

## Solution

### ACCOUNTING EQUATION WS 1

#### Class 11 - Accountancy

1.  
**(d)** (a) - (iii), (b) - (iv), (c) - (ii), (d) - (i)  
**Explanation:** Transactions effect
  - a. Cash decrease, stock increase
  - b. Cash increase, capital increase
  - c. Cash decrease, capital decrease (rent is an expense)
  - d. Cash decrease, creditors decrease.
  
2.  
**(b)** liabilities and assets  
**Explanation:** liabilities and assets
  
3.  
**(d)** Capital  
**Explanation:** Amount Invested by owner is Called Capital. It is an liability on Business which business have to pay at the winding up of business So Owner is called Creditor for the Capital amount.
  
4.  
**(d)** Expense, Income  
**Explanation:** Salary is expense for employer because Employer pays salary to employee and For Employee it will an income as he receives this amount.
  
5.  
**(d)** Decrease in one asset, increase in another asset  
**Explanation:** Due to this transaction, land (asset) will increase and cash (asset) will decrease.
  
6. **(a)** Expenses  
**Explanation:** Yes. Because when we deduct expense incurred from revenue earned we get net Income.  
So, Net income = Revenue - Expenses
  
7.  
**(d)** decrease  
**Explanation:** The amount is withdrawn by the proprietor for personal use from the business then the cash and capital both will decrease.
  
8.  
**(c)** liabilities, decreased  
**Explanation:** Stock (assets) will reduce due to purchase return and creditors (liabilities) will also decrease by the same amount.
  
9.  
**(b)** Balance sheet  
**Explanation:** Accounting equation depicts the fundamental relationship among the components of balance sheet.
  
10.  
**(c)** Reduce  
**Explanation:** when we made payment of expense it will reduce business cash or bank balance which is an asset. So, This will reduce Business Assets.
  
11.  
**(c)** Revenue  
**Explanation:** revenue is income earned by business entity which increases the assets balance and capital balance of the entity.
  
12.  
**(b)** Capital, Liabilities

**Explanation:** This is the basic accounting equation of assets, liability and capital. It is the foundation of double entry system. Always the assets will be equal to liabilities + capital.

13.  
**(c)** Assets: Decrease, Liabilities: Decrease  
**Explanation:** Payment of bank loan will reduce the cash/bank balance, i.e. asset side will increase and also our liability of bank loan will also reduce, thus we can say assets : decrease, liabilities : decrease.
14.  
**(d)** (iii), (i), (ii)  
**Explanation:** (iii), (i), (ii)
15.  
**(d)** Commission received worth ₹ 2,000  
**Explanation:** On assets side, cash is increased by ₹ 2,000.  
On capital side, income will increase the capital by ₹ 2,000 and liabilities are assumed to be unchanged since, question does not mention any information.
16. Capital of Vishal = Total Assets - Creditors - Loan from Bank  
= ₹ 5,00,000 - ₹ 1,00,000 - ₹ 1,50,000  
= ₹(5,00,000 - 2,50,000)  
= ₹ 2,50,000
17. ₹ 1,00,000 will be deducted from Asset (Cash/Bank); Asset (Car) will be shown at ₹ 5,00,000 and Bank Loan (on the Liabilities side) will be shown at ₹ 4,00,000.
18. Closing Capital = Closing Assets - Closing Liabilities  
= ₹ 7,80,000 - ₹ 70,000 = ₹ 7,10,000  
Profit earned during the year = Closing Capital - Opening Capital  
= ₹ 7,10,000 - ₹ 5,00,000 = ₹ 2,10,000
19. Goods purchased on credit. Based on the double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding entry.
20. It will result in cash being reduced and machinery account being increased. Based on the double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding entry (or coverage) on the credit side.
21. Cash and capital increases. A service is an intangible product, and income derived from selling your services must be recorded in the accounting ledger.
22. Assets = Capital
23. Goods taken by the proprietor for personal use. Based on the double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding entry.
24. **Total Assets = Capital + Outside Liabilities**  
2,60,000 = 1,60,000 + Outside Liabilities  
2,60,000 - 1,60,000 = Outside Liabilities  
**Outside Liabilities = 1,00,000**
25. ₹ 1,30,000 - ₹ 80,000  
= ₹ 50,000 (Outside Liabilities = Total Assets - Capital)
26. Assets = Liabilities + Capital
27. Liabilities = Total Assets - Capital  
Liabilities = ₹ 5,00,000 - ₹ 2,60,000  
Liabilities = ₹ 2,40,000
28. A capital account is debited when there is a loss and when the owner makes drawings.
29. Total Assets = Net worth - Creditors  
Creditors = Total Assets - Net worth  
Creditors = 2,60,000 - 1,60,000  
**Creditors = Rs. 1,00,000**
30. Total Assets = Outside Liabilities + Capital  
= ₹ 2,50,000 + ₹ 1,00,000  
= ₹ 3,50,000

