

Section 1: The fundamentals of accounting

2 The accounting equation

Activity 1

- 1 Owner's equity, in accounting, is usually what the business owes the owner. It can refer to funds raised by the owner to fund a business idea.
- 2 A liability is a debt that the business owes for goods or services received or when a loan is taken out.
- 3 Since owner's equity is what the business owes the owner, it is a liability as it represents a debt the business owes the owner.
- 4
 - a 2000
 - b 3800
 - c 2170
 - d 4220
 - e 6000

Activity 2

	Transactions	Assets	Liabilities	Owner's equity
a	The owner introduced \$45 000 cash into the business bank account	Increases		Increases
b	The business bought goods on credit from Sully & Sons	Increases	Increases	
c	Benjamin, a friend of the owner, lent the business \$3 000 in cash.	Increases	Increases	
d	The business sold goods for cash \$500	Decreases (inventory) Increases (cash)		
e	The business paid Benjamin \$3 000 by cheque	Decreases	Decreases	
f	The business returned \$50 of goods to Sully & Sons	Decreases	Decreases	
g	The owner withdrew \$400 from the business bank account for personal use.	Decreases		Decreases

h	The business bought a motor vehicle \$4 500, paying by cheque.	Increases (motor vehicle) Decreases (bank)		
i.	The business paid \$58 cash to a trade payable	Decreases	Decreases	

Activity 3

a Property	Asset
b Machinery	Asset
c Trade receivables	Asset
d Trade payables	Liability
e Overdraft	Liability
f Cash in hand	Asset
g Loan from M. Apple, a friend	Liability
h Inventory	Asset
i Motor vehicle	Asset
j Equipment	Asset

Practice questions

1 C [1]

2 A [1]

3 A [1]

4 A [1]

5 D [1]

6 a $(15\,000 + 100\,000) [1] + (10\,000 + 5\,000 + 29\,000) [1] - 2\,400 [1] = \$156\,600$ [max 3]

6 b

Jordon's business			
Statement of financial position as at 31 August 2025			
	\$	\$	
Assets			
Non-current assets			
Machinery		15 000	
Property		<u>100 000</u>	
		115 000	[1]
Current assets			
Inventory	10 000		
Trade receivable	5 000		
Cash at bank	<u>29 000</u>	<u>44 000</u>	[1]
Total assets		<u>159 000</u>	[1]
Owner's equity and liabilities			
Owner's equity		156 600	[1] OF
Liabilities			
Trade payable		<u>2 400</u>	[1]
Total owner's equity and liabilities		<u>159 000</u>	

Chapter review questions

1

- a Drawings is the term given to the value of assets in the form of cash or inventory withdrawn from a business by the owners for personal use. They reduce owner's equity.
- b Assets are resources of value that a business owns. They also represent money owed to the business.
- c Trade payables are people or businesses to whom the business owes money for goods or services received.
- d Current liabilities are debts that must be paid within a year.
- e Non-current assets are those assets that the business has bought with the intention of keeping them and using them for a period of more than a year.

2

- a A property is an example of a non-current asset.
- b The statement of financial position reflects the accounting equation.
- c When the owner withdraws cash from the business bank account for personal use, it is called drawings.
- d Liabilities of a business may increase due to the purchase of assets.

e Trade payables is an example of a **current liability**.

3 A liability is what the business owes and owner's equity is what the business owes the owner. Hence owner's equity is a type of liability.

4

Statement	True/False
If an asset increases, a liability and/or owner's equity will also increase	True
If an asset increases, another asset involved in the transaction will also increase	False
If an asset decreases, a liability and/or owner's equity will also decrease	True
If a liability or owner's equity increases, another liability involved in the transaction will increase	False
If a liability or owner's equity decreases, another liability involved in the transaction will increase	True

5

Assets	✓	Liabilities	✓
Furniture and fixtures	✓	Trade payables	✓
Machinery	✓	Equipment	
Bank loan		Inventory	
Overdraft		Trade receivables	
Property	✓	Cash in hand	

6 \$42 000

After all the transactions:

Bank \$39 700

Owner's equity \$42 000

Motor vehicle \$6 000

Other payable \$6 000

Cash \$1 500

Loan \$1 500

Inventory \$2 300