

2 Use the following steps when you do the Accounting equation:

Step 1	Identify the relevant accounts in the transaction.
Step 2	Classify the relevant account i.e. are you dealing with Owner's equity, Assets, Liabilities, Incomes or Expenses?
Step 3	Now ask yourself whether the account is INCREASING or DECREASING.

3 The effect of transactions on Assets and Owner's equity:

Example: Transitions of Protea Drycleaners.

1 The owner, Mr. John Peters begins his business with a capital contribution of R500 000 that he deposits into the current bank account of the business. Receipt 001 is issued.

Step 1	<i>Identify the relevant accounts in the transaction.</i>	<i>Bank (money is being deposited into the Bank account) and Capital (the owner is contributing money)</i>
Step 2	<i>Classify the relevant account i.e. are you dealing with Owner's equity, Assets, Liabilities, Incomes or Expenses?</i>	<i>Bank is an Asset Capital is Owner's equity</i>
Step 3	<i>Now ask yourself whether the account is INCREASING or DECREASING.</i>	<i>Bank (Asset) is increasing Capital and thus Owner's equity is increasing</i>

Asset		Owner's equity		Liability	
Amount	Reason	Amount	Reason	Amount	Reason
+ 500 000	Bank is increasing	+ 500 000	Capital is increasing	This transaction has no effect on liabilities	

2 Protea Drycleaners purchases a delivery vehicle from Toyota and pays by cheque No 001, R115 000.

Step 1	<i>Identify the relevant accounts in the transaction.</i>	<i>Bank (money is being withdrawn from the current bank account) and Vehicles (purchasing a delivery vehicle)</i>
Step 2	<i>Classify the relevant account i.e. are you dealing with Owner's equity, Assets, Liabilities, Incomes or Expenses?</i>	<i>Bank is an Asset Vehicles is an Asset</i>
Step 3	<i>Now ask yourself whether the account is INCREASING or DECREASING.</i>	<i>Bank (Asset) is decreasing Vehicles (Asset) is increasing</i>

Asset		Owner's equity		Liabilities	
Amount	Reason	Amount	Reason	Amount	Reason
+ 115 000	Vehicles increasing				
- 115 000	Bank decreasing				

Total incomes	Total expenses

Income – expense = net profit/net income

