

SOLE TRADER

ACCOUNTING EQUATION

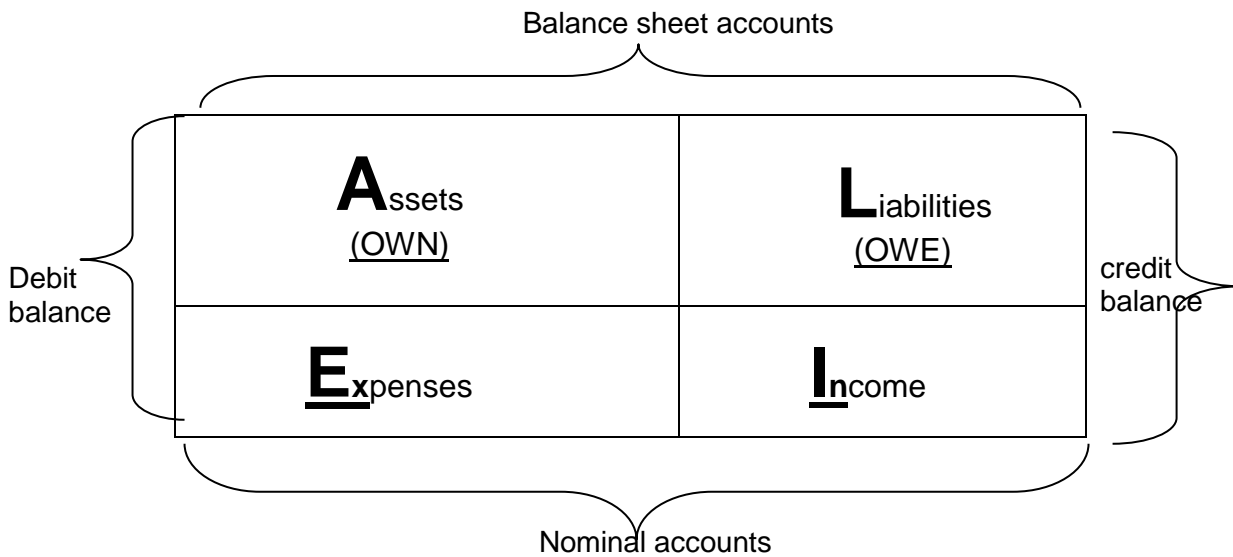
WORKSHEET 1

ACCOUNTING EQUATION

The accounting equation consists of 3 elements – Assets, Liabilities, Owner's equity. These 3 elements form the basis for all accounting entries

Assets and Expenses have DEBIT balances
Liabilities and Income have CREDIT balances

AN ACCOUNT IS CLASSIFIED INTO ONE OF FOUR CATEGORIES



<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">Dr</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">Cr</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Balance xxx</td> <td style="padding: 5px;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">increase</td> <td style="padding: 5px;">decrease</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px; text-align: center;">+</td> <td style="padding: 5px; text-align: center;">--</td> </tr> </table>	Dr	Cr	Balance xxx		increase	decrease	+	--	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">Dr</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">Cr</td> </tr> <tr> <td style="padding: 5px;"></td> <td style="padding: 5px;">Balance xx</td> </tr> <tr> <td style="padding: 5px;">decrease</td> <td style="padding: 5px;">increase</td> </tr> <tr> <td style="text-align: center;">--</td> <td style="text-align: center;">+</td> </tr> </table>	Dr	Cr		Balance xx	decrease	increase	--	+
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OWNERS EQUITY
 Capital Account

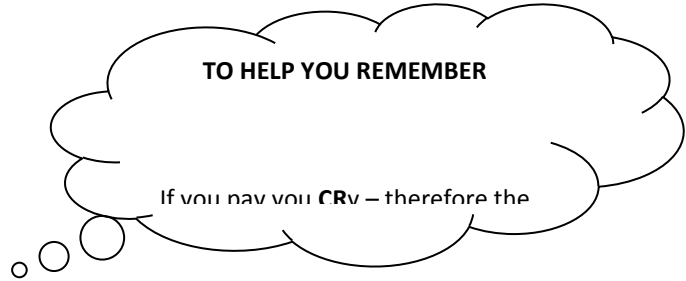
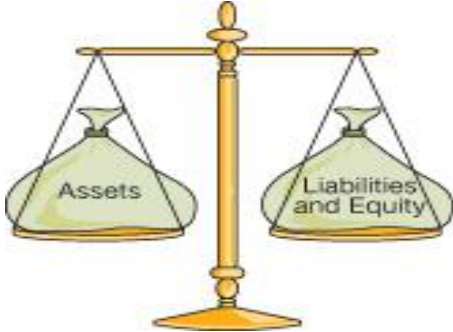
decrease	increase
--	+

