SHS LEARNING ACTIVITY

Name: _____ **Score/Mark:** _____
Grade and Section: _____ **Date:** _____
Strand: ☐ STEM ☐ ABM ☐ HUMSS ☐ ICT (*TVL Track*)
Subject: *Fundamentals of ABM 1*
Type of Activity ☐ Concept Notes ☐ Skills: Exercise / Drill ☐ Illustration ☐ Laboratory Report ☐ Essay/Task Report ☐ Others: _____

Activity Title: **LA-16. Business Transactions and the Accounting Equation**
Learning Target: To discuss the relationship between business transactions and the accounting equation
References: *(Author, Title, Pages)*
1) Hinayon, et al., Fundamentals of Accounting Vol. 1, p. 66-67
2) Q. J. Abcede, CVIF Learning Activities

A **business transaction** is an exchange of values (expressed in terms of money) which may either involve two parties (in the case of external transactions, e.g., sale of goods between enterprise and customer) or within the enterprise (in the case of internal transactions, e.g., owner's withdrawal of enterprise's cash for personal use).

When we analyze a business transaction, we must remember that the **accounting equation should remain balanced**. Therefore, when one side increases, the other side should also increase or the same side should have a corresponding decrease. When one side decreases, the other side should also decrease or the same side should have a corresponding increase.

Here are the possible effects of business transactions on the accounting equation:

a.	Increase in Assets	=	Increase in Liabilities
b.	Increase in Assets	=	Increase in Equity
c.	Increase in one Asset	=	Decrease in another Asset
d.	Decrease in Assets	=	Decrease in Liabilities
e.	Decrease in Assets	=	Decrease in Equity
f.	Increase in Liabilities	=	Decrease in Equity
g.	Increase in Equity	=	Decrease in Liabilities
h.	Increase in one Liability	=	Decrease in another Liability
i.	Increase in one Equity	=	Decrease in another Equity

Example: Suppose you get a bank loan because you want to acquire a small delivery truck for your pizza shop. Your liabilities increase (right side) because of the money you owe the bank and, at the same time, your assets (left side) increase because you acquire a new resource which is the delivery truck.

Exercise: Identify the effects of each business transaction on the accounting equation. Refer to the possible effects given above and write only the letter of your answer. *(Study Tip: Review your notes on the Types of Major Accounts).*

____ 1. The owner invests cash into the business.
____ 2. The company purchases office supplies with cash.
____ 3. The company receives cash from a customer for providing a service.
____ 4. The company pays a bank loan with cash.