

# ACCOUNTING EQUATIONS

According to Fundamental Accounting Equation,

Total Resources = Total Sources

Total Resources = Total Assets

Total Sources = Owner's Fund + Borrower's Fund

**Owner's Fund means Capital invested.**

Borrowers fund means External liabilities

Total Assets = Owner's Fund + Borrower's Fund

**Assets = Capital + liabilities**

In other words , Assets = capital + Liabilities

Capital = Assets -liabilities

Capital in the beginning(1<sup>st</sup> April, 2019) is known as

Opening capital

Capital at the end(31<sup>st</sup> March 2020) is known as closing capital.

$$\text{Profit} = \text{closing capital} - \text{opening capital}$$

IF closing capital is not given in the question,

$$\text{Closing capital} = \text{Closing assets} - \text{Closing liabilities}$$

Similarly

$$\text{Opening capital} = \text{opening assets} - \text{opening liabilities}$$

$$\text{Profit} = \text{Closing capital} - \text{Opening capital} - \text{Additional capital} + \text{Drawings}$$

# Numerical Questions

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

Q1. From the following information ,  
Calculate the total assets of the business  
Capital Rs 4,00,000 ; **creditors Rs3,00,000;**  
Revenue 7,50,000; Expenses Rs 2,00,000  
Value of unsold stock Rs2,00,000

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

PROFIT = REVENUE – EXPENSES

= 7,50,000 - 2,00,000

= 5,50,000

Assets = Capital + liabilities

= (4,00,000 + 5,50,000) + 3,00,000

= 9,50,000 + 3,00,000

= 12,50,000 (including unsold stock)

Q2.A commenced his business on 1<sup>st</sup> April , 2017 with a capital of Rs30,000.On 31<sup>st</sup> march 2018 his assets were Rs 50,000 and liabilities were Rs 10,000. Find out his closing capital and profit earned during the year.

Q3. Mohan started a business on 1<sup>st</sup> April 2017 with a capital of Rs25,000 and a loan of Rs12,500 borrowed from Shyam. During 2017-18 he had introduced additional capital of Rs 12,500 and had withdrawn Rs7,500 for personal use. On 31<sup>st</sup> March 2018, his assets were Rs 75,000.Find out his capital as on 31<sup>st</sup> March , 2018 and profit or loss incurred during the year.

Q2.A commenced his business on 1<sup>st</sup> April , 2017 with a capital of Rs30,000.On 31<sup>st</sup> march 2018 his assets were Rs 50,000 and liabilities were Rs 10,000. Find out his closing capital and profit earned during the year.

Opening capital = 30,000

closing assets = 50,000, closing liabilities = 10,000

closing capital = closing assets – closing liabilities  
= 50,000- 10,000 = 40,000.

Profit = closing capital – opening capital  
= 40,000- 30,000 = 10,000

Q4. On 31st March ,2018 , total assets and external liabilities were Rs 2,00,000 and Rs6,000 respectively. During the year the proprietor had introduced capital of Rs20,000 and withdrawn Rs12,000 for personal use. He made a profit Rs20,000 during the year . Calculate the capital as on 1<sup>st</sup> April , 2017.

## **Q1. Show an accounting equation on the basis of the following transactions:**

- (1) started business with cash Rs 80,000.
- (2) Purchase goods for cash Rs 10,000.
- (3) Purchase good from Rajat Rs20,000.
- (4) Goods costing Rs5,000 sold for 6,000 for cash.
- (5) Salary paid Rs3,000.
- (6) Interest Received Rs1,000.
- (7) Goods costing 10,000 sold on credit for Rs12,000.
- (8) Furniture purchased for Rs 10,000.

## **Q2. Show an accounting equation on the basis of the following transactions:**

- (1) started business with cash Rs 50,000 , Machinery 10,000 and Goods Rs 20,000
- (2) Cash deposited into Bank Rs10,000..
- (3) Purchase good from Rahul Rs30,000.
- (4) Goods costing Rs15,000 sold for 18,000 for cash.
- (5) Rent paid Rs3,000.
- (6) Salary outstanding Rs 5,000.
- (7) Depreciation charged on machinery 1,000.