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-15. The Basic Accounting Equation**
Learning Target: To illustrate the basic accounting equation
References: *(Author, Title, Pages)*
1) Hinayon, et al., Fundamentals of Accounting Vol. 1, p. 66
2) Q. J. Abcede, CVIF Learning Activities

We have learned that three of the major types of accounts are assets, liabilities, and equity. The relationship among these three is expressed by the **basic accounting equation**:

Assets	=	Liabilities	+	Equity

The left side of the equation shows the **Assets** or the resources that the enterprise owns or controls (LA-10) and the right side shows the **Liabilities** (LA-11) and the **Equity** (LA-12) which are the sources of funds used to obtain these resources. This just means that the assets acquired by the enterprise are coming from the funds of either the creditors or the owners. We can say, therefore, that *the total assets of an enterprise is always equal to the sum of its total liabilities and total owner's equity*.

Notice that, in the right side of the equation, the Liabilities come first before the Equity. This suggests that the claims of the creditors should be settled first before the owners can claim anything from the assets of the enterprise (LA-12). In other words, owner's equity is the remaining assets of an enterprise after all liabilities are paid. To focus on the equity, we derive:

Equity	=	Assets	-	Liabilities

Exercise: Using the accounting equation, compute for the missing figures. Present your solutions neatly.

	Assets	=	Liabilities	+	Owner's equity
a.	_____	=	Php200,000	+	Php315,000
b.	Php627, 500	=	_____	+	Php500,000
c.	Php570, 000	=	Php187,000	+	_____
d.	_____	=	Php109,000	+	Php451,000
e.	Php3,500,000	=	_____		Php1,950,000

Enrichment: What does it mean if the total liabilities are greater than the total owner's equity?