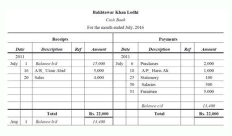
Accounting equation example balance sheet

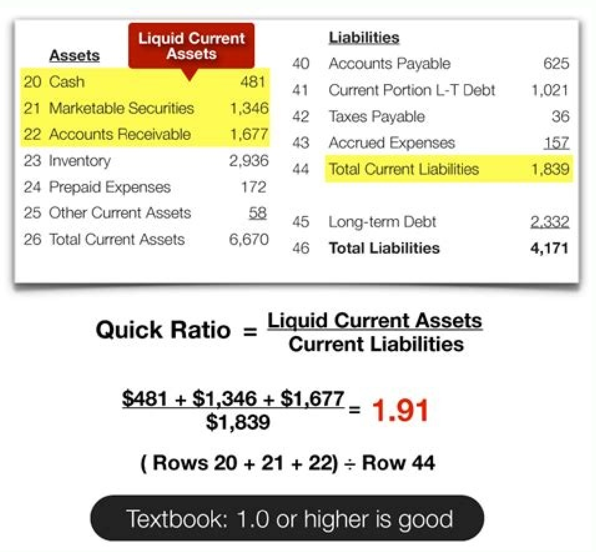


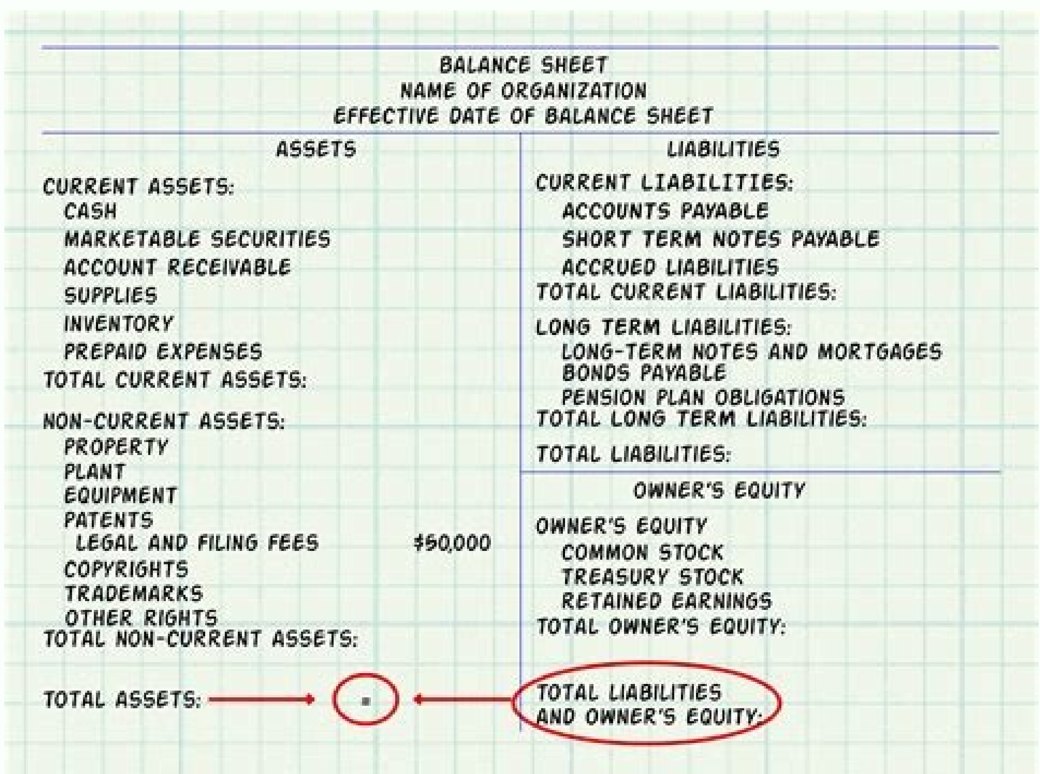
AR Khan Co (Pvt.) Ltd.

