

Accounting Equation Cheat sheet

The **Accounting Equation** is the foundation of double-entry bookkeeping and financial reporting:

$$\{Assets\} = \{Liabilities\} + \{Equity\}$$

Core Components

Assets

Resources owned by the business that provide future economic benefits.

- **Examples:** Cash, Accounts Receivable, Inventory, Equipment, Buildings.

Liabilities

Obligations the business owes to external parties.

- **Examples:** Accounts Payable, Loans, Accrued Expenses.

Equity

Owner's residual interest in the business after liabilities.

- **Examples:** Capital, Retained Earnings, Shareholder Equity.

Expanded Accounting Equation

$$\{Assets\} = \{Liabilities\} + \{Owner's Capital\} + \{Revenues\} - \{Expenses\} - \{Drawings\}$$

This version shows how income and withdrawals affect equity.

Key Relationships

- **Increase in Assets** → Must be funded by **Liabilities** or **Equity**.
- **Decrease in Liabilities** → Usually reduces **Assets** or increases **Equity**.
- **Profit** increases **Equity**; **Loss** decreases **Equity**.

Common Transactions & Impact

Transaction	Effect on Equation
Owner invests cash	↑ Assets, ↑ Equity
Purchase equipment with cash	↑ Equipment, ↓ Cash (Assets unchanged)
Borrow from bank	↑ Assets (Cash), ↑ Liabilities
Pay supplier	↓ Assets (Cash), ↓ Liabilities
Earn revenue	↑ Assets (Cash/Receivables), ↑ Equity
Pay expenses	↓ Assets, ↓ Equity

Quick Tips

- The equation **must always be balanced** after every transaction.
- Use it to check the accuracy of journal entries and trial balance.
- Helps visualize how transactions affect financial position.