

# **On October 1st, A Company Received \$30,000 In Cash And A Building Worth \$200,000, And In Return, Issued**

On October 1st, A Company Received \$30,000 In Cash And A Building Worth \$200,000, And In Return, Issued a set of accounting entries that reflect a typical business transaction involving the exchange of assets for issuance of shares or other forms of consideration. This event is a fundamental example of how companies record asset acquisitions and understand the principles of double-entry bookkeeping, valuation, and financial reporting. In this article, we will explore the details of this transaction, its accounting implications, and how it impacts the company's financial statements.

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## **Understanding the Transaction: Assets and Consideration**

When a company receives assets in exchange for issuing shares or other liabilities, it is essential to analyze the transaction thoroughly. The key components are:

### **Assets Received**

- Cash: \$30,000
- Building: Valued at \$200,000

### **Consideration Given**

- Typically, the consideration could be in the form of equity shares or other compensation. For simplicity, assume the company issues shares to the asset provider.

### **Nature of the Transaction**

- The company is acquiring assets worth a total of \$230,000 (\$30,000 cash + \$200,000 building).
- The issuance of shares (or other consideration) is the way the company compensates the asset provider.

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# Accounting Principles Underlying the Transaction

Before recording the transaction, it's important to understand some fundamental accounting principles:

## Asset Valuation

- Assets should be recorded at their fair value at the date of acquisition.
- In this case, the building's fair value is given as \$200,000, and cash is straightforward at \$30,000.

## Matching Consideration and Assets

- The company's issuance of shares (or other securities) should reflect the fair value of assets received.
- The total value of assets received is \$230,000; thus, the equity issued should be based on this amount.

## Double-Entry Bookkeeping

- Every transaction affects at least two accounts, maintaining the accounting equation:

Assets = Liabilities + Shareholders' Equity

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## Recording the Transaction: Journal Entries

The typical journal entries for this transaction would be:

### Step 1: Record the Assets Acquired

- Debit Cash for \$30,000
- Debit Building for \$200,000
- Credit Equity (e.g., Common Stock or Share Capital) for \$230,000

However, the precise accounts depend on how the transaction is structured. Here is a simplified example:

```plaintext

Dr. Cash \$30,000

Dr. Building \$200,000

Cr. Share Capital \$230,000

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This entry reflects the company's receipt of assets and the corresponding issuance of shares.

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## Impact on Financial Statements

Understanding how this transaction affects financial statements is crucial for stakeholders:

### Balance Sheet

- Assets Increase: Cash increases by \$30,000, and Building increases by \$200,000.
- Equity Increase: Shareholders' equity increases by \$230,000, representing the value of the issued shares.

### Income Statement

- No immediate impact; however, future depreciation of the building will affect expenses.

### Statement of Cash Flows

- Operating activities: Cash inflow of \$30,000.
- Investing activities: Acquisition of the building worth \$200,000.

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## Valuation and Fair Value Considerations

Determining the correct valuation of assets and consideration is vital. Here are key points:

### Fair Value of Assets

- The building's fair value is assumed to be \$200,000, which should be determined based on appraisals or market prices.

## Issuance of Shares

- The number and value of shares issued depend on the company's share price or valuation method.
- For example, if the company's share price is \$10 per share, then 23,000 shares would be issued to reflect the \$230,000 consideration.

## Implications for Shareholders

- Dilution may occur if new shares are issued, affecting existing shareholders.

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## Legal and Reporting Implications

A transaction of this magnitude requires proper disclosures:

### Note Disclosures

- Details of the assets acquired
- Valuation methods used
- Consideration issued
- Any related party involvement

## Regulatory Compliance

- Ensuring adherence to accounting standards such as IFRS or GAAP
- Proper reporting in financial statements

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## Example Scenario: Issuance of Shares as Consideration

Assuming the company issues common shares at a fair value of \$10 per share:

1. Number of shares issued =  $\$230,000 / \$10 = 23,000$  shares
2. Journal entry for share issuance:

```plaintext

Dr. Cash \$30,000  
Dr. Building \$200,000  
Cr. Common Stock (at par) \$23,000  
Cr. Additional Paid-In Capital \$207,000  
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Note: The above splits the consideration between the par value of shares and additional paid-in capital.

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## **Conclusion: Significance of Proper Recording**

This transaction exemplifies how companies record significant asset acquisitions and the importance of accurate valuation, proper journal entries, and transparency in financial reporting. Properly accounting for such transactions ensures stakeholders have a clear understanding of the company's financial position and operational activities.

