

# OGUN DIGICLASS

**CLASS: SECONDARY SCHOOL**

**SUBJECT: FINANCIAL ACCOUNTING**

**TOPIC: ACCOUNTING EQUATION**



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# Learning Objectives

1

Define  
Accounting  
Equation

2

Explain the  
following

- Assets
- Liabilities
- Capital

3

Calculate  
Assets, Liability  
and capital from  
given questions

# ACCOUNTING EQUATION

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- Accounting equation is the fundamental framework upon which entire financial accounting process is based. It emphasizes that the resources owned by a business must be the same as the resources supplied by the outsiders to acquire those assets.
- $ASSETS = CAPITAL + LIABILITIES$

## Asset

Assets can be defined as the properties or resources of a business organization and are expected to be of future benefit. e.g. Furniture and fitting, motor van, equipment, stock, cash, land and building e.t.c.

## Capital

This is the total money provided by the owner to start a business, it is total amount invested in a business by its owner. It is termed net worth or owner's equity.

# They are two major types of Assets

**Current Assets:** These are assets that are usually held for a short period of time for the purpose of conversion into cash in the ordinary course of business. e.g. stock of goods, cash at bank, cash in hand, debtors e.t.c

**Fixed Assets :** These are assets of permanent nature that create revenue for the business. They are the assets that can last for a long period of time. e.g Land and building, furniture and fittings, motor vehicle e.t.c.



## LIABILITIES

This is an amount owned by the business to outsiders. It is an obligation to pay someone in either money or money's worth. e.g. creditors, bank overdraft, loan, accrued expenses.

Liability is divided into two

- Long term liabilities
- Current liabilities
- **Long term liabilities:** These are liabilities which are due for settlement after more than a year. E.g Debentures, Bank loan etc
- **Current liabilities:** These are liabilities which are due for settlement within a year. e.g Bank overdrafts, Accrued expenses, creditors

## **Solving Problems with Accounting Equation**

1. Mr. Adebowale bought a factory for N500,000. He paid N200,000 for machinery and vehicles. He spent N20,000 on his stock of materials and cash to run the business. Mr. Adebowale brought N600,000 of his personal savings to finance above activities. Calculate his liabilities.
2. Mr. Odeogbola has buildings worth N300,000. He has machinery and equipment worth N70,000. He owes his suppliers N20,000. He has a bank loan of N80,000 and cash of N10,000 in his bank. How much capital has he invested?