

BAL BHARATI PUBLIC SCHOOL, PITAMPURA

CLASS-11 (SESSION 2020-21)

ACCOUNTANCY

CHAPTER : ACCOUNTING EQUATION (PART-1)

What Is the Accounting Equation?

The accounting equation is considered to be the foundation of the double-entry accounting system.

The double entry practice ensures that the accounting equation always remains balanced, meaning that the left side value of the equation will always match with the right side value.

In other words, the total amount of all assets will always equal the sum of liabilities and owner's equity.

The accounting equation can be presented as:

ASSETS= EQUITIES (TOTAL CLAIMS)

OR

ASSETS = LIABILITIES + CAPITAL

An accounting equation always holds true with every change that occurs due to transactions entered into.

Transactions from the accounting equation viewpoint can be divided into two, i.e.

1. Transactions affecting two items
2. Transactions affecting more than two items

TRANSACTIONS AFFECTING TWO ITEMS:

As the title suggests, these are those transactions that affect two items of the accounting equation or balance sheet:

a) Increase in asset, increase in capital

Examples:

- Introduction of capital by proprietor
- Rent received

b) Decrease in capital, decrease in asset

Examples:

- Drawings by proprietor
- Payment of salaries

c) Increase in asset, increase in liability

Examples:

- Loan taken from bank
- Good purchased on credit
- Furniture purchased on credit

d) Decrease in liability, decrease in asset

Examples:

- Repayment of loan
- Payment to a creditor
- Bills payable discharged

e) Increase in one asset, decrease in another asset

Examples:

- Sale of goods on cash
- Sale of goods on credit
- Cash deposited into bank

f) Decrease in one liability, increase in another liability

Examples:

- Acceptance of bills payable

TRANSACTIONS AFFECTING MORE THAN TWO ITEMS:

Some transactions affect more than two items of the accounting equation or a balance sheet:

Examples:

- Sale of goods at a profit
- Sale of fixed asset at a loss
- Discounting of a bill of exchange from bank

- Payment to a creditor in full settlement

EFFECT OF ADJUSTMENT TRANSACTIONS ON ACCOUNTING EQUATION

1. OUTSTANDING EXPENSES

MEANING: Those expenses which have been incurred but not paid during the current accounting year.

TREATMENT IN ACCOUNTING EQUATION:

Assets	Capital	Liabilities
	(-)	(+) o/s expense

2. PREPAID EXPENSES OR UNEXPIRED EXPENSES

MEANING: Those expenses which have been paid in advance i.e. they are yet not due but paid.

TREATMENT IN ACCOUNTING EQUATION:

Assets	Capital	Liabilities
(-) cash (+) prepaid expense		

3. ACCRUED INCOME

MEANING: Income which has been earned but not received during the current accounting period.

TREATMENT IN ACCOUNTING EQUATION:

Assets	Capital	Liabilities
(+) accrued income	(+)	

4. UNEARNED INCOME OR INCOME RECEIVED IN ADVANCE

MEANING: Income which has been received but not earned during the current accounting year.

TREATMENT IN ACCOUNTING EQUATION:

Assets	Capital	Liabilities
(+) cash		(+) unearned income

- The following YouTube links will be helpful in revising the concept of accounting equation :

<https://www.youtube.com/watch?v=EsoFijAw4A0>

<https://www.youtube.com/watch?v=PKYjMAnN5Uc>

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