

Class 11th | Accountancy



ACCOUNTING EQUATION

LECTURE - 2

MEANING OF AN ACCOUNTING EQUATION

Accounting Equation is a mathematical expression based on **Dual Aspects Concept** of Accounting.

Transaction
↓
Debit = Credit

Assets = Liabilities + Capital

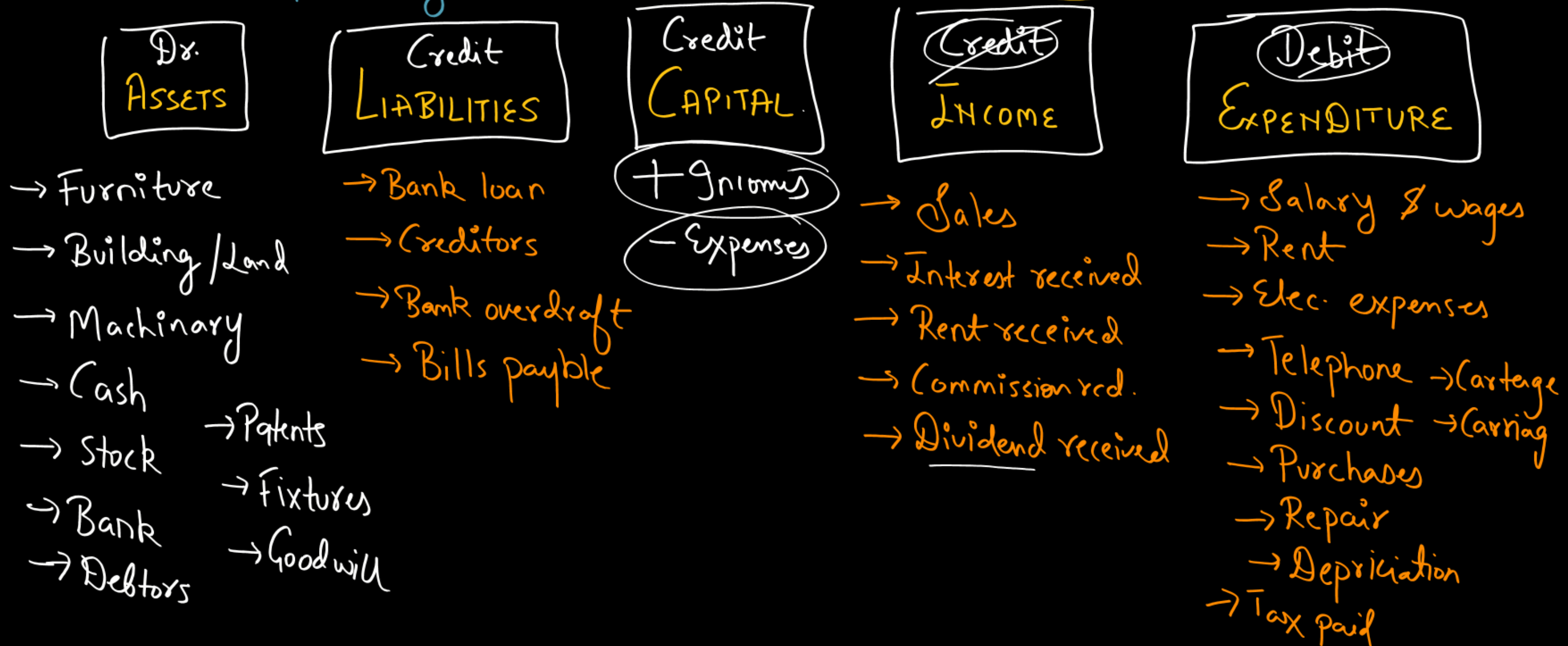
We can express it mathematically as follows:

Assets = Liabilities + Capital

Concept

Dual Aspect concept

It says every transaction has two aspects "Debit" and an equal "Credit."



Concept

$$\text{Debit} = \text{Credit}$$

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

Dr. Cr. Cr. Cr.

+ Income Cr.
- Expense Dr.

