

Assessment Task

The accounting equation (Individual activity) (LO3 AS1)

Read the information below on assets, liabilities and owner's equity and do the exercise that follows.

In a business, there are two types of assets. Fixed assets are assets that have a long lifespan, such as buildings, plant and equipment, and vehicles. Current assets are assets that have a short lifespan. A short lifespan means the assets can be converted to cash in one year's time. Examples are money owed to the business by debtors, shares that can be sold and office equipment.

There are also two kinds of liabilities. Long-term liabilities are debts that will take longer than a year to pay off, such as a mortgage bond on a building or financing of vehicles. Short-term liabilities are those that can be paid of within one year, such as consumables bought on credit from a supplier.

Owner's equity is the owner's rights to the assets of a business. It includes the capital the owner contributed to the business and any drawings that he or she takes from the business for his or her own use.

The relationship between assets, liabilities and owner's equity is called the accounting equation. The accounting equation looks like this:

$$\text{assets} = \text{owner's equity} + \text{liabilities}$$

Indicate in the table below the effect on the accounting equation of each of the following transactions and give a reason for your answer. An example has been completed to assist you:

	Assets	Owner's Equity	Liabilities
e.g.	+R100 000: vehicle is an asset	-	+R100 000: vehicle is financed
a)			
b)			
c)			
d)			
e)			

Example: The business buys a vehicle on credit for R100 000.

- a) The business sells a vehicle for R15 000 cash. [2 marks]
- b) The owner invests R50 000 in the business. [2 marks]
- c) The business buys stock from a supplier on credit for R500. [2 marks]
- d) The owner withdraws R1 000 from the bank for his own use. [2 marks]
- e) The business takes out a bond to buy a building to the value of R500 000. [2 marks]

[Total: 10 marks]