

State accounting equation and explain the elements of it?

Ans:

Accounting Equation

$$A = L + OE$$

$$\text{Asset} = \text{Liability} + \text{Owner's Equity}$$

Elements:

Asset: Resources owned by the company is called asset.

Liability: The total asset which is claimed by the creditor of the company is called liability.

Owner's equity: The total asset which is claimed by the owner of the company is called owner equity.

Cost: Sacrifice of resource from which benefit will receive for more than one year on an accounting period is called cost.

Expense: Sacrifice of resource from which benefit will receive for not more than one year on an accounting period is called expense.

Revenue: Income from continuous business operation is called revenue.

Gain: Income from peripheral or incidental transaction is called gain.

Profit: If Revenue > Expense we get profit.

Loss: If Revenue < Expense we get loss.

Investment: If the owner invest elsewhere something (other than his regular business) to earn benefit is called investment.

Drawing: If the owner withdraw something for his personal use is called drawing.