

Al-Mustaqbal university college

ACCOUNTING IN ACTION 3

The Basic Accounting Equation

**Prepared by
Ezzulddin Hasan Kadhim**

The Basic Accounting Equation

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

Provides the **underlying framework** for recording and summarizing economic events.

Assets are claimed by either creditors or owners.

Claims of creditors must be paid before ownership claims.

The Basic Accounting Equation

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

Provides the **underlying framework** for recording and summarizing economic events.

Assets

- Resources a business owns.
- Provide future services or benefits.
- Cash, Supplies, Equipment, etc.

The Basic Accounting Equation

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

Provides the **underlying framework** for recording and summarizing economic events.

Liabilities

- Claims against assets (debts and obligations).
- Creditors - party to whom money is owed.
- Accounts payable, Notes payable, etc.

The Basic Accounting Equation

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

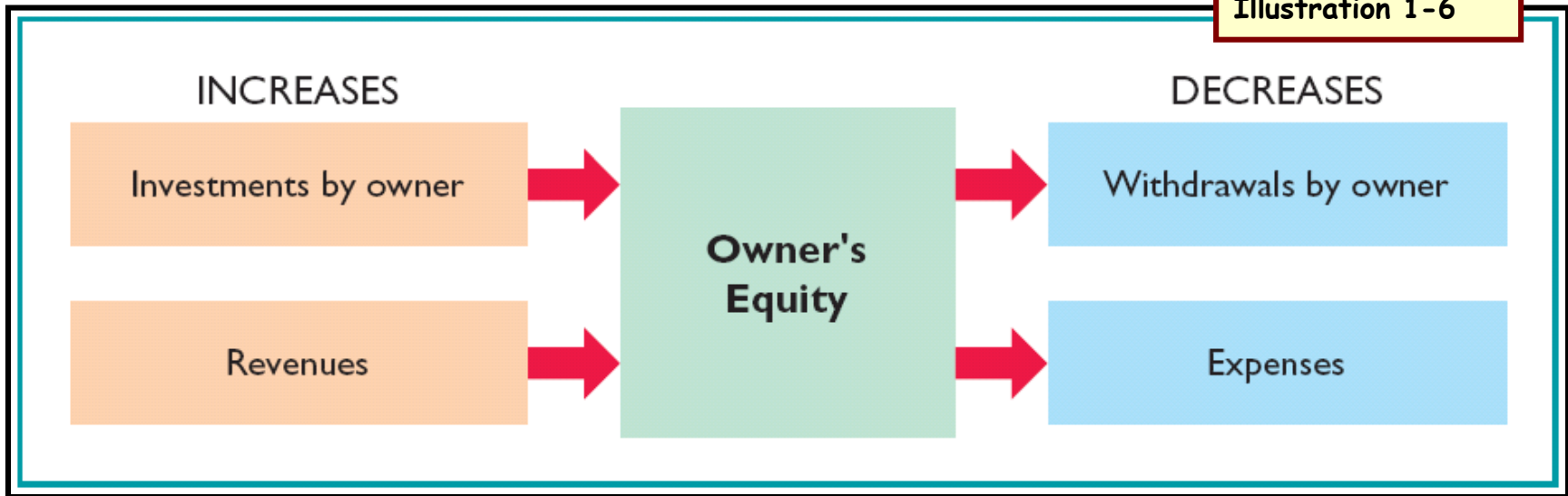
Provides the **underlying framework** for recording and summarizing economic events.

Owner's Equity

- Ownership claim on total assets.
- Referred to as residual equity.
- Capital, Drawings, etc. (Proprietorship or Partnership).

Owners' Equity

Illustration 1-6

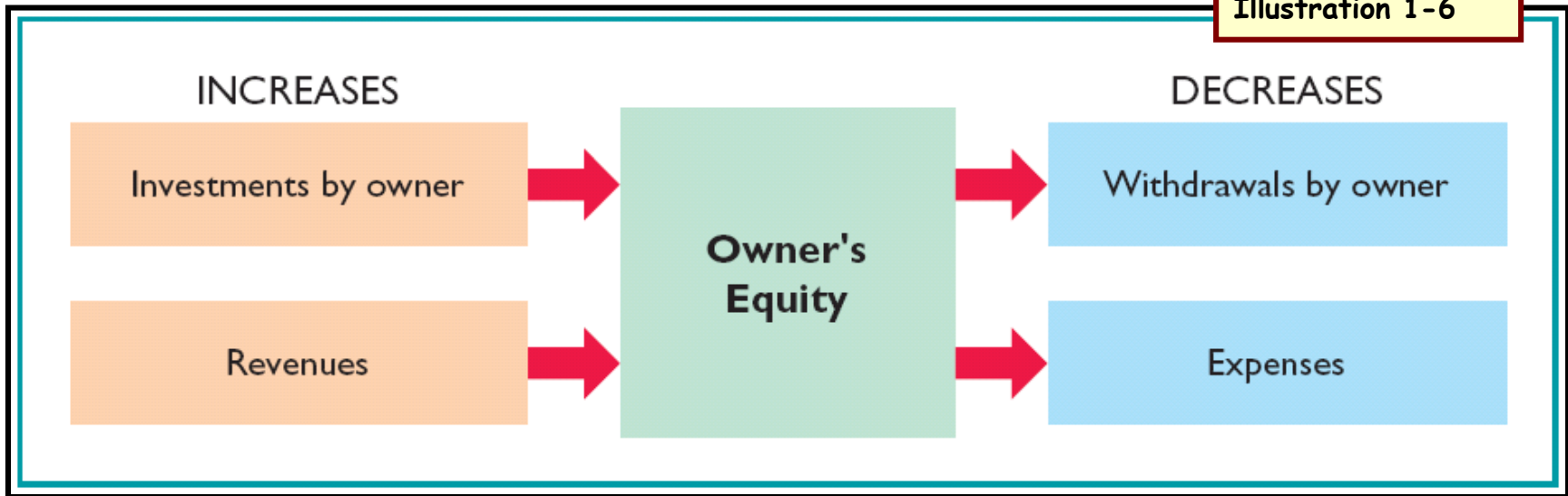


Revenues result from business activities entered into for the purpose of earning income.

Common sources of revenue are: sales, fees, services, commissions, interest, dividends, royalties, and rent.

Owners' Equity

Illustration 1-6



Expenses are the cost of assets consumed or services used in the process of earning revenue.

Common expenses are: salaries expense, rent expense, utilities expense, tax expense, etc.

Using The Basic Accounting Equation

Transactions are a business's economic events recorded by accountants.

- May be external or internal.
- Not all activities represent transactions.
- Each transaction has a **dual effect** on the accounting equation.

Transactions (Question?)

Q1-15: Are the following events recorded in the accounting records?

Event

Supplies are purchased on account.

An employee is hired.

Owner withdraws cash for personal use.

Criterion

Is the financial position (assets, liabilities, or owner's equity) of the company changed?

**Record/
Don't Record**