Furniture Purchase

Furniture +
Cash -

Salary Paid

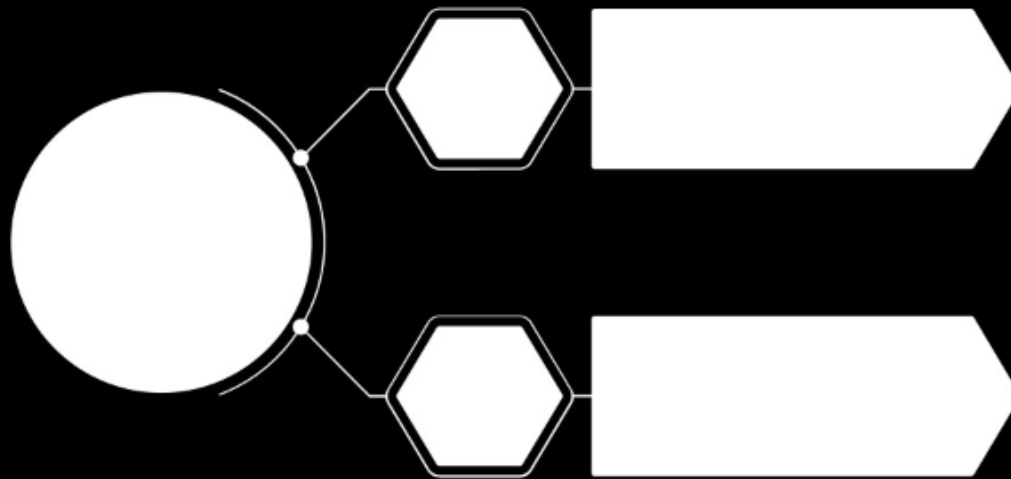
Salary +
Cash -

Capital Introduced

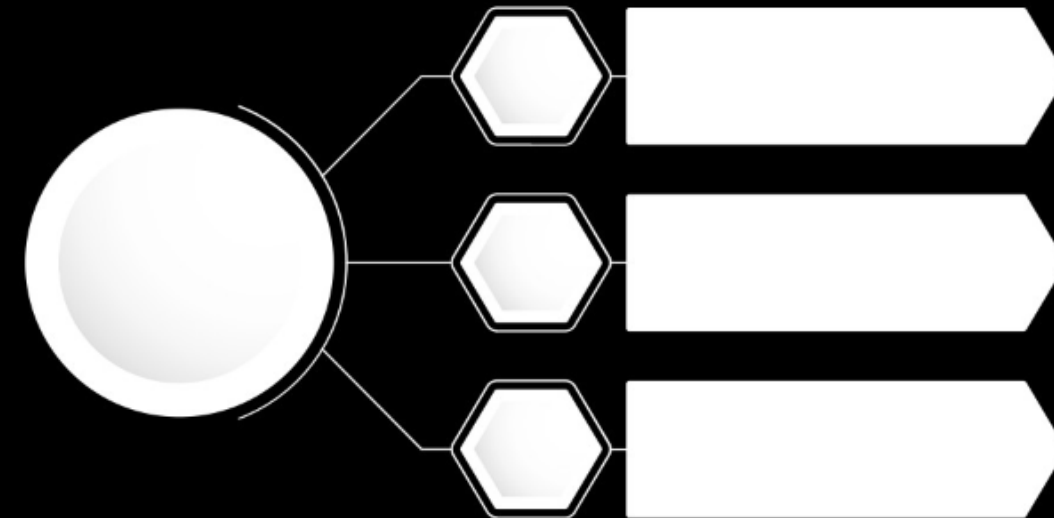
Capital +
Cash +

Effect of Transactions on Accounting Equation

**Transaction Affecting
Two Items.**



**Transaction Affecting
More Than Two Items**



FORMAT

S. NO.	TRANSACTION	ASSETS = LIABILITY + CAPITAL	

$$122300 + 5000 + 16000 = 36000 + 107300$$

$$143300 = 143300$$

Questions

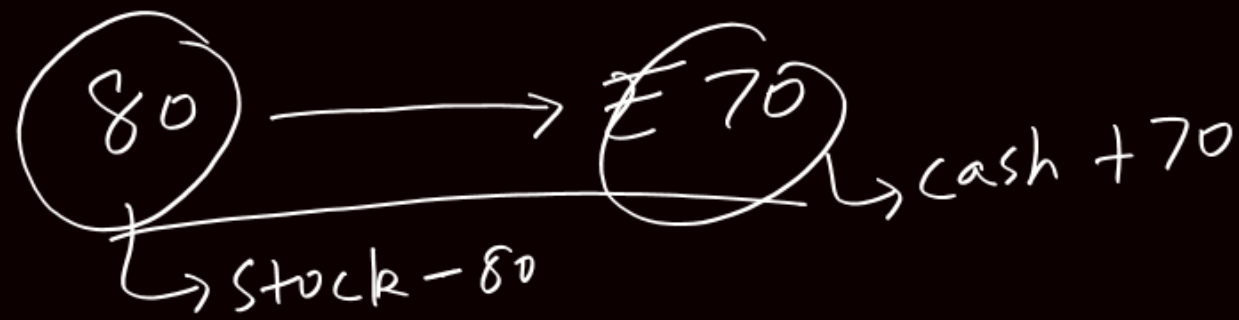
Prepare Accounting Equation form the following-

1.	Sandeep started business with Cash	₹1,00,000
2.	Purchased furniture for cash	₹5,000
3.	Purchased goods for cash	₹20,000

4.	Purchased goods on credit	₹36,000
5.	Paid for rent	₹700
6.	Goods costing ₹40,000 sold at a profit of 20% for cash	

Sol.

S. NO.	TRANSACTION	ASSETS		=	LIABILITY	+	CAPITAL
		Cash + Furniture + Stock			Creditor		
1.	Business started with Cash	100000 +			+ 100000		
2.	Purchased Furniture	- 5000 + 5000					
	TOTAL	95000 + 5000			+ 100000		
3.	Purchased Goods	- 20000 + 20000					
	Total	75000 + 5000 + 20000			+ 100000		
4.	Purchased Goods on credit	+ 36000			+ 36000		
	Total	75000 + 5000 + 56000			+ 36000	+ 100000	
5.	Rent Paid	- 700				- 700	
	Total	74300 + 5000 + 56000			+ 36000	+ 99300	
6.	Sales	+ 48000 - 40000				+ 8000	
	Total	122300 + 5000				107300	



Capital
 - Loss 10

Sales Debit Credit

Cost
 $\textcircled{40}$

Sales
 60

Profit
 20 + Capital

Assets = Liab + Capital
 Cash + Stock

