



# Accounting Equation Cheat Sheet

## 1. Accounting Equation Basics:

- The fundamental accounting equation is: **Assets = Liabilities + Equity**
- This equation must always balance, representing the financial position of a business.

## 2. Components of the Accounting Equation:

- Assets:** - Assets are economic resources owned or controlled by a business. - Examples include cash, accounts receivable, inventory, property, and equipment.
- Liabilities:** - Liabilities are obligations or debts owed by a business to external parties. - Examples include accounts payable, loans, and accrued expenses.
- Equity:** - Equity represents the residual interest in the assets after deducting liabilities. - It includes owner's equity, common stock, and retained earnings.

## 3. Types of Equity:

- Owner's Equity:** - Owner's equity is the owner's claim on the business assets. - It includes the initial investment and any additional contributions made by the owner.
- Common Stock:** - Common stock represents ownership in the form of shares issued to investors.
- Retained Earnings:** - Retained earnings are accumulated profits not distributed as dividends.

## 4. Transactions and Impact on the Accounting Equation:

- Asset Increase:** - If assets increase, the equation is balanced by an increase in liabilities or equity.
- Asset Decrease:** - If assets decrease, the equation is balanced by a decrease in liabilities or equity.
- Liability Increase:** - If liabilities increase, the equation is balanced by an increase in assets or equity.
- Liability Decrease:** - If liabilities decrease, the equation is balanced by a decrease in assets or equity.

e. **Equity Increase:** - If equity increases, the equation is balanced by an increase in assets or a decrease in liabilities.

f. **Equity Decrease:** - If equity decreases, the equation is balanced by a decrease in assets or an increase in liabilities.

## 5. Mnemonic Device for Debits and Credits: "DEAL"

- **D: Dividends and Expenses**
  - **Debit:** Increase in Dividends and Expenses.
  - **Credit:** Decrease in Dividends and Expenses.
- **E: Equity and Revenue**
  - **Debit:** Increase in Equity and Revenue.
  - **Credit:** Decrease in Equity and Revenue.
- **A: Assets**
  - **Debit:** Increase in Assets.
  - **Credit:** Decrease in Assets.
- **L: Liabilities**
  - **Debit:** Decrease in Liabilities.
  - **Credit:** Increase in Liabilities.

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