31. If payment is made to a creditor then Cash decreases and so does the liability (the creditor).
32. Total Assets = Liabilities (Creditors) + Capital + Profit  
 $= ₹ 3,00,000 + ₹ 4,00,000 + ₹ 5,50,000$  (i.e., ₹ 7,50,000 - ₹ 2,00,000)  
 $= ₹ 12,50,000$  (including ₹ 2,00,000 Closing Stock)
33. Decrease in capital. A drawing account is an accounting record maintained to track money withdrawn from a business by its owners.
34. Total Assets = Closing Capital + Liabilities  
 Closing Capital = Total Assets - Liabilities  
 Closing Capital = 1,00,000 - 20,000 = **Rs 80,000**  
 Profit = Closing Capital - Opening Capital = 80,000 - 60,000 = **Rs 20,000.**
35. Receipt from debtors.
36. Increase cash by ₹12,500; Decrease stock by ₹10,000, and Increase capital by ₹2,500.  
 (sale is 10,000 + 10,000 × 25% = 12,500)
37. Sale of goods on credit. Based on the double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the credit side should have a corresponding decrease on the credit side.
38. Total Assets = Capital + Creditors (liability)  
 Creditors = Assets - Capital  
 Creditors = 10,00,000 - 4,00,000  
 Creditors = ₹6,00,000
39. Acceptance of Bills Payable.
40. It will result in cash being reduced and Machinery (asset) Account being increased.
41. The accounting equation shows on a company's balance that a company's total assets are equal to the sum of the company's liabilities and shareholders' equity or capital. Assets represent the valuable resources controlled by the company. The liabilities represent their obligations to pay.
42. Owner's equity represents the owner's investment in the business minus the owner's drawings or withdrawals from the business plus the net income (or minus the net loss) since the business began.
43. Credit side
44. Total Liabilities = Total Assets - Capital  
 Liabilities = ₹ 5,000 + ₹ 20,000 + ₹ 60,000 + ₹ 25,000 - ₹ 75,000  
 $= ₹ 1,10,000 - ₹ 75,000$   
 $= ₹ 35,000$
45. **Total Assets** = Liabilities + Capital  
 $= \text{Creditors} + (\text{Opening Capital} + \text{Revenue} - \text{Expenses})$   
 $= 6,00,000 + (8,00,000 + 15,00,000 - 4,00,000)$   
 $= \text{Rs } 25,00,000$  (including Rs 4,00,000 closing stock).
46. Assets = Liabilities + Capital  
 $₹ 1,30,000 = \text{Liabilities} + ₹ 80,000$   
 Liabilities = ₹ 1,30,000 - ₹ 80,000  
 $= ₹ 50,000$
47. Total Assets = Capital + Revenue - Expenditure + Creditors  
 $= ₹ 40,000 + ₹ 50,000 - ₹ 40,000 + ₹ 25,000$   
 $= ₹ 75,000$
48. Amount received from a debtor. Based on the double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding decrease in another item.
49. The owner's capital means balance standing to the credit of the Capital Account of the proprietor.
50. When an amount is entered on the right-hand side of an account, it is a credit and the account is said to be credited.
51. Example of a decrease in an asset and a decrease in liability is Cash paid to a creditor.
52. Cash increases and so does the capital.
53. ₹ 2,00,000 + ₹ 1,50,000  
 $= ₹ 3,50,000$  (Capital + Outside Liabilities = Assets)
54. We know that total assets of a business can be calculated by  
 Total Assets = Capital - Loss + Liabilities

