**XXX Secondary School**

**20xx-20xx**

**Business, Accounting and Financial Studies**

**Basics of Accounting: Accounting Equation - Classwork Worksheet 1**

Name：\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class：\_\_\_\_\_ Class No：\_\_\_\_ Date：\_\_\_\_\_\_\_\_\_

**Please consider the following questions and write down how the business transactions affect the accounting equation.**

1. Which items (accounts) of the accounting equation are affected in each of the following business transactions?
2. What are the changes?
3. Would the accounting equation remain balanced?

|  |  |  |  |
| --- | --- | --- | --- |
| Transactions | Which items (accounts)\* of the accounting equation are affected? | Show the effect (Increase or Decrease). | Would the accounting equation remain balanced? |
| 1. The owner introduced $50,000 cash to the business. |  |  |  |
| 1. The firm bought a motor van (for operation) for $6,000 from ABC Company on credit. |  |  |  |
| 1. The firm bought a factory for production for $900,000 in cash. |  |  |  |
| 1. The firm borrowed $30,000 from a bank. |  |  |  |
| 1. The firm repaid $25,000 for the bank loan by cheque. |  |  |  |
| 1. The business sold old office furniture $3,500 on credit at cost. |  |  |  |

**Answers:**

|  |  |  |  |
| --- | --- | --- | --- |
| Transactions | Which items (accounts)\* of the accounting equation are affected? | Show the effect (Increase or Decrease). | Would the accounting equation remain balanced? |
| 1) The owner introduced $50,000 cash to the business. | Assets (Cash) | ↑ $50,000 | It would remain balanced. |
| Capital (Capital) | ↑ $50,000 |
| 2) The firm bought a motor van (for operation) for $6,000 from ABC Company on credit. | Assets (Motor van) | ↑ $6,000 | It would remain balanced. |
| Liabilities (Other payables) | ↑ $6,000 |
| 3) The firm bought a factory for production for $900,000 in cash. | Assets (Cash) | ↓ $900,000 | It would remain balanced. |
| Assets (Factory) | ↑ $900,000 |
| 4) The firm borrowed $30,000 from a bank. | Assets (Bank) | ↑ $30,000 | It would remain balanced. |
| Liabilities (Loan from bank) | ↑ $30,000 |
| 5) The firm repaid $25,000 for the bank loan by cheque. | Assets (Bank) | ↓ $25,000 | It would remain balanced. |
| Liabilities (Loan from bank) | ↓ $25,000 |
| 6) The business sold old office furniture $3,500 on credit at cost. | Assets (Other receivables) | ↑ $3,500 | It would remain balanced. |
| Assets (Office furniture) | ↓$3,500 |

\* Teachers can decide whether to mention ledger accounts according to students’ learning progress.

**Effects on the accounting equation of each transaction**

1. The owner introduced capital.

* Assets increased. Capital increased.
* Total amount increased.

The owner introduced $50,000 cash to the business.

(Cash is an Asset. Owners’ contribution is Capital.)

Effects： Assets↑ $50,000；Capital↑ $50,000

1. Bought an asset on credit

* Assets increased. Liabilities increased.
* Total amount increased.

The firm bought a motor van (for operation) for $6,000 from ABC Company on credit.

(Van is an Asset. Other payables - ABC Company is a Liability.)

Effects： Assets↑ $6,000；Liabilities↑ $6,000

1. Bought an asset in cash

* Assets increased. Assets decreased.
* Total amount remained unchanged.

The firm bought a factory for production for $900,000 in cash.

(Factory is an Asset. Cash is an Asset.)

Effects： Assets↑ $900,000；Assets↓ $900,000

1. Borrowed money from people other than the owner

* Assets increased. Liabilities increased.
* Total amount increased.

The firm borrowed $30,000 from a bank.

(Bank is an Asset. Loan from Bank is a Liability.)

Effects：Assets↑ $30,000；Liabilities↑ $30,000

1. Repaid Liabilities

* Assets decreased. Liabilities decreased.
* Total amount decreased.

The firm repaid $25,000 for the bank loan by cheque.

(Bank is an Asset. Loan from Bank is a Liability.)

Effects： Assets↓ $25,000；Liabilities↓ $25,000

1. Sold an asset on credit

* Assets increased. Assets decreased.
* Total amount remained unchanged.

The business sold old office furniture $3,500 on credit at cost.

(Other receivable is an Asset. Office furniture is an Asset)

Effects： Assets↑ $3,500；Assets↓ $3,500