+60 -40 = +20

20 = 20

Questions

Prepare the Accounting Equation and Balance Sheet on the following basis:

- (i) Gurman started business with cash ₹20,000
- (ii) He purchased furniture for ₹2,000
- (iii) He paid rent of ₹200
- (iv) He purchased goods on credit ₹3000
- (v) He sold goods (cost price ₹2,000) in cash for ₹5000

3000 Profit → + Capital
2000 - Stock → 5000 + Cash

Sol.

S. NO.	TRANSACTION	ASSETS = LIABILITY + CAPITAL	
		Cash + Furniture + Stock	Creditor
1.	Started business	20000	20000
2.	Furniture Purchased	-2000 + 2000	
3.	Total	18000 + 2000	0 + 20000
	Rent Paid	-200	-200
	Total	17800 + 2000	0 + 19800
4.	Goods Purchased on credit	+3000	+3000
	Total	17800 + 2000 + 3000	+3000 + 19800
5.	Cash sales	+5000 - 2000	+3000
	Total	22800 + 2000 + 1000	+3000 + 22800

Questions Develop an Accounting Equation from the following transactions:

- (i) Mahon commenced business with cash ₹50,000
- (ii) Purchased goods for cash ₹30,000
- (iii) Purchased goods on credit ₹20,000
- (iv) Sold goods (costing ₹10,000) for ₹12,000

Sol.

S. NO.	TRANSACTION	ASSETS		=	LIABILITY	+	CAPITAL
		Cash + Stock			Creditor		
1.	Mohan started business	50000			+ 50000		
2.	Purchases	-30000 + 30000					
	Total	20000 + 30000			+ 50000		
3.	Credit Purchases	+ 20000			+ 20000		
	Total	20000 + 50000			+ 20000 + 50000		
4.	Sales	+ 12000 - 10000			+ 2000		
	Total	32000 + 40000			+ 20000 + 52000		

- (v) Bought furniture on credit ₹2,000
(vi) Paid cash to a creditor ₹15,000
(vii) Salary paid ₹1,000