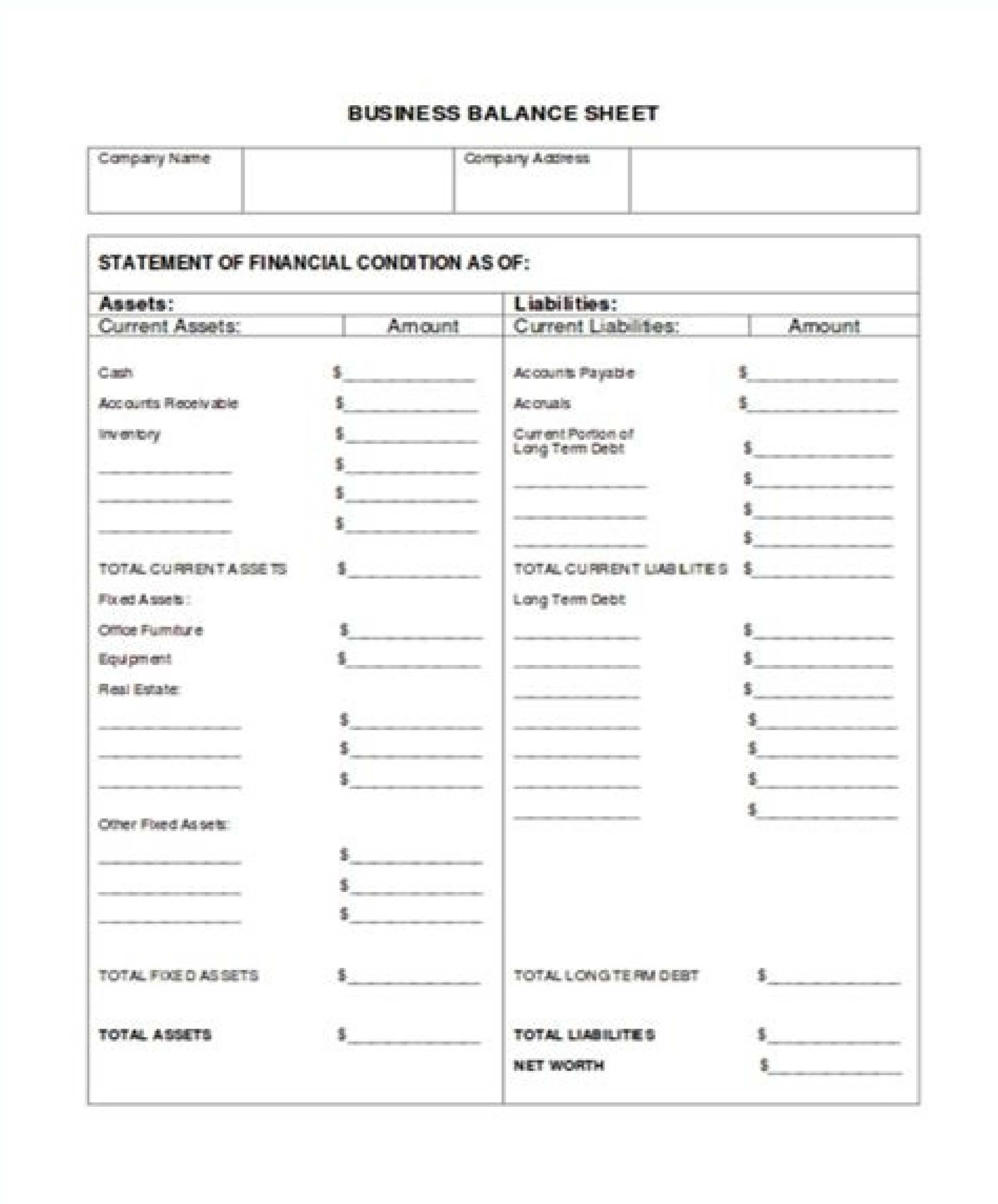
Adjusted Trial Balance

As on 31st December, 2015

S. No	Heads of Accounts	Ref	Amount (Rs.) Debit	Credit
1	Return outward			16,000
2	Furniture		34,200	
3	Salaries		13,500	
4	Account Payables			28,000
5	Bank		45,000	
6	Carriage Inward		6,000	
7	Rent Received			2,000
8	Discount Allowed		2,000	
9	Purchases		40,000	
10	Bill Payable			20,000
11	Account Receivables		15,000	
12	Carriage Outward		5,000	
13	Owner Equity			55,200
14	Machinery		18,000	
15	Return Inward		3,000	
16	Discount Received			4,000
17	Insurance Expenses		3,000	
18	Sales			140,000
19	Building		20,000	
20	Unearned Rent			1,000
21	Salaries Payable			1,500
22	Inventory		60,000	
23	Prepaid Insurance		3,000	
	Total		Rs. 267,700	Rs. 267,700







What is the standard accounting equation. Accounting equation of balance sheet.