By understanding the principles illustrated in this example, businesses can better manage their accounting processes, ensure compliance with regulatory standards, and maintain the integrity of their financial statements. Whether it's cash, buildings, or other assets, accurately capturing the transaction's details is fundamental to sound financial management.

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Keywords: accounting for asset acquisition, journal entries, fair value, asset valuation, issuing shares, financial statements, balance sheet, transaction recording, business assets, equity issuance

## **Frequently Asked Questions**

### **What transaction did A Company record on October 1st involving cash and a building?**

A Company received \$30,000 in cash and a building worth \$200,000 in exchange for issuing something, likely equity or other consideration.

### **What is the accounting entry for receiving cash and a building in exchange for issuing shares?**

The company would debit cash for \$30,000, debit the building asset for \$200,000, and credit common stock or additional paid-in capital for the total

value issued, reflecting the issuance of shares or other securities.

### **How should A Company record the fair value of the building received on October 1st?**

The building should be recorded at its fair market value, which is \$200,000, and the corresponding credit would reflect the issuance of shares or other consideration.

### **What is the likely purpose of A Company issuing shares or securities in exchange for cash and a building?**

The purpose is probably to raise capital and acquire a valuable asset to support the company's operations or expansion plans.

### **How does the exchange impact A Company's balance sheet on October 1st?**

The balance sheet will show an increase in assets by \$230,000 (cash plus building) and an increase in shareholders' equity corresponding to the value of the issued securities.

### **Could there be tax implications for A Company issuing securities in exchange for assets?**

Yes, depending on the jurisdiction, there may be tax implications such as taxable gain or loss, but generally, issuing securities in exchange for assets is a non-taxable event; however, proper valuation is essential.

### **What are the accounting principles involved in recording this kind of transaction?**

The transaction involves the principles of fair value measurement, asset recognition, and equity issuance, ensuring assets and equity are properly recorded at their fair values.

## **Additional Resources**

On October 1st, A Company Received \$30,000 In Cash And A Building Worth \$200,000, And In Return, Issued

On October 1st, a significant transaction took place that exemplifies the fundamental principles of accounting and financial reporting. A Company received a combination of cash and a building asset valued at a total of \$230,000 – specifically, \$30,000 cash and a building worth \$200,000. In

exchange, the company issued an unspecified form of consideration, likely shares or another form of equity or liability, to the party transferring these assets. This event underscores core concepts in asset recognition, valuation, and the mechanics of journal entries that underpin accurate financial statements.

This article aims to dissect this transaction in detail, exploring the accounting principles involved, the implications for the company's financial position, and the broader significance of such exchanges in corporate finance. We will analyze the transaction from multiple angles, including the nature of assets received, valuation methods, and the recording process, providing a comprehensive understanding suitable for accounting professionals, students, and business analysts.

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## **Understanding the Transaction: Assets Received and Consideration Issued**

### **The Assets Acquired: Cash and Building**

In this transaction, the company received two distinct assets:

- Cash: An immediately liquid asset valued at \$30,000.
- Building: A non-current asset (property, plant, and equipment) valued at \$200,000.

**Cash Asset:** Cash is the most liquid asset, directly usable for operations, investments, or debt repayment. Recognizing cash involves straightforward measurement at its face value, which in this case is \$30,000.

**Building Asset:** The building is a tangible fixed asset recorded at its fair market value or historical cost, depending on the accounting standards and circumstances. Given that the building is valued at \$200,000, this figure is likely based on an appraisal, purchase price, or agreed-upon valuation. Under generally accepted accounting principles (GAAP) or International Financial Reporting Standards (IFRS), the asset should be recorded at its fair value at the acquisition date.

**Implications for the Company:** The addition of these assets enhances the company's asset base and potentially its earning capacity. The company must assess whether the assets are recorded at fair value and whether they meet the criteria for recognition as assets on the balance sheet.

## **The Consideration: Issuance of Equity or Other Liabilities**

While the original statement leaves the nature of what the company issued in return somewhat open, typical scenarios include:

- Issuance of Shares or Equity Instruments: The company might have issued common or preferred shares equal to the total value of assets received, reflecting an increase in shareholders' equity.
- Issuance of Debt or Notes Payable: Alternatively, the company could have issued a liability instrument, such as bonds payable or a promissory note, particularly if the transaction was structured as a loan or financing arrangement.

Given the transaction involves assets received, it is most common that the company issued shares to the party transferring the assets, especially in a scenario resembling a capital contribution or acquisition.