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL
		Cast + Stock + Furniture		Creditor + Fur(Creditor)		
5.	Total Furniture on Credit	32000 + 40000 + 2000		20000 + 2000		+ 52000
6.	Total Paid to Creditor	32000 + 40000 + 2000 - 15000		20000 + 2000 - 15000		+ 52000
7.	Total Salary	17000 + 40000 + 2000 - 1000		+ 5000 + 2000		+ 52000 - 1000
	Total	16000 + 40000 + 2000		+ 5000 + 2000		+ 51000

Assets
58000

Liab + Cap
= 7000 + 51000

Questions Show the effect of the following transactions on Assets, Liabilities and Capital through accounting equation:

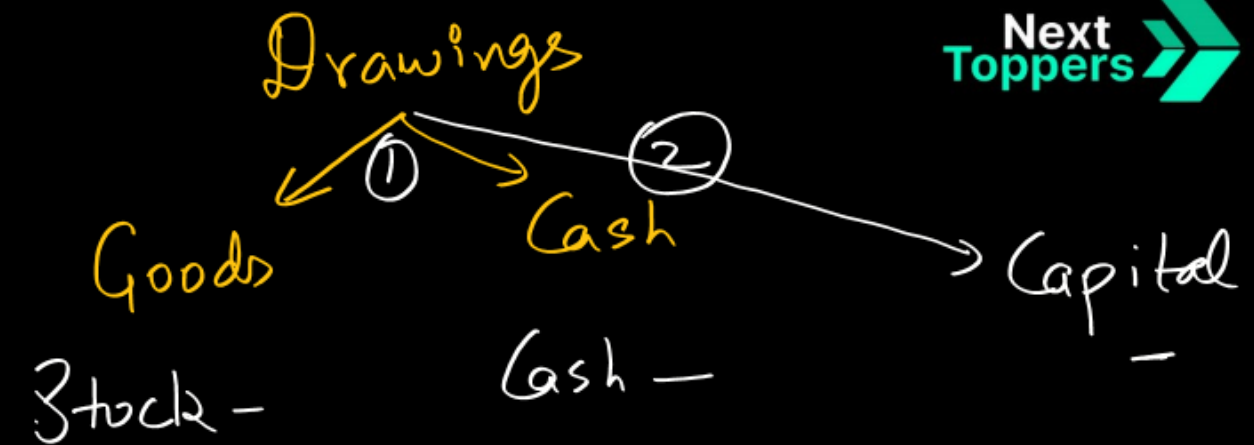
- (a) Started business with cash ₹1,20,000
 (b) Rent received ₹10,000
 (c) Invested in shares ₹50,000
 (d) Received dividend ₹5,000
 (e) Purchased goods on credit from Ragani ₹35,000
- Investment → Asset
 Cash -
 Income → Cap +
 Cash +

Sol.

Jab naam likha ho
wo credit trns hote h

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL
		Cash + Investment + Stock		+ Creditors		
1.	Started Business	+120000				+120000
2.	Rent received	+10000				+10000
	Total	+130000				+130000
3.	Investment	-50000 + 50000				
	Total	80000 + 50000				+130000
4.	Dividen recd.	+5000				+5000
	Total	85000 + 50000				+135000
5.	Credit Purchase	+35000		+35000		

- (f) Paid cash for household expenses ₹7,000
 (g) Sold goods for cash (costing ₹10,000) ₹14,000
 (h) Cash paid to Ragani in Full settlement ₹30,000
 (i) Deposited into bank ₹20,000

