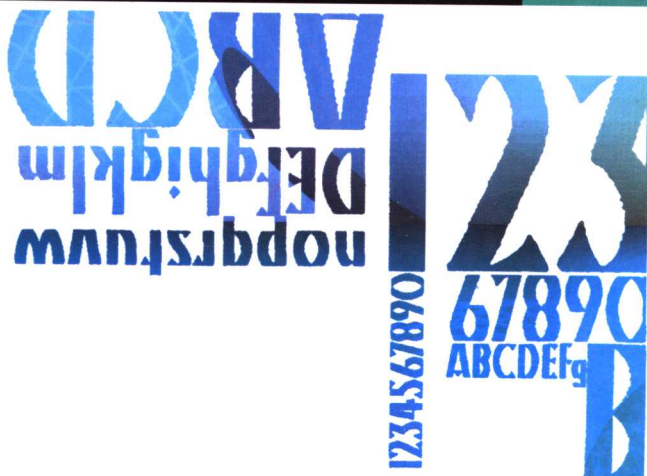


高等学校“十一五”规划双语教材

# 会计学 (英语版)

ACCOUNTING

黄永安 徐松 ■ 编著



合肥工业大学出版社

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# 前 言

随着改革开放步伐的加快和国际交往的不断深入,中国已经融入国际经济的大舞台,而2007年新会计准则的实施将是我国会计深入契合到国际会计通用惯例的里程碑。为使高等院校的学生以及会计实务工作人员更好地了解和掌握国际通用的会计语言,熟练阅读相关会计英文文献和直接用英文处理会计实务,我们参考了大量英美国家的大学会计原版教材和试题编写了这本《会计学》(英语版)教材。

本书共分为16章,涵盖了财务会计基本理论和实务的主要内容。考虑到财务分析的重要性,我们在最后一章收录相关内容。本书主要内容包括:绪论、会计循环和财务报告、现金和银行对账、应收账款会计、投资、存货会计、固定资产、无形资产、流动负债、长期负债、所有者权益、收入和费用、资产负债表、收益表、现金流量表、财务分析等。

为了便于教学和读者自学,本书每章都分成三部分——课文、专业词汇和词组以及练习题;在本书的最后我们给出了绝大部分练习题的参考答案,没有给出答案的习题可作为读者课外的思考题,作为拓展知识面的补充材料。

本书内容丰富,我们在注重会计学的专业知识的同时,兼顾了专业学习与英语学习的一般要求,是广大高校学生以及众多会计实务工作人员通过英语语言学习会计知识的理想教材,它可以帮助读者较快地转变成既懂会计又熟悉会计英语的复合型人才。

本书在编写过程中,我们参考了大量的英文原版书籍和文献,还选用了很多美国大学的考试题,对此我们对相关作者表示由衷的感谢。此外,我们感谢编审人员所在院校的大力支持,感谢编辑校对人员所付出的辛勤劳动。

限于编者的水平和时间局限,书中难免有错漏和不当,恳请读者不吝指正,以便再版时进行修改。

编 者

2006年10月28日

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# Chapter 1

## Introduction to Accounting

### 1. Why Do We Learn Accounting and Finance?

Accounting and finance are essential to the efficient operations of a business. Proper accounting insures that the economic operations of the business are properly recorded and reported. This is essential for the proper management of a company and insuring the goals and direction of the company are maintained.

Finance involves more of the analysis of corporate results and the methods by which financial resources are acquired and allocated.

Every employee in a company should have a basic understanding of what functions accountants and financial people perform. Associated with their functions employees should have a basic understanding of the reports that are produced and on how to interpret those reports. This allows an individual to quickly glance at a report and to understand and interpret the information presented.

The accounting function can be broken into 3 main areas or categories: Financial, Managerial, and Tax.

Financial accounting is the general accounting function whereby accountants record the everyday transactions of the company. Included in this function is the preparation of general standardized reports such as the balance sheet, income statement and cash flow statement.

Managerial accounting involves the development and interpretation of specific accounting information, especially cost data, which intended to assist management in making decisions regarding the operation of the company. This information can be in the form of one-off reports for the purpose of making a one-time decision or reports generated on a periodic basis providing the manager with very specific information. This information is used to set company goals and targets, evaluate department performance, make investment decisions, and new product introductions or discontinuations. It is used

for making all types of managerial decisions.

Tax accounting deals directly with tax issues associated with the company. The tax accountant will not only prepare the returns for the tax authorities, but also will develop the best tax strategies for the company so that a minimal amount of taxes are paid by the company.

## **2. What is Accounting?**

### **2.1 What is Bookkeeping?**

There are eight steps to the bookkeeping cycle. A bookkeeper is a person that performs one or more of these steps. In large companies, for instance, the bookkeeping cycle might be divided into