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

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

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

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	Bank (money is being withdrawn from the current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

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

## Activity 6

#### Instruction:

- 1 Indicate the effect that each of the following transactions will have on the Accounting equation. Use a + to indicate an increase and a to indicate a decrease.
- 2 Determine the Net Profit by adding Total Incomes and Total expenses and then subtracting the expenses from the incomes

#### Transactions of Fairy Fun Cleaners

- 1 B Hollard started his business with a capital contribution of R58 000 and deposited it into the current bank account of the business.
- 2 Rented premises from Sage Ltd and paid the rental by cheque 001, R4 220.
- 3 Purchased a vehicle from TJ Motors and paid by cheque 002, R92 800.
- 4 Paid the telephone account to Telkom by internet transfer, R950.
- 5 Issued cheque 003 to Trojan Traders for machinery, R210 000.
- 6 Paid Makro Trader R12 000 by cheque for cleaning materials.
- 7 Issued cheque 005 to the Municipality for water and electricity, R2 190
- 8 Cash and cheques received for services rendered for the week according to the cash register roll, R6 150.
- 9 Cashed cheque 006 for R4 000 and paid the wages for the week.
- 10 Paid the manager, T. Jansen's salary by internet transfer, R4 260.
- 11 Cash received for services rendered according to the cash register roll.

	Assets		Owner's equity		Liabilities	
No	Amount	Reason	Amount	Reason	Amount	Reason
-						
-						
-						
-						
-						
					Λ	
REN		enses decrease ner's Equity			Income increas Owner's Equity	
<	27		$\overline{7}$	$\geq$		

Total incomes	Total expenses

Income – expense = net profit/net income

