THE ACCOUNTANT

MODULE 2 EPS 2.2

ACCOUNTING EQUATION

Chartered Management Accountants

MACRAME CONSULTANTS

Accounting Equation

The Accounting Equation is the foundation of the double-entry bookkeeping system and represents the relationship between an entity's Assets, Liabilities, and Equity.

The accounting equation is the foundation of the balance sheet. A balance sheet is the accounting equation displayed as a financial statement.

Components of Accounting Equation

Assets

- resources owned by an Entity
- Cash, accounts receivable, inventory, investments, property Plant and Equipment, equipment, intellectual property etc
- resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Liabilities

- Liabilities are the obligations the business owes to others.
- Loans, Accounts Payable, payroll, Taxes etc
- Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Equity

- Equity represents the owner's stake in the business. Equity is the value of a business if the owner were to liquidate all assets and pay off all liabilities.
- Share capital, accumulated profits and losses over time.
- The residual interest in the assets of the entity after deducting all its liabilities.

The Balance Sheet - Statement of Financial Position

- Financial statement that presents the entity's financial position at a specific point in time.
- Display of Accounting Equation on a Document
- The balance sheet shows the relationship between what the business owns, what it owes, and how much the owners have invested.

MACRAME CONSULTANTS
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2024

	Note	2024	2023
		-------(Pak Rupees)-------	
ASSETS			
NON CURRENT ASSETS			
Equipments	4	600,000	500,000
Intangibles	5	190,000	200,000
		790,000	700,000
CURRENT ASSETS			
Trade Receivables	6	900,000	700,000
Advances, deposits and prepayments	7	800,000	300,000
Inventory		400,000	390,000
Loan to Director	8	500,000	100,000
Cash and bank Balances	9	2,000,000	1,900,000
		4,600,000	3,390,000
		5,390,000	4,090,000
EQUITY AND LIABILITIES			
Share Capital	10	500,000	500,000
Unappropriated profit		1,000,000	200,000
		1,500,000	700,000
NON CURRENT LIABILITIES			
Long term deposits	11	2,500,000	2,500,000
		2,500,000	2,500,000
CURRENT LIABILITIES			
Trade payables	12	440,000	500,000
Accrued and other payables	13	900,000	280,000
Loan from directors	14	-	50,000
Provision for taxation	15	50,000	60,000
		1,390,000	890,000
		5,390,000	4,090,000