Capital account is directly affected by INCOMES and EXPENSES

ACCOUNTING EQUATION

A	=	OE	+	L												
Assets		Owners Equity		Liabilities												
+ -		- +		- +												
<p>NON-CURRENT ASSETS</p> <p>1 Fixed/Tangible assets Land and buildings Vehicles Equipment</p> <p>2 Financial assets Fixed deposit Investment</p> <p>CURRENT ASSETS</p> <p>1 Inventories Trading stock</p> <p>2 Debtors</p> <p>3 Cash Bank (favourable / debit balance) Cash float Petty cash</p>	=	<p>1 Capital +/ increase (credit)</p> <p>2 Drawings -/ decrease (debit)</p> <p>3 Profit / Loss</p> <hr style="border: 0.5px solid black;"/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; border-right: 1px solid black;"> Expenses - </td> <td style="width: 50%; text-align: center;"> Income + </td> </tr> <tr> <td style="border-right: 1px solid black; vertical-align: top;"> Cost of sales Interest expense Rent expense Salaries Wages Stationery Fuel Packing material Repairs Insurance Advertising Discount allowed Telephone Water & electricity </td> <td style="vertical-align: top;"> Sales Current/fee income Interest income Rent income Discount received </td> </tr> </table>	Expenses -	Income +	Cost of sales Interest expense Rent expense Salaries Wages Stationery Fuel Packing material Repairs Insurance Advertising Discount allowed Telephone Water & electricity	Sales Current/fee income Interest income Rent income Discount received	+	<p>NON-CURRENT LIABILITIES Loan (long term – more than 12 months) Mortgage bond</p> <p>CURRENT LIABILITIES Creditors Bank overdraft (unfavourable / credit balance) Short-term loan (less than 12 months)</p>								
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Steps to follow	
1	Determine the two accounts involved in the transaction Each transaction has TWO accounts
2	Determine what type accounts they are – assets, liabilities, expenses, income
3	Determine the effect on the accounting equation (increase / decrease)
4	Check if $A = OE + L$



$$\text{Assets} = \text{Owner's Equity} + \text{Liabilities}$$

Example – Accounting equation

Complete the following:

No	Transaction	Account debited	Account credited	A		=	OE		+	L	
				Assets		Owners equity		Liabilities			
				+	-		-	+		-	+
							Capital				
							-Drawings				
							Profit				
							↙ ↘				
							- expense	+ income			
1	The business pays the telephone account R200	Telephone	Bank	-	200		-	200			0

Explanation

Follow the steps	
1	determine the two accounts involved in the transaction
	Bank & Telephone
2	determine what type accounts they are – assets, liabilities, expenses, income
	Bank is Asset (we own the money) Telephone is Expense (money paid out for the day-to-day running of the business)
3	determine the effect on the accounting equation (increase / decrease)
	Bank decreases – money is paid out (money becomes less) Expenses decreases the profit – therefore decreases Owners equity Liabilities = 0 effect
4	Check if $A = OE + L$
	$- 200 = -200 + 0$

ACTIVITY 1

Complete the following:

No	Transaction	Account debited	Account credited	A		=	OE		+	L	
				Assets			Owners equity		Liabilities		
				+	-		-	+		-	+
							Capital				
							- Drawings				
							+ Profit				
							↙ ↘				
							- expense				+ income
1	The owner invests personal cash in the business, R200 000										
2	The owner withdraws cash for personal use, R30 000										
3	Buy stationery and pay by cheque R200										
4	Receive a cheque for rent R500										
5	The business purchases equipment for cash, R50 000										
6	Receive R50 000 from AB Bank for a loan R40 000.										

ACTIVITY 2

Complete the following:

No	Transaction	Account debited	Account credited	A	=	OE	+	L
				Assets		Owners equity		Liabilities
1	Bought a vehicle and paid by cheque R50 000							
2	Issued a receipt for rent received R700							
3	Buy Packing material and pay by cheque R500							
4	Receive a cheque for rent Services rendered R1 200							
5	The business purchases trading stock for and paid by cheque R60 000							
6	Receive R100 000 from XZ Bank for a loan R80 000							