**ACCOUNTING EQUATION**

For each of the transactions in items indicate the two (or more) effects on the accounting equation of the business or company.

|  |
| --- |
| 1. The owner invests personal cash in the business. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 2. The owner withdraws cash from the business for personal use. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 3. The company receives cash from a bank loan. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 4. The company repays the bank that had lent money to the company. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 5. The company purchases equipment with its cash. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 6. The owner contributes his/her personal truck to the business. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 7. The company purchases a significant amount of supplies on credit. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 8. The company purchases land by paying half in cash and a loan for the other half. |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| Company X provides consulting services to Client Q in May. Company X bills Client Q in May for the agreed upon amount of $5,000. The sales invoice shows that the amount will be due in June. Answer the questions 9 to 12. 9. In May, Company X records the transaction by a debit to *Accounts Receivable* for $5,000 and a credit to *Revenues* for $5,000. What is the effect of this entry upon the accounting equation for **Company X**?  |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 10. In June, Company X receives the $5,000. What is the effect on the accounting equation **and** which *accounts* are affected at **Company X**? |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 11. What is the effect on **Client Q's** accounting equation in May when Client Q records the transaction as a debit to *Consultant Expense* for $5,000 and a credit to *Accounts Payable* for $5,000? |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |
| 12. What is the effect on **Client Q's** accounting equation in June when Client Q remits the $5,000? Also, which *accounts* will be involved?  |
| Assets  | Increase  | Decrease  | No Effect  |
| Liabilities  | Increase  | Decrease  | No Effect  |
| Owner’s Equity  | Increase  | Decrease  | No Effect  |

13. Fill in the missing figures in the following accounting equations:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Assets** | **-** | **Liabilities**  | **=** | **Owner’s Equity**  |
| 1 | 18,600 | **-** | 6,600 | **=** |  |
| 2 |  | **-** | 1,160 | **=** | 10,100 |
| 3 | 6,700 | **-** |  | **=** | 3,200 |
| 4 | 21,000 | **-** |  | **=** | 8,000 |
| 5 | 150,000 | **-** | 80,000 | **=** |  |
| 6 |  | **-** | 18,000 | **=** | 320,000 |

14. From the following list of assets and liabilities provided by Ace Gardening Services you are required to calculate the owner’s equity.

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets**  |  | **Liabilities**  |  |
| Cash at bank | 3,000 | Accounts payable  | 8,500 |
| Motor Vehicle | 22,000 | Loan from ANZ | 4,000 |
| Trailer | 7,000 | TOTAL LIABILITIES  | **12,500** |
| Inventory | 4,500 | **Equity** |  |
|  |  | Capital??? |  |
| TOTAL ASSETS | **36,500** |  | **36,500** |