

# **ACCOUNTING EQUATION**

Accounting equation- is based on the dual aspect concept of accounting meaning (double entry principle), every transaction has two aspects- debit and credit.


The 3 elements of the accounting equation are assets, liabilities, and owners' equity.

Assets-are the Items of value owned by the company.

Liabilities-are the current and future debt of a company.

Owner's equity-are the owner investment in the company.

The formula for this equation is:


$$A = OE + L$$

## **RULES OF ACCOUNTING**

### **Debit**

Assets increases

Expenses increases

Owner's equity decreases

Liabilities decreases

Income decreases

### **Credit**

Liabilities increases

Owner's equity increases

Income increases

Assets decreases

Expenses decreases

## **HOW TO RECORD TRANSACTION ON ACCOUNTING EQUATION**

1. Read the transaction/adjustment.
2. Identify the two accounts affected.

i.e. Double entry principle -is a system to record a transaction in a minimum accounts and is based on a dual aspects (debit and credit)

3. Decide what type of accounts these are (classify).

Assets

Owner's equity

Liabilities

Income

Expense

4. Decide which account is debited and which is credited.

► **3 IMPORTANT QUESTIONS THAT WILL HELP YOU:**

1. If an Asset: Is it Increasing or Decreasing **my Possessions**?
2. If a Liability: Is it Increasing or Decreasing **my Debt**?
3. If an Owner's Equity: It is Increasing or Decreasing the **Interest of the Owner**?