The accounting equation is also called the basic accounting equation or the balance sheet equation. These basic concepts are essential to modern accounting methods. The accounting equation helps to assess whether the business transactions carried out by the company are being accurately reflected in its books and accounts. For a company keeping accurate accounts, every business transaction will be represented in at least two of its accounts. This straightforward number on a company balance sheet is considered to be the foundation of the double-entry accounting system. Inventory is also considered an asset. As an example, say the leading retailer XYZ Corporation reported the following on its balance sheet for its latest full fiscal year: Total assets: $170 billionTotal liabilities: $120 billionTotal shareholders' equity: $50 billion If we calculate the right-hand side of the accounting equation (equity + liabilities), we arrive at ($50 billion + $120 billion) = $170 billion, which matches the value of the assets reported by the company. The shareholders' equity number is a company's total assets minus its total liabilities. It can be defined as the total number of dollars that a company would have left if it liquidated all of its assets and paid off all of its liabilities. Liabilities are debts that a company owes and costs that it needs to pay in order to keep the company running. That is, each entry made on the debit side has a corresponding entry (or coverage) on the credit side. The financial position of any business, large or small, is based on two key components of the balance sheet: assets and liabilities. The accounting equation is a representation of how these three important components are associated with each other. The global adherence to the double-entry accounting system makes the account keeping and tallying processes more standardized and more fool-proof. This number is the sum of total earnings that were not paid to shareholders as dividends. The accounting equation is a concise expression of the complex, expanded, and multi-item display of a balance sheet. Essentially, the representation equates all uses of capital (assets) to all sources of capital, where debt capital leads to liabilities and equity capital leads to shareholders' equity. Assets = (Liabilities + Owner’s Equity) \text{Assets}=(\text{Liabilities}+\text{Owner's Equity}) Assets=(Liabilities+Owner’s Equity) The balance sheet holds the elements that contribute to the accounting equation: Locate the company's total assets on the balance sheet for the period.Total all liabilities, which should be a separate listing on the balance sheet.Locate total shareholder's equity and add the number to total liabilities.Total assets will equal the sum of liabilities and total equity. These may include loans, accounts payable, mortgages, deferred revenues, bond issues, warranties, and accrued expenses. Below are examples of items listed on the balance sheet. Because there are two or more accounts affected by every transaction carried out by a company, the accounting system is referred to as double-entry accounting. Owners’ equity, or shareholders' equity, is the third section of the balance sheet. If a business buys raw materials and pays in cash, it will result in an increase in the company's inventory (an asset) while reducing cash capital (another asset). They may include financial assets, such as investments in stocks and bonds. A company's liabilities include every debt it has incurred. Put another way, it is the amount that would remain if the company liquidated all of its assets and paid off all of its debts. 31, 2019: Total assets were $362,597Total liabilities were $163,659Total equity was $198,938 The accounting equation is calculated as follows: Accounting equation = $163,659 (total liabilities) + $198,938 (equity) equals $362,597, (which equals the total assets for the period) Image by Sabrina Jiang © Investopedia 2020 The accounting equation captures the relationship between the three components of a balance sheet: assets, liabilities, and equity. If it's financed through debt, it'll show as a liability, but if it's financed through issuing equity shares to investors, it'll show in shareholders' equity. The accounting equation ensures that all entries in the books and records are vetted, and a verifiable relationship exists between each liability (or expense) and its corresponding source; or between each item of income (or asset) and its source. The double-entry bookkeeping system, which has been adopted globally, is designed to accurately reflect a company's total assets. Both liabilities and shareholders' equity represent how the assets of a company are financed. Shareholders' equity is the total value of the company expressed in dollars. All else being equal, a company’s equity will increase when its assets increase, and vice-versa. The accounting equation states that a company's total assets are equal to the sum of its liabilities and its shareholders' equity. Although the balance sheet always balances out, the accounting equation can't tell investors how well a company is performing. The liabilities represent their obligations.Both liabilities and shareholders' equity represent how the assets of a company are financed.Financing through debt shows as a liability, while financing through issuing equity shares appears in shareholders' equity. The remainder is the shareholders' equity, which would be returned to them. The three elements of the accounting equation are assets, liabilities, and shareholders' equity. The formula is straightforward: A company's total assets are equal to its liabilities plus its shareholders' equity. The accounting equation ensures that the balance sheet remains balanced. Retained earnings are part of shareholders' equity. Costs include rent, taxes, utilities, salaries, wages, and dividends payable. The double-entry practice ensures that the accounting equation always remains balanced, meaning that the left side value of the equation will always match the right side value. They also may be intangible assets like patents, trademarks, and goodwill. Accounts receivables list the amounts of money owed to the company by its customers for the sale of its products. Assets include cash and cash equivalents or liquid assets, which may include Treasury bills and certificates of deposit. An asset is anything with economic value that a company controls that can be used to benefit the business now or in the future. This would then be distributed to the shareholders. Adding liabilities will decrease equity while reducing liabilities—such as by paying off debt—will increase equity. Investors must interpret the numbers and decide for themselves whether the company has too many or too few liabilities, not enough assets, or perhaps too many assets, or whether its financing is sufficient to ensure its long-term growth. The accounting equation is considered to be the foundation of the double-entry accounting system.The accounting equation shows on a company's balance that a company's total assets are equal to the sum of the company's liabilities and shareholders' equity.Assets represent the valuable resources controlled by the company. They include fixed assets such as buildings and plants. Assets represent the valuable resources controlled by the company, while liabilities represent its obligations. Below is a portion of Exxon Mobil Corporation's (XOM) balance sheet in millions as of Dec. Think of retained earnings as savings, since it represents the total profits that have been saved and put aside (or "retained") for future use. For instance, if a business takes a loan from a bank, the borrowed money will be reflected in its balance sheet as both an increase in the company's assets and an increase in its loan liability. Debt is a liability, whether it is a long-term loan or a bill that is due to be paid. In other words, the total amount of all assets will always equal the sum of liabilities and shareholders' equity.

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