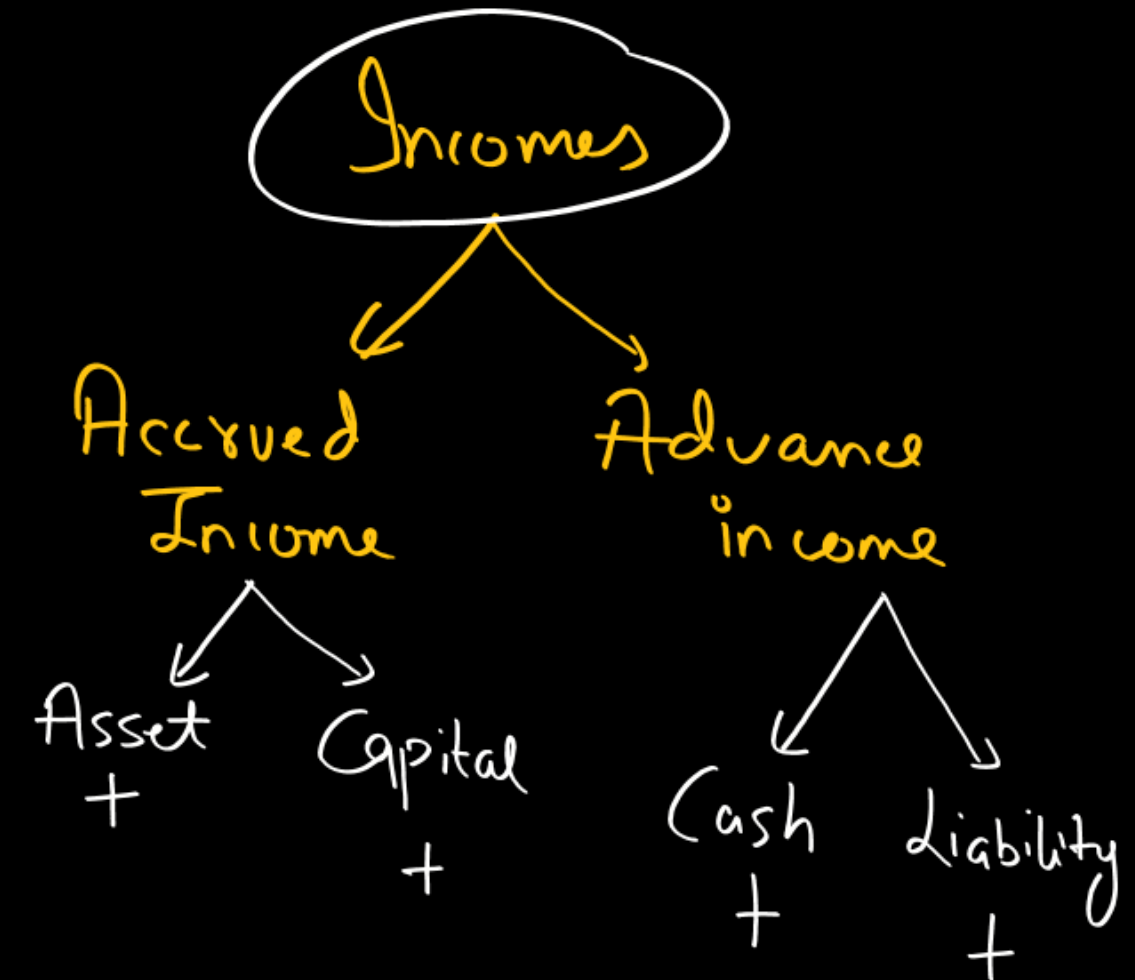
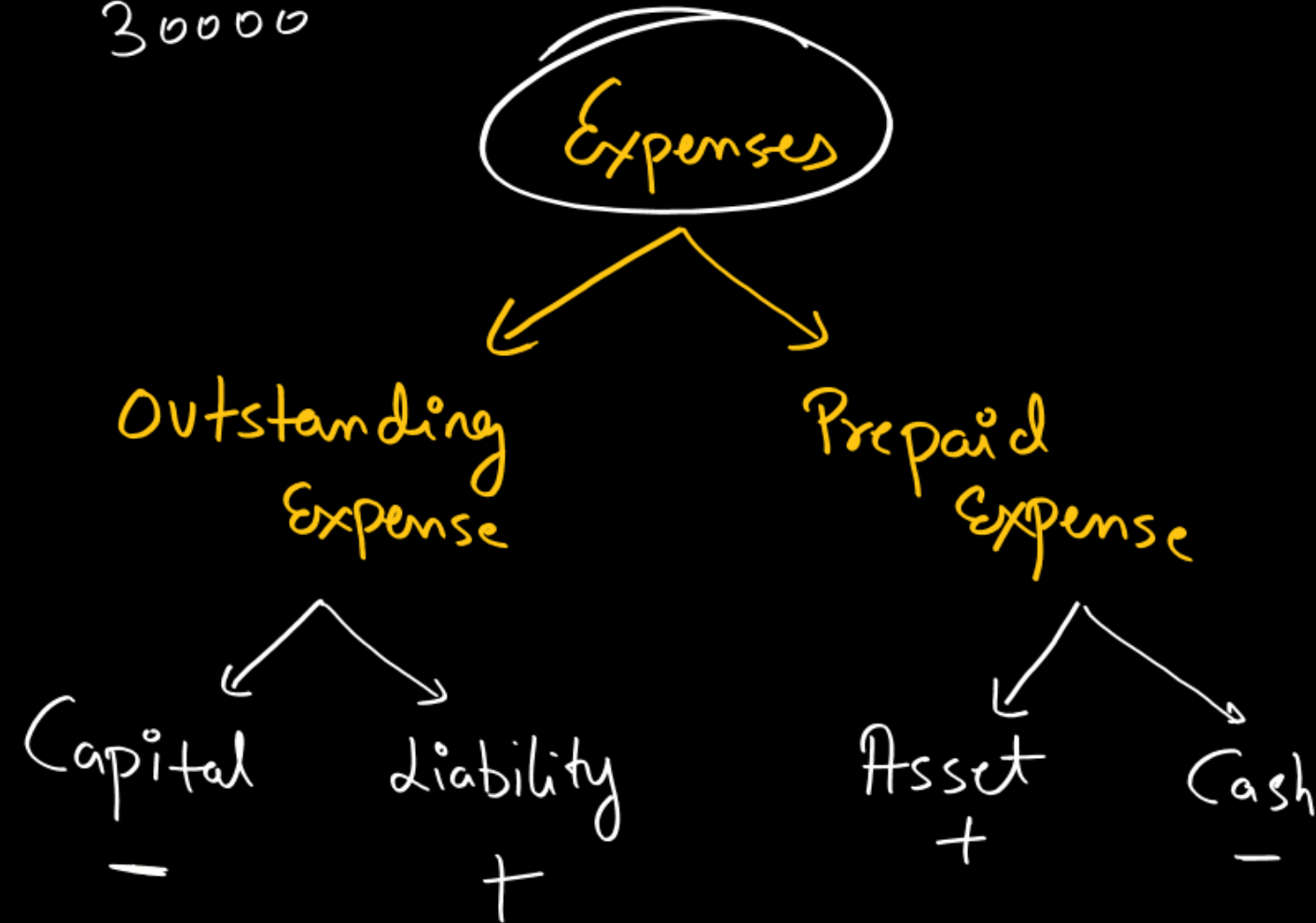


