Glossary

2 The accounting equation

|  |  |
| --- | --- |
| **Term** | **Definition** |
| **Accounting equation** | A formula used to illustrate the relationship between the assets, liabilities and owner’s equity of a business. It shows that all the assets of a business are provided or funded either by the owner, the trade payables or other lenders of the business. |
| **Assets** | Resources of monetary value that a business owns or is owed to the business. Examples of assets are cash, motor vehicles, trade receivables and property. |
| **Current assets** | Assets that can be sold, used up or consumed through the normal workings of a business within a year from the date of the statement of financial position. |
| **Current liabilities** | Debts that must be paid within a year from the date of the statement of financial position, for example, trade payables and overdrafts. |
| **Drawings** | Value of assets in cash or inventory withdrawn from a business by the owners for personal use. Drawings reduce the owner’s equity. |
| **Inventory** | Goods that a business purchases for resale or for use in the production process. |
| **Liabilities** | Amounts that the business owes people for resources supplied to the business. Examples of liabilities are trade payables, overdrafts and loans. |
| **Liquid assets** | Assets that can be quickly converted to cash with no loss in value. |
| **Non-current assets** | Assets the business has bought to use for more than a year, such as machinery, motor vehicles and property. |
| **Non-current liabilities** | Debts that do not need to be paid within a year from the date of the statement of financial position, such as a long-term bank loan or lease. |
| **Owner’s equity** | What the business owes the owner. It can refer to funds the owner raises to fund a business idea. |

|  |  |
| --- | --- |
| **Statement of financial position** | A statement listing the assets, liabilities and owner’s equity at a specific time. It is one of the financial statements prepared to show what the business owns (assets) and what it owes (equity and liabilities) at the end of the financial year. |
| **Trade receivables** | Businesses or individuals who have received goods or services from the business on credit, with the understanding that payment is due within the credit period. |