

Unit 3

The Accounting Equation

Example 1

Owners have invested £100,000 in a business to produce computers. Equipment was bought for cash costing £50,000 and they then purchased, on credit, materials costing £30,000. The material is still held as stock.

CAPITAL + LIABILITIES = ASSETS

Example 2

As above except that the owners have borrowed £20,000 from the bank and used half to buy (for cash) additional stocks. The first lot of material costing £30,000 which had not been paid for is now paid.

CAPITAL + LIABILITIES = ASSETS

Unit 3 - Answers

Example 1

Owners have invested £100,000 in a business to produce computers.

Equipment was bought for cash costing £50,000 and they then purchased, on credit, materials costing £30,000. The material is still held as stock.

Capital	+	Liabilities	=	Assets
£100,000		£30,000		£130,000
Investment		Material		Equipment £50,000
£100,000		£30,000		Stocks £30,000
				Cash £50,000

Cash balance:

	Capital Invested £100,000
-	Equipment £50,000
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	£50,000

Example 2

As above except that the owners have borrowed £20,000 from the bank and used half to buy (for cash) additional stocks. The first lot of material costing £30,000 which had not been paid for is now paid.

Capital	+	Liabilities	=	Assets
£100,000		£20,000		£120,000
Investment		Borrowings		Equipment £50,000
£100,000		£20,000		Stocks £40,000
				Cash £30,000

Cash balance:

	Capital Invested £100,000
-	Equipment £50,000
-	Material paid for £30,000
-	Stocks £10,000
+	Borrowings £20,000
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	£30,000