# A. When all the resources are supplied by the owner

Sole proprietor, the only boss who starts a business.

**Resources in the business = Resources supplied by the owner**

** Capital is not restricted to cash; it can be anything, as long as it is supplied by the owner.**

## Assets = Capital


**Building and land.** **Inventory**

**Machinery**

| Assets | Capital |
|---|---|
| Land, Building, Premises, Furniture, Machinery, Equipment, Fixtures and fittings, Motor vehicles<br><br>Inventory/Stock, Debtors/ Trade receivables, Deposit, Bank, Cash | The resources that the owner contribute/ introduce into the business/ start the business with. |

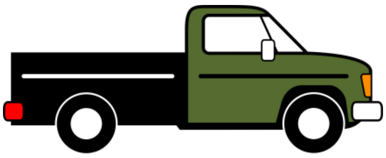
## Assets = Capital

=

**Cash**
**( $ )**

**Capital**
**( $290,000 )**

**Purchase a truck**



**Truck ( $200,000 )**
**Cash ($ )**

=

**Capital**
**($ )**

**Purchase a printer**

**Printer ( $50,000 )**

**Truck ( $ )**

**Cash ($ )**

=

**Capital**
**($ )**

**Owner brings in a coffee maker ($8,000)**

**Assets** = **Capital**

| | | |
|---|---|---|
| **Cash ( $ )** | | **Capital** |
| **Truck ( $ )** | | **( $ )** |
| **Printer ( $ )** | = | **+** |
| **Coffee Maker ($ )** | | ***Coffee Maker*** |
| | | **( $ )** |
| **[Total: $ ]** | | **[Total: $ ]** |

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## *Accounting Equation*

| **Assets** | = | **Capital** | + | **Liabilities** |
|---|---|---|---|---|
| Resources owned by a firm | | Resources supplied by the owner | | Resources supplied by people other than its owner |

e.g. Bank loan, Bank Overdraft,
Creditors/Trade payables,
Money owed to …

More about Capital:

- When Profit ↑ → Capital ↑ / ↓

  Profit (or loss) = Revenues – Expenses

- When Revenue ↑ → Capital ↑ / ↓
- When Expenses ↑ → Capital ↑ / ↓

Drawings: Resources of a business taken by its owner for personal use

- When Drawings↑ → Capital ↑ / ↓

**Closing Capital = Opening Capital + Revenues – Expenses – Drawings**

## **Accounting Equation**

**Assets = Capital + Liabilities**

+ Revenues

- Expenses

- Drawings

| **Assets** | **Capital** |
|---|---|
| Land, Building, Premises, Furniture, Machinery, Equipment, Fixtures and fittings, Motor vehicles<br><br>Inventory/Stock, Debtors/ Trade receivables, Deposit, Bank, Cash | The resources that the owner contribute/ introduce into the business/ start the business with. |
| **Expenses** | **Revenues** |
| Cost of goods sold (Purchases, Carriage Inwards), Rent and rates, Wages and salaries, Utilities, Electricity, Bank charges, Carriage outwards, Discounts allowed, Commission | Sales, Discount received, Rental revenue, Interest received, Commission revenue |
| **Drawings** | **Liabilities** |
| Owner took away for **private/personal** use | Bank loan, Bank Overdraft, Creditors/Trade payables, Money owed to … |

Remarks:

| | Buy Inventory/Goods/Stocks from supplier / Purchase | Sold goods to customer/ Sales |
|---|---|---|
| Cash | Cash/Bank | Cash/Bank |
| On credit/ pay later/ settle later | Trade Creditors/ Trade payables | Trade debtors/ Trade receivables |

## Effects of transaction on the accounting equation

| {Assets | = Capital | + Liabilities | } Total |
|---|---|---|---|
| 1. The owner started the business by contributing $20,000 cash, which $15,000 was deposited into the business bank account. | | | |
| | | | |
| 2. The firm bought furniture for $4,000 by cheque. | | | |
| | | | |
| 3. The firm bought a machine for $2,000 on credit from J Wu. It agreed to settle the payment within one month. | | | |
| | | | |
| 4. The firm repaid J Wu $1,000 in cash. | | | |
| | | | |
| 5. The firm borrowed $20,000 from bank. | | | |
| | | | |
| 6. The firm sold a piece of furniture to D Wai at its original cost of $100. The amount was to be paid one month later. | | | |
| | | | |
| 7. The firm paid staff salaries of $4,000 by cheque. | | | |
| | | | |
| 8. The owner took $2,000 in cash for personal use. | | | |
| | | | |

| 9. The firm received interest of $10 from the bank. | | | |
|---|---|---|---|
| | | | |
| Total | | | |
| Assets | = Capital | - Liabilities | |