## The Accounting Equation

The resources owned by a business are its ASSETS. Examples of assets include cash, land, buildings, and equipment. The rights or claims to the properties are normally divided into two types: (1) the rights of creditors and (2) the rights of owners. The rights of creditors represent debts of the business and are called LIABILITIES. The rights of the owners are called OWNER'S EQUITY. The relationship between these terms can be stated in the form of an equation, as follows:

## ASSETS = LIABILITIES + OWNER'S EQUITY

This equation is known as the accounting equation. It is usual to place liabilities before owner's equity in the accounting equation, because creditors have first rights to the assets.

To illustrate, if the assets owned by a business amount to $\$ 100,000$ and the liabilities amount to $\$ 30,000$, the owner's equity is equal to $\$ 70,000$, as shown below.

| Assets | $=$ | Liabilities | + | Owner's Equity |
| ---: | ---: | ---: | ---: | ---: |
| $\$ 100,000$ | $=$ | $\$ 30,000$ | + | $\$ 70,000$ |

The accounting equation provides a basic framework for recording the effects of transactions on companies of all sizes and types. This basic framework serves as the foundation for all accounting systems from the smallest local business to the largest businesses in the country. Some examples takes from recent financial reports of well-known companies are shown below.

| Company | Assets | $=$ | Liabilities + | Owner's Equity |  |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Dell Computer | 26,500 | $=$ | $22,229+$ | 4,271 |  |
| McDonald's | 28,462 | $=$ | $15,079+$ | 13,383 | all amounts are shown |
| Microsoft | 77,888 | $=$ | $38,330+$ | 39,558 | in millions of dollars |
| Starbucks | 5,673 | $=$ | $3,182+$ | +491 |  |
| Wal-Mart | 163,429 | $=$ | 98,144 | + | 62,285 |

## Problems

1. The total assets and liabilities of Coca-Cola and PepsiCo are shown below. Determine the owner's equity of each company.

|  | Coca-Cola <br> (in millions) | PepsiCo <br> (in millions) |
| :--- | :---: | :---: |
| Assets | $\$ 40,519$ | $\$ 35,994$ |
| Liabilities | $\$ 20,047$ | $\$ 23,888$ |

2. The total assets and liabilities of GameStop and Best Buy are shown below. Determine the owner's equity of each company.

|  | GameStop <br> (in millions) | Best Buy <br> (in millions) |
| :--- | :---: | :---: |
| Assets | $\$ 4,513$ | $\$ 15,826$ |
| Liabilities | $\$ 2,213$ | $\$ 11,183$ |

3. Determine the missing amount for each of the following:

|  | Assets | = | Liabilities | + | Owner's Equity |
| :---: | :---: | :---: | :---: | :---: | :---: |
| a. |  | = | \$25,000 | + | \$71,500 |
| b. | \$82,750 | = |  | + | \$15,000 |
| c. | \$37,000 | = | \$17,500 | + |  |

## Bob's Accounting

Use the business transactions shown in class to complete the following chart. Use your "Sorting Out Business Transactions" worksheet for help.


Don't forget to add the columns, and calculate the total assets, liabilities, owner's equity. Make sure it balances!

