

## The Accounting Equation

Assets	=	Liabilities	+	Equity
Are things that we <b>OWN</b>		Are things that we <b>OWE</b>		Is our <b>NET WORTH</b> . This means if, for example, we sold all our assets and used the cash to pay all of our debts (liabilities), what is left over is what our company is worth. Essentially Net worth is calculated by subtracting the company's total assets from its' total liabilities. This tells us what the company is worth.
The Equity account is composed of <b>4</b> accounts so when we expand the accounting equation it will now look like this:				
Assets	=	Liabilities	+	Capital + Revenue - Expenses - Withdrawals
				<p><b>Capital Account:</b> this account is used to record investments made by the owner. This is what the owner <b>gives</b> to their company, it can be in the form of cash, buildings, land, equipment, vehicles - increases the company's net worth.</p> <p><b>Revenue Account:</b> is used to record <b>earnings</b> made by the company - increases the company's net worth.</p> <p><b>Expense Account:</b> used to record costs for services <b>used</b> by the company while doing business – decreases the company's net worth.</p> <p><b>Withdrawals Account:</b> used when the owner of a company <b>takes</b> money out of the business for personal use – decreases the company's net worth.</p>

### Examples of Common Accounts

Assets	Liabilities	Capital	Revenue	Expenses	Withdrawals
Cash Accounts receivable Supplies Equipment Furniture Land Building Pre-paid insurance Pre-paid rent	Accounts payable Notes payable Wages payable Interest payable Unearned revenue	Investments made by owner <b>Examples:</b> Cash Land Vehicle Building Equipment Computer Furniture Office Equipment	Rent revenue Commission revenue Service revenue Fees earned Interest earned Service fees Sales	Wage expense Salaries expense Rent expense Telephone expense Internet expense Interest expense Hydro expense	Withdrawals or drawings made by owner for personal use

For practice with the accounting equation, visit SALS ONLINE – Business/Accounting in DC Connect.

For help with this or any accounting concept, email [sals@durhamcollege.ca](mailto:sals@durhamcollege.ca) to request an appointment with the accounting specialist.