

The Accounting Equation

The concepts of Assets and Liabilities

Assets and Liabilities.

- A fundamental principle that underpins bookkeeping and accounting is the Accounting Equation.
- It is simply expressed as:
- $\text{Assets less Liabilities} = \text{Capital or Ownership Interest}$.
- Now we will look at some definitions linked to this principle.

Definitions.

- Asset – An item owned by a business and available for use within the business.
- Assets may be classified as being either Fixed or Current.
- Fixed Asset – An item that will be used in the longer-term in the business and not sold as part of the normal trading activity.
- Eg: Buildings, Equipment and Motor Vehicles.

Definitions

- Current Asset – An asset held over the short-term and to be used by the business in the foreseeable future.
- Eg: Stock
- Other examples would include: Cash at Bank and Debtors.
- Debtor – An individual or business that owes a business money for goods or services supplied.

Definitions.

- Liability – An amount owed by a business, ie:
- An obligation to be settled at some future date.
- Eg: Creditors, Loans or Bank Overdraft.
- Creditor – An individual or business to whom the business owes money for goods or services supplied.
- Liabilities are classed as being either Current or Long-term.

Definitions

- Current Liabilities – Are those to be settled in the short-term usually within twelve months.
- Eg: Creditors.
- Long term liabilities – Are those to be settled over a longer period of time.
- Eg: Bank Loan.
- Capital – The amount the proprietor has invested in a business. It is owed back to the owner by the business and thus a liability.