S. NO.	TRANSACTION	ASSETS = LIABILITY + CAPITAL	
		Cash + Investment + Stock + Bank	Creditor
1	TOTAL	85000 + 50000 + 35000	35000 + 135000
6	Drawings	- 7000	- 7000
7	Total Sales	78000 + 50000 + 35000 14000 - 10000	35000 + 128000 4000
8	Total Paid to Creditor	92000 + 50000 + 25000 - 30000	35000 + 132000 - 35000 + 5000

Concept

₹
Paid in Full settlement

30000



Questions Prepare the Accounting Equation on the basis of the following:

1.	Harish commenced business with cash	₹1,50,000
2.	Furniture purchased for cash.	₹20,000
3.	Purchased goods from Mahesh on credit.	₹25,000
4.	Sold Goods (Costing ₹10,000) to Mohan for cash.	₹14,000

H.W.

Sol.

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL

5.	Additional capital introduced.	₹20,000
6.	Commission received in advance.	₹2,000
7.	Paid to creditor (Mahesh) in full settlement.	₹22,500
8.	Sold goods (Costing ₹15,000 for ₹18,000 out of which ₹5,000 received in cash.	
9.	Depreciation on furniture provided @10%.	

g.w

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL

Questions

Transactions of M/s Vipin Traders are given below: Show the effects on Assets, Liabilities and Capital with the help of accounting equation.

- | | |
|--|-----------|
| (a) Business started with cash | ₹1,25,000 |
| (b) Purchased goods for cash | ₹50,000 |
| (c) Purchased furniture from R.K. Furniture on Credit | ₹10,000 |
| (d) Sold goods to Parul Traders (Costing ₹7,000 vide bill no. 5,674) | ₹9,000 |

H.W

Sol.

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL

(e) Paid cartage	₹100
(f) Cash Paid to R.K. Furniture in full settlement	₹9,700
(g) Cash sales (costing ₹10,000)	₹12,000
(h) Rent received	₹4,000
(i) Cash withdrew for personal use	₹3,000

11.03

S. NO.	TRANSACTION	ASSETS	=	LIABILITY	+	CAPITAL

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Thank You



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