

Accounting Foundation Notes

Original starter study material - Foundation Level

1. Accounting Equation

The accounting equation is the basic relationship linking the resources of a business with the claims against those resources.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

How transactions affect the equation

- Owner introduces cash: Assets increase and Capital increases.
- Business takes a bank loan: Assets increase and Liabilities increase.
- Furniture is bought for cash: one asset increases while another asset decreases.
- Expenses reduce equity through profit; revenue can increase equity through profit.

Worked Example

Transaction	Assets	Liabilities	Capital
Owner starts with Rs 50,000 cash	+50,000	-	+50,000
Loan received Rs 20,000	+20,000	+20,000	-
Furniture bought for cash Rs 10,000	Cash -10k; Furniture +10k	-	-

Quick Exam Questions

- Define the accounting equation.
- Explain the dual aspect concept with two examples.
- If assets are Rs 80,000 and liabilities are Rs 30,000, find capital.

Answer to numerical: Capital = Assets - Liabilities = Rs 50,000.