

### Illustration 1

- (a) If the liabilities of a business is ~ 75,000 and the capital is ~ 85,000. Find out the total assets.  
(b) A business has assets of ~ 54,321 and owner's equity is ~ 34,215. What is the amount of liability?  
(c) Cash ~ 10,000; Stock ~ 15,000; Building ~ 10,000; Machinery ~ 1,80,000; Debtors of ~ 45,000 and Creditors ~ 27,500. Ascertain the capital.

#### Solution

- (a) Total Assets -- Liabilities = Capital  
or, Total Asset = Capital + Liabilities  
• Total Assets = ~ (85,000 + 75,000) = ~ 1,60,000.  
(b) Assets – Liabilities = Capital (Owner's equity)  
or Assets – Capital = Liabilities  
Therefore, liabilities = ~ (54,321 - 34,215) = ~ 20,106.  
(c) Assets - Liabilities = Capital  
or Capital = (Cash + Stock + Building + Machinery + Debtors) - Creditors  
(~ 10,000 + ~ 15,000 + ~ 10,000 + ~ 1,80,000 + ~ 45,000) -- ~ 27,500  
= ~ 2,60,000 -- ~ 27,500 = ~ 2,32,500.

### Illustration 2

Calculate as directed using accounting equation :

- (a) If the total assets of a business are ~ 1,50,000 and capital is ~ 75,000, calculate creditors.  
(b) If the capital of a business is ~ 80,000 and the liabilities are ~ 60,000, calculate the total assets of the business.  
(c) Calculate total assets if (i) Capital is ~ 50,000; (ii) Creditors ~ 30,000; (iii) Revenue during the period ~ 52,000; and (iv) Expenses during the same period are ~ 38,000.

#### Solution

- (a) Total Assets -- Liabilities = Capital  
or Liabilities = Total Assets -- Capital  
or Creditors = Total Assets -- Capital  
= ~ 1,50,000 -- ~ 75,000  
= ~ 75,000.  
(b) Total Assets -- Liabilities = Capital  
or Total Assets = Capital + Liabilities  
= ~ 80,000 + ~ 60,000  
= ~ 1,40,000.  
(c) Total Assets -- Liabilities = Capital + Profit  
or Total Assets = Capital + Profit + Liabilities  
= ~ 50,000 + ~ (52,000 -- 38,000) + ~ 30,000 = ~ 50,000 + ~ 14,000 + ~ 30,000 = ~ 94,000.

### Illustration 3

From the following information calculate total assets of the business : Capital ~ 40,000; Creditors ~ 30,000; Revenue earned during the period ~ 75,000; Expenses incurred during the period ~ 20,000. Value of stocks unsold ~ 20,000.

#### Solution

- Total Assets -- Liabilities = Capital + Profit  
or Total Assets = Capital + Liabilities + Profit  
or Total Assets = Capital + Creditors + Profit  
= ~ 40,000 + ~ 30,000 + ~ 55,000 (~ 75,000 -- ~ 20,000)  
= ~ 1,25,000 (includes ~ 20,000 closing stock).

### Illustration 4

Prabhas Senapati has the following assets and liabilities as on 31st December, 2009. Ascertain his capital.  
Cash ~ 2,500; Bank ~ 4,750; Debtors ~ 1,800; Creditors ~ 2,200; Plant and Machinery ~ 8,000; Building ~ 20,000;  
Furniture ~ 2,400; Bills Receivable ~ 5,650; Bills Payable ~ 2,350.

#### Solution

- Assets -- Liabilities = Capital  
or Capital = Assets -- Liabilities  
or Capital = (Cash + Bank + Debtors + Plant and Machinery + Building + Furniture + Bills Receivable)  
-- (Creditors + Bills Payable)  
= ~ (2,500 + 4,750 + 1,800 + 8,000 + 20,000 + 2,400 + 5,650) -- ~ (2,200 + 2,350)  
= ~ (45,100 -- 4,550) = ~ 40,550.

### Illustration 5

Show the accounting equations on the basis of the following transactions.

- (i) Raghunath commenced business with cash ~ 80,000.
- (ii) Purchased goods on credit ~ 20,000.
- (iii) Withdrew cash for private use ~ 2,000.
- (iv) Sold goods on credit (cost-price ~ 15,000) ~ 20,000.
- (v) Purchased furniture ~ 1,500.

#### Solution

Accounting Equation : Total Assets -- Liabilities = Capital

(i) Raghunath commenced business with cash ~ 80,000

Here business is getting ~ 80,000 in the form of cash and owes Raghunath ~ 80,000. Therefore, in the form of accounting equation it can be shown

as follows :

Assets -- Liabilities = Capital

Cash 80,000 -- 0 = 80,000

(ii) Purchased goods on credit ~ 20,000

Here stock of the business will be increased by ~ 20,000 and liabilities in the form of creditor will be increased by the same amount. Therefore, the new equation will be :

Assets -- Liabilities = Capital

Cash 80,000 -- 0 = 80,000

Stock 20,000 -- Creditors 20,000 = 0

1,00,000 -- 20,000 = 80,000

(iii) Withdrew cash for private use ~ 2,000

Here cash will be reduced by ~ 2,000 and capital will also be reduced by ~ 2,000. Therefore, the new equation will be :

Assets -- Liabilities = Capital

Cash 78,000 -- 0 = 78,000

Stock 20,000 -- Creditors 20,000 = 0

98,000 -- 20,000 = 78,000

(iv) Sold goods on credit ~ 20,000 (cost price ~ 15,000)

Here stock will be reduced by ~ 15,000 and asset in the form of debtors will be increased by ~ 20,000. Capital will be increased by ~ 5,000 profit (~

20,000 -- ~ 15,000). The new equation will be :

Assets -- Liabilities = Capital

Cash 78,000 0 = \*83,000

Stock 5,000 Creditors 20,000

Debtors 20,000

1,03,000 -- 20,000 = 83,000

\* It includes profit of ~ 5,000 (~ 20,000 -- ~ 15,000).

(v) Purchased furniture ~ 1,500

Here cash will be reduced by ~ 1,500 and furniture will appear in the equation as an asset. The new equation will be :

Assets -- Liabilities = Capital

Cash 76,500 0 = 83,000

Stock 5,000 Creditors 20,000

Debtors 20,000

Furniture 1,500

1,03,000 -- 20,000 = 83,000