

### ACCOUNTING EQUATION PROBLEMS AND SOLUTIONS

**Problem # 1:** Habib Ullah Sadiq is wholesale trader; following transactions are record in Accounting Equation?

- i. Commence business with cash Rs. 200,000 and Land Rs. 50,000
- ii. Bought merchandising for cash Rs. 80,000
- iii. Cash sales of worth Rs. 25,000
- iv. Bought goods on credit from Salman of worth Rs. 50,000
- v. Sales on account to Ali Raza Rs. 12,000
- vi. Purchase furniture of the value of Rs. 5,000 by cash
- vii. Received cash form Ali Raza of Rs. 10,000
- viii. Return defective furniture of worth Rs. 1,500
- ix. Paid wages Rs. 1,000, Rent 2,000 and Electricity Bill Payable Rs. 1,500

**Habib Ullah Sadiq**

*Accounting Equation*

| S. No | Assets      |        |                 |           | Equities    |         |
|-------|-------------|--------|-----------------|-----------|-------------|---------|
|       | Cash        | Land   | A/C Receivables | Furniture | A/C Payable | O.E     |
| i     |             |        |                 |           |             |         |
| Bal   | 200,000     | 50,000 |                 |           |             | 250,000 |
| ii    |             |        |                 |           |             |         |
| Bal   | 120,000     | 50,000 |                 |           |             | 170,000 |
| iii   |             |        |                 |           |             |         |
| Bal   | 145,000     | 50,000 |                 |           |             | 195,000 |
| iv    |             |        |                 |           |             |         |
| Bal   | 145,000     | 50,000 |                 |           | 50,000      | 145,000 |
| v     |             |        |                 |           |             |         |
| Bal   | 145,000     | 50,000 | 12,000          |           | 50,000      | 157,000 |
| vi    |             |        |                 |           |             |         |
| Bal   | 140,000     | 50,000 | 12,000          | 5,000     | 50,000      | 157,000 |
| vii   |             |        |                 |           |             |         |
| Bal   | 150,000     | 50,000 | 2,000           | 5,000     | 50,000      | 157,000 |
| viii  |             |        |                 |           |             |         |
| Bal   | 151,500     | 50,000 | 2,000           | 3,500     | 50,000      | 157,000 |
| ix    |             |        |                 |           |             |         |
| Bal   | 148,500     | 50,000 | 2,000           | 3,500     | 51,500      | 152,500 |
| Total | Rs. 204,000 |        |                 |           | Rs. 204,000 |         |

**Problem # 2:** Muhammad Faizan Abid had the following transactions. Use accounting equation to show their effect on his Assets, Liabilities and Capital?

- a) Invested Rs. 15,000 in cash
- b) Purchased securities for cash Rs. 7,500
- c) Purchased a home for Rs. 15,000: giving Rs. 5,000 in cash and the balance through loan account
- d) Sold securities costing Rs. 1,000 for Rs. 1,500
- e) Purchase an old car for Rs. 2,800 cash
- f) Received cash as salary Rs. 3,600
- g) Paid cash Rs.500 for loan and Rs. 300 for interest
- h) Paid cash for expenses Rs. 300
- i) Received cash for dividend on securities Rs.200

**Muhammad Faizan Abid**

*Accounting Equation*

| S. No | Assets     |            |        |       | Equities   |        |
|-------|------------|------------|--------|-------|------------|--------|
|       | Cash       | Securities | Home   | Car   | Loan       | O.E    |
| a)    |            |            |        |       |            |        |
| Bal   |            |            |        |       |            |        |
| b)    |            |            |        |       |            |        |
| Bal   | 7,500      | 7,500      |        |       |            | 15,000 |
| c)    |            |            |        |       |            |        |
| Bal   |            |            |        |       |            |        |
| d)    |            |            |        |       |            |        |
| Bal   |            |            |        |       |            |        |
| e)    |            |            |        |       |            |        |
| Bal   | 1,200      | 6,500      | 15,000 | 2,800 | 10,000     | 15,500 |
| f)    |            |            |        |       |            |        |
| Bal   |            |            |        |       |            |        |
| g)    |            |            |        |       |            |        |
| Bal   |            |            |        |       |            |        |
| h)    |            |            |        |       |            |        |
| Bal   | 3,700      | 6,500      | 15,000 | 2,800 | 9,500      | 18,500 |
| i)    |            |            |        |       |            |        |
| Bal   | 3,900      | 6,500      | 15,000 | 2,800 | 9,500      | 18,700 |
| Total | Rs. 28,200 |            |        |       | Rs. 28,200 |        |

