Accounting equation questions and answers pdf south africa

Previous lesson: Double accounting entry Next lesson: Debits and loans There is another point of view you can take from the basic accounting equation and what is known as the five accounting elements... Have you ever heard of the terms of financing and investment? Funding is an act of receiving money. Funding means where you get your money from. Funding is the source of the money. Investing is spending money. But to spend money would have to have it first. Thus, you always need funding going first before you engage in any investment activity. Funding can be obtained from the owner or from a lender (such as a bank). Funding can also be obtained domestically from the profits you make. You can spend money on (invest in) things that provide only immediate benefits, or in things that provide permanent benefits in the future. How do the above reports relate to the accounting equation? Well, the elements on the right side show where the money comes from. These are sources of funding. Equity and liabilities are external sources of financing. Income is the business itself, create financing for larger assets. Two items that increase on the left side show what has been invested in. The January water bill (e.g.) is an expense because the benefits for that month were immediately consumed and there will be no more benefits arising from the January water bill in the future (the February water bill is a separate expense that will be paid later and which will provide benefits specifically for February). In contrast, the construction vehicle, purchased in January, is an asset because it will provide business benefits well beyond January. So we have an alternative opinion. It's quite interesting, isn't it? Return from the basic accounting equation: Another view on double-entry accounting Return from the basic accounting equation: Another view on the homepage Stay informed by ABfS! Follow us on Facebook: Previous lesson: Double Accounting entry following lesson: Debits and credits Click below to see questions and exercises on the same topic from other visitors on this page... (if there is no published solution to the issue/exercise, then try to solve it yourself) Advertising on Accounting-Basics-for-Students.com © 2009-2020 by Michael Selender. All rights are reserved. Click here for a privacy policy. Any content, trademark/s or other content that may be found on the website which is not hotelsrate.org, remains the copyright of its respective owner/ s. In no hotelsrate.org you claim ownership or liability for such items, and you must seek legal consent for any use of such material from your owner. Copyright © 2017 HOTELSRATE.ORG - All rights Accounting equation is a fundamental principle of accounting and a fundamental element of the balance sheet Balance Balance balance sheet is one of the three main financial reports. These reports are key to both financial modeling and accounting. The balance sheet shows the company's total assets, as well as how these assets are financed, either through debt or equity. Assets and liabilities and equity. The equation is as follows: Assets and liabilities of the shareholder This equation lays the foundation for a double entry of accounting and emphasizes the balance sheet structure. Double accounting input is a system where each transaction affects both sides of the accounting equation. For each change in an asset account, there must be an equal change in related liabilities or equity accounts. It is important to keep in mind the accounting equation when performing log entries. Entries in GuideJournalEntries are building blocks of accounting, from reporting to auditing journal records (which consist of debits and credits). Without proper log entries, the financial statements of companies would be inaccurate and a complete mess. The balance sheet is divided into three main sections and their various main articles: Assets, Liabilities and Equity. Below are some examples of items that fall under each section: Assets: Cash, Current Assets Current Assets are all assets that can be reasonably converted into cash within one year. They are commonly used to measure a company's liquidity. ReceivableAccounts Receivable (AR) receivable (AR) receivable (AR) is a credit sale business that has not yet been fully paid by its customers, the current asset on the balance sheet. Companies allow their customers to pay in a reasonable, long period of time, provided that the terms are agreed., InventoryInventoryInventory is a current account of assets found on the balance sheet consisting of all the raw materials, work in the process, and the finished goods that the company has accumulated. It is often considered the most illiquid of all current assets - thus, it is excluded from the numerator in the fast-calculated ratio., Equipment PP'E (Property, Factory and Equipment)PP'E (Real Estate, Plant, and Equipment) is one of the major out-of-the-clock assets found on the balance sheet. PPSE is affected by capex, depreciation and acquisition/disposal of fixed assets. These assets play a key role in the company's financial planning and analysis of operations and future costs: Accounts to be paidAccounts PayableAccounts, to be paid, are liable when an organization receives goods or services from suppliers on credit. It is expected that the payable will be paid within a year or for one operating cycle (depending on what's longer). The AP is considered one of the most liquid forms of current liabilities, short-term borrowingCurent LiabilitiesCurrent liabilities are financial obligations of the legal entity, which are to and paid during the year. The company shows them on the balance sheet. Responsibility arises when a company has undergone a transaction that has generated an expectation of future outflow of cash or other economic resources., Long-Term Debt Long-Term Debt Long-Term Debt (LTD) is any amount of outstanding debt the company has a maturity of 12 months or longer. It is classified as an out-of-state liability on the company's balance sheet. The maturities for the LTD can range from 12 months to 30 years, and types of debt may include bonds, mortgage equity: Share CapitalShare Capital Capital (equity, equity, equity, or paid capital) is the amount invested by the company's shareholders for use in the business. When a company is created, if its only asset is the cash invested by shareholders, then the balance sheet is balanced by equity capital, The Expendable ProfitRetance Profit Formula Represents All Accumulated Net Income, Net From All Dividends Paid to Shareholders. The undistributed income is part of the equity on the balance sheet and is part of a business profit that is not distributed as dividends to shareholders, but is instead reserved for reinvestmentU the accounting equation shows the link between these items. Rearrange the accounting equationDevelopment can also be rebuilt into the following form: Equity and Assets - Liabilities In this form it is easier to emphasize the relationship between equity and debt (obligations). As you can see, equity is remaining after the liabilities have been deducted from the assets. This is due to the fact that the creditors - parties that lend money - have the first claim to the company's assets. For example, if a company becomes bankrupt, Bankrotbankrupti is the legal status of a person or non-human person (a firm or government agency) who is unable to repay its outstanding debts to creditors., its assets are sold, and these funds are used to pay off debts in the first place. Only after repayment of debts shareholders are entitled to any assets of the company to try to return their investments. Regardless of how the accounting equation is presented, it is important to remember that the equation must always be balanced. Examples of the accounting equation For each transaction, both sides of the equation should have an equal net effect. here are some examples of transactions and how they affect the accounting equation. The CFI Accounting Basics course will help you better understand these these Buying a car with CashCompany XY' wants to purchase a $500 machine using only cash. This transaction will result in a loan for equipment ($500) and a cash debit (-$500). The net impact on the accounting equation will be as follows: this transaction only affects the assets of the equation; therefore there is no corresponding effect in liabilities or equity on the right side of the equation. Buying a cash machine and creditCompany XY' wants to purchase a $500 machine, but it only has $250 in cash in its holdings. The company is entitled to purchase this machine with an initial fee of $250, but it owes the manufacturer the remaining amount. This will result in a loan for equipment ($500), a loan to accounts to be paid (250 euros) and a cash debit (-$250). The net impact on the accounting equation will be as follows: this transaction affects both sides of the accounting equation; Both the left and right sides of the equation are increasing by $250.Additional ResourcesCorporate Finance Institute has other resources to help you expand your knowledge and keep your accounting under control. Take a look at the links below: Accounting Basics Reading Financial ReportsGeneral Ledgeral LedgerIn Accounting, General Ledger (GL) is a record of all past company transactions organized by accounts. General Ledger (GL) accounts contain all debit and credit transactions that affect them. In addition, they include details of each transactionT account GuideT account GuideT accounts are used in accounting to track debits and loans and prepare financial statements. It's a visual representation of individual accounts that looks like a T, making it so that all the add-ons and subtractions (debits and credits) to the account can be easily tracked and visually presented. This T account guide will provide examples of how they work and how to use them. Their. accounting equation questions and answers pdf south africa