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## **Valuation and Measurement Principles**

### **Asset Valuation Methodology**

The valuation of both cash and the building plays a pivotal role in recording this transaction accurately:

- Cash: Valued at face value, \$30,000.
- Building: Valued at \$200,000, which suggests the fair market value is being used for recognition purposes, aligning with IFRS or GAAP's requirement to record assets at fair value at acquisition.

#### **Why Fair Value?**

Fair value provides a realistic estimate of what the asset could be sold for in an orderly transaction. Using fair value ensures that the company's financial statements reflect the economic reality, providing meaningful information to stakeholders.

#### **Implications of Valuation Accuracy:**

Incorrect valuation can lead to distorted financial statements, affecting ratios, profitability, and investor perceptions. For instance, overestimating the building's value inflates assets and equity, while underestimating can undervalue the company's worth.



## Matching Assets with Consideration

The total assets acquired amount to \$230,000 (\$30,000 + \$200,000). Accordingly, the consideration issued by the company should approximate this amount to maintain accounting balance, reflecting the fundamental equation:

Assets = Liabilities + Equity

If the company issued shares worth approximately \$230,000, then the transaction maintains the balance sheet's integrity.

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## Accounting Entries and Journal Documentation

### Recording the Acquisition

The journal entries for the company depend on the nature of the issued consideration. Assuming the company issued equity shares to the asset transferor, the entries would typically be:

Debit:

- Cash: \$30,000
- Building: \$200,000

Credit:

- Share Capital / Common Stock: \$230,000 (or the fair value of shares issued)

This entry reflects the increase in assets and the corresponding increase in shareholders' equity.

Alternative scenario: If the consideration was a liability, such as a promissory note, the credit could be to a liability account instead.

### Impact on Financial Statements

- **Balance Sheet: Assets increase by \$230,000; equity increases correspondingly if shares are issued.**
- **Income Statement: No immediate impact unless associated costs are incurred.**

- **Statement of Cash Flows:** The cash inflow of \$30,000 is recorded under investing or financing activities, depending on the nature of the transaction.

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## **Implications for Financial Analysis and Corporate Strategy**

### **Strengthening the Asset Base**

Acquiring a valuable building alongside cash enhances the company's productive capacity and potential revenue streams. This strategic move can signal growth, expansion, or a shift in operational focus.

### **Impact on Financial Ratios**

The transaction influences key financial ratios:

- **Liquidity Ratios:** The increase in cash improves liquidity, enabling more operational flexibility.
- **Asset Turnover:** The addition of a building may improve asset utilization ratios.
- **Equity and Leverage:** Issuance of shares increases

equity, possibly diluting existing shareholders but strengthening the company's capital base.

## **Tax and Regulatory Considerations**

Depending on jurisdiction, the transaction may have tax implications, such as depreciation on the building, capital gains considerations, or stamp duties on share issuance. Proper valuation and documentation are essential for compliance and audit purposes.

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## **Broader Context and Strategic Significance**

### **Asset Acquisition as a Growth Strategy**

This transaction exemplifies how companies leverage external assets to fuel growth. Acquiring buildings can provide long-term value, especially if the property is located strategically or has developmental potential.

### **Equity Financing and Shareholder Value**

Issuing shares to fund asset acquisitions is a common strategy to preserve cash flows and avoid debt. However, it raises questions about dilution and shareholder value, which management must weigh carefully.

## Impacts on Corporate Governance and Stakeholder Perceptions

Transparent reporting of such transactions enhances trust among investors and regulators. Proper valuation, disclosure, and adherence to accounting standards are critical to maintaining credibility.

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## Conclusion

The transaction on October 1st, where a company received \$30,000 in cash and a building valued at \$200,000 in exchange for issuing consideration, exemplifies the core principles of asset recognition, valuation, and financial reporting. Proper documentation and accounting treatment ensure that the company's financial statements accurately reflect its economic reality, supporting sound decision-making and stakeholder trust.

This event also highlights the strategic importance

of asset acquisitions, the need for rigorous valuation practices, and the role of issuance of shares or liabilities in financing growth. As companies navigate complex transactions, adherence to accounting standards and transparent reporting remain essential to fostering confidence and sustaining long-term success.

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In summary, this transaction is a textbook example of asset acquisition and capital structuring, illustrating fundamental accounting principles while also offering insights into strategic corporate growth. Its proper recording and analysis are vital for accurate financial reporting, investor confidence, and informed decision-making in the dynamic landscape of modern business.

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