**Problem # 3:** Selected Transactions from Shah Transport Services began on June 1, 2016 by Zahid Shah as?

- a. Zahid Shah invested Rs. 600,000
- b. A Truck was Purchase by business for Rs. 430,000
- c. Equipment purchased on credit for Rs. 9,000
- d. A bill of Rs. 7,200 for transporting goods was sent to Mr. Ashraf Abbasi, a customer
- e. Cash of Rs. 6,000 is received from the customer who was billed in d
- f. Received Rs. 22,300 is cash for transporting goods
- g. A payment of Rs. 5,000 was made on the equipment purchased in c
- h. Paid expenses of different types for Rs. 1,700 in cash
- i. Equipment of Rs. 1,200 was withdrawn from business for Zahid Shah's personal use

### Required

Arrange the Assets, Liabilities and Owner's Equity accounts in an Accounting Equation, using the following account titles: Cash, Trucks, Equipment, Account Receivables, Account Payable and Owner's Equity

### Shah Transport Services

#### Accounting Equation

| S. No | Assets      |         |           |                 | Equities    |         |
|-------|-------------|---------|-----------|-----------------|-------------|---------|
|       | Cash        | Truck   | Equipment | A/C Receivables | A/C Payable | O.E     |
| a     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| b     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| c     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| d     |             |         |           |                 |             |         |
| Bal   | 170,000     | 430,000 | 9,000     | 7,200           | 9,000       | 607,200 |
| e     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| f     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| g     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| h     |             |         |           |                 |             |         |
| Bal   |             |         |           |                 |             |         |
| i     |             |         |           |                 |             |         |
| Bal   | 191,600     | 430,000 | 7,800     | 1,200           | 4,000       | 626,600 |
| Total | Rs. 630,600 |         |           |                 | Rs. 630,600 |         |

**Problem # 4:** Prove that the Accounting Equation is satisfied in all following transactions of Wajeeha Ejaz owner of business enterprises?

- I. Started business with cash value of Rs. 500,000
- II. Rent paid in advance for a year Rs. 6,000
- III. Purchased merchandising inventory for cash Rs. 80,000 and on account Rs. 20,000 from Mr. Tahir
- IV. Purchased Marketable securities for cash Rs. 100,000
- V. Cash Sales Rs. 30,000 (cost 20,000)
- VI. During the period rent expires Rs. 2,000
- VII. Commission paid during the trading was Rs. 1,000
- VIII. Received cash dividend Rs. 4,000 on marketable securities
- IX. Paid to Rs. 19,500 to Mr. Tahir in full settlement
- X. Withdrew inventory for domestic purpose by owner of worth Rs. 6,000

**Wajeeha Ejaz**

*Accounting Equation*

| S. No | Assets      |              |           |               | Equities     |     |
|-------|-------------|--------------|-----------|---------------|--------------|-----|
|       | Cash        | Prepaid Rent | Inventory | M. Securities | A/C Payables | O.E |
| I     |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| II    |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| III   |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| IV    |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| V     |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| VI    |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| VII   |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| VIII  |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| IX    |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| X     |             |              |           |               |              |     |
| Bal   |             |              |           |               |              |     |
| Total | Rs. 505,500 |              |           |               | Rs. 505,500  |     |

**Problem # 5:** Show the effect of the following transactions upon the Accounting Equation?

|        |   |
|--------|---|
| June 1 | Mr. Salman started business with cash Rs. 80,000, Inventory Rs. 50,000 & Machinery Rs 5,000     |
| 5      | Purchased furniture for cash Rs. 4,000 and purchased goods from Naveed store of Rs. 25,000      |
| 8      | Sold goods to Rashid on credit basis for Rs. 8,000, costing Rs. 6,500                           |
| 12     | Open a bank account and deposited Rs. 40,000  |
| 18     | Sold goods for cash Rs. 15,000, which is 20% above cost   |
| 24     | Received Rs. 7,800 from Rashid in full settlement for June 8 <sup>th</sup> transaction          |
| 29     | Paid Rs. 24,700 to Naveed store in full settlement for June 5 <sup>th</sup> transaction by bank |
| 30     | Paid rent and salaries for the month Rs. 4,000 and wages outstanding for month Rs. 1,000        |

***Solution:***

### Accounting Equation

[illegible]

## Practice MCQs

[www.accountancyknowledge.com/accounting-equation-mcqs/](http://www.accountancyknowledge.com/accounting-equation-mcqs/)

## Lesson

[www.accountancyknowledge.com/accounting-equation/](http://www.accountancyknowledge.com/accounting-equation/)