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## ACCOUNTING 101-THE ACCOUNTING EQUATION

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BALANCE SHEET (Assets=Liabilities+Equity):

| ASSETS |    | LIABILITIES |    |
|--------|----|-------------|----|
| DR     | CR | DR          | CR |
| +      | -  | -           | +  |

| EQUITY |    |
|--------|----|
| DR     | CR |
| -      | +  |

INCOME STATEMENT:

| EXPENSES |    | REVENUE |    |
|----------|----|---------|----|
| DR       | CR | DR      | CR |
| +        | -  | -       | +  |

**EXPLANATION OF GENERAL LEDGER ACCOUNT NUMBERS:**

|                      |  |
|----------------------|--|
| Assets               | 1000's (Cash, accounts receivables, equipment, prepaid expenses)       |
| Liabilities          | 2000's (Accounts payable, loans and long-term debt)                    |
| Equity               | 3000's (Common stock/addl paid in capital/shareholder distributions)   |
| Revenue              | 4000's (Sales/income)  |
| Direct cost of sales | 5000's (Inventory sold/direct labor/subcontractors/other direct costs) |
| Payroll expenses     | 6000's (Salaries/wages/payroll taxes/retirement plan contributions)    |
| Gen & admin expenses | 7000's (Most other indirect costs of doing business)                   |
| Other expenses       | 8000's (Interest expense)  |
| Other income         | 9000's (Interest income/gain on sale of furniture and equipment)       |

**KEY:**

- +            Represents normal account balance and account balance increase.
- Represents account balance decrease.