D** Total assets were unchanged; only their composition changed

**FOR THE INSTRUCTOR**

An asset exchange decreases one asset and increases another by the same amount. Total assets and total claims are untouched. Option a is the common error of treating any cash payment as a decrease in assets.

### 3 Working backward

A transaction decreased Silverleaf's total assets and decreased its total claims by the same amount. Which category must it belong to? Circle one.

- ☐ A Asset source
- ☒ B Asset use
- ☐ C Asset exchange
- ☐ D It could be any of the three

#### FOR THE INSTRUCTOR

Only asset use transactions move both totals down. Source transactions move both up; exchanges leave both alone. The chapter's diagram of plus and minus signs under Assets = Claims is the whole answer.

### 4 Adding up the categories

Using Silverleaf Bakery's six transactions (stock \$40,000; loan \$15,000; oven \$22,000; revenue \$31,000; expenses \$18,000; dividend \$2,000), compute the following.

Total increase in assets from asset source transactions

**\$86,000**

Total decrease in assets from asset use transactions

**\$20,000**

Total assets at year end

**\$66,000**

#### SHOW YOUR WORK

#### FOR THE INSTRUCTOR

Sources:  $40,000 + 15,000 + 31,000 = 86,000$ . Uses:  $18,000 + 2,000 = 20,000$ . The oven purchase is an asset exchange, so it adds nothing to either total. Ending assets:  $86,000 - 20,000 = 66,000$  (cash 44,000 + oven 22,000). Students who subtract the oven get 44,000 and have confused cash with total assets.

### 5 Effect of an asset exchange on total assets

Silverleaf Bakery pays \$22,000 of cash to buy an oven. How does this event change total assets, and how is it classified? Circle one.

- ☐ A Total assets decrease by \$22,000; asset use
- ☐ B Total assets increase by \$22,000; asset source
- ☒ C **Total assets do not change; asset exchange, because one asset (cash) is swapped for another (the oven)**
- ☐ D Total assets do not change; asset source, because the bakery now owns the oven

#### FOR THE INSTRUCTOR

Cash goes down by \$22,000 and the oven goes up by \$22,000, so total assets are unchanged and the event is an asset exchange. Option a treats the cash payment as a use without noticing the oven; option b counts the oven as new assets; option d gets the amount right but calls it a source, although nothing outside the business supplied the asset.