Activity #2 **BAF3M - Accounting** **Feb 9, 2012**

How Much Are All Your Valuables Worth?

The cornerstone of accounting is the accounting equation. All accounting activities relate to keeping the accounting equation in balance. In this activity you will explore the accounting equation and its components through the calculation of your net worth. You will also discuss your personal views on materialism and the need for possessions.

Learning Expectations:

FAV.03 demonstrate an understanding of the basic procedures and principles of the accounting cycle for a service business.
FA1.01 explain the purpose of accounting.

Have you ever wondered how much you are actually worth in terms of the dollar value of your valuables? Most young adults underestimate their worth. Calculating net worth is relatively simple:

Step 1: Take an inventory of everything you own. Add up the original purchase price of each item. This may require some guessing but do the best you can. Assume that everything in your room, including the bed, is owned by you.

Step 2: Add up all the money you owe to parents, friends, the bank, credit cards etc.

Step 3: Subtract the money you owe from the value of the items you own. This value is your net worth.

Activity: Complete the excel worksheet.

Your Financial Position

Are you surprised by how much your valuables are worth? The items you own, the money you owe and your net worth determine your financial position. Businesses also have financial positions although business terminology is given to the three (3) elements.

Assets: Items a business owns that have value. As long as a business is in possession of these items, even if they were purchased using a loan, the items are considered assets. Assets include cash the business has in the bank, supplies, equipment, furniture, car, building, and land. Sometimes a business sells to a customer who will pay later. This is called an **account receivable,** and it is also considered an asset.

Liabilities: The money a business owes to creditors. Items include bank loans, mortgages, account payable (money owed to suppliers), taxes payable (money owed to the government) and wages payable (money owed to employees).

Owner's Equity: The money invested in the business by the owner. This is the net worth of the business to the owner. It is calculated by subtracting liabilities from assets. Another term for Owner's Equity is **capital.**

The Accounting Equation

By now you should see that the relationship between the three business elements can be summarized in an equation;

Assets = Liabilities + Owner's Equity

This is known as the Accounting Equation. It is the fundamental underlying principle behind all accounting. Maintaining an equal balance between the two sides of the equation is essential to accuracy in accounting.

Examples:

1. If Assets are \$20,000 and Liabilities are \$15,000, Owner's Equity will be \$5,000. (Owner's Equity = Assets – Liabilities)

2. If Assets are \$30,000 and Owner's Equity is \$23,000, Liabilities will be \$7,000. (Liabilities = Assets – Owner's Equity)

3. If Liabilities are \$400,000 and Owner's Equity is \$200,000 Assets will be \$600,000. (Assets = Liabilities + Owner's Equity