

# Accounting Equation

The accounting equation is a simple prototype financial reporting scheme.

## Accounting Equation Components

The accounting equation (a.k.a. the fundamental accounting equation, the balance sheet equation, is the cornerstone of financial accounting. There are three components to the accounting equation: assets, liabilities, and equity. These components also tend to be used to identify the major account groups within a chart of accounts. The accounting equation is a de facto industry standard.

### Assets:

Assets (#ae:Assets) in are resources that an economic entity owns and uses to generate income and future economic benefits. Examples of assets are equipment, vehicles, trade accounts receivable (A/R), prepaid insurance, inventories, and office supplies. Assets can be classified as operating or nonoperating, tangible or intangible, and current or noncurrent.

### Liabilities:

Liabilities (#ae:Liabilities) are amounts owed to other third-party entities as a result of a past event and involve a future settlement using cash, goods, or services. Customers and vendors can be sources of liabilities for operations. Liabilities can be current or noncurrent.

### Equity:

Equity (#ae:Equity) is the residual amount of assets exceed liabilities.

### Rules:

The relation between assets, liabilities, and equity is known as the accounting equation which is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets, liabilities, and equity are part of the balance sheet (#disclosures:BalanceSheet). A balance sheet is used to provide the financial status of a reporting economic entity.

### Additional Information:

Wikipedia: [https://en.wikipedia.org/wiki/Accounting\\_equation](https://en.wikipedia.org/wiki/Accounting_equation)