$$= ₹ 3,00,000 - ₹ 70,000 + 50,000$$

$$= ₹ 2,80,000$$

55. Total Assets = Liabilities + Capital

$$= ₹ 60,000 + ₹ 1,00,000 = ₹ 1,60,000$$

56. Assets = Owner's Equity + Liabilities

$$₹ 4,50,000 = \text{Owner's Equity} + ₹ 2,00,000$$

$$\text{Owner's Equity} = ₹ 2,50,000.$$

57. **No**, any transaction can only change the equation but can't break it. The Accounting equation remains equal.

58. Cash decreases and on liability side creditor's balance also decreases. Based on the double-entry system, the accounting equation ensures that the balance sheet remains "balanced," and each entry made on the debit side should have a corresponding entry (or coverage) on the credit side.

59. The accounting equation is considered to be the foundation of the double-entry accounting system. The total of all the assets of a business should be equal to the total of all its liabilities in the balance sheet, i.e., Assets = Liabilities + Capital.

60. Total Assets = Capital + Liabilities = ₹ 70,000 + ₹ 40,000 = ₹ 1,10,000

61. Total Assets = Capital + Outside Liabilities

$$= 2,40,000 + 40,000$$

$$= \text{Rs. } \mathbf{2,80,000}$$

62. When an amount is entered on the left-hand side of an account, it is a debit and the account is said to be debited.

63. Because according to business entity concept capital is also treated as liability of the business.

64. Increase cash by Rs 25,000 decrease stock by Rs 20,000 and increase capital by Rs 5,000. Based on the double-entry system, the accounting equation ensures that the balance sheet remains "balanced," and each entry made on the debit side should have a corresponding entry

65. Cash = Total Assets - Other Sundry Assets

$$\text{or} = \text{Capital} + \text{Liabilities} - \text{Other Sundry Assets}$$

$$= 10,000 + 5,000 - 10,000$$

$$= \text{Rs. } \mathbf{5000}$$

66. Closing capital = Closing assets - liabilities

$$\text{Closing capital} = 8,00,000 - 50,000$$

$$\text{Closing capital} = 7,50,000$$

$$\text{Profit} = \text{Closing capital} - \text{opening capital}$$

$$\text{Profit earned during the year} = 7,50,000 - 6,00,000$$

$$\text{Profit} = 1,50,000$$

67. i. ₹ 5,000

ii. ₹ 15,000

iii. ₹ 2,000

68. Total Assets = Creditors + Capital

$$= \text{Creditors} + (\text{Capital} + \text{Revenue} - \text{Expenses})$$

$$= ₹ 50,000 + (₹ 2,00,000 + ₹ 5,00,000 - ₹ 4,00,000)$$

$$= ₹ 50,000 + ₹ 3,00,000$$

$$= ₹ 3,50,000$$

Revenue is added to capital and expenses deducted from capital.

69. Capital introduced by the proprietor. Based on the double-entry system, the accounting equation ensures that the balance sheet remains "balanced," and each entry made on the debit side should have a corresponding entry.

70. Creditors (Liabilities) = Total Assets - Capital

$$= ₹ 2,00,000 - ₹ 1,50,000 = ₹ 50,000$$

71. The accounting equation is an accounting formula expressing the equivalence of assets (resources) and liabilities and capital (funds).

72. Total Assets = Capital + Liabilities

$$\text{Total Assets} = 5,00,000 + 2,00,000$$

$$\text{Total Assets} = ₹ 7,00,000$$

73. Total Assets = Liabilities + Capital

$$= 20,000 + 1,20,000$$

$$= ₹ 1,40,000$$

74. It is an outstanding expense. It will be shown in the accounting equation as a deduction from the capital and as an Outstanding Expense (outstanding repair) on the Liabilities side.

75. Capital = Rs. 4,00,000

External Liabilities = Rs. 3,00,000

**Assets = Capital + Liabilities**

= Rs. 4,00,000 + Rs. 3,00,000

= **Rs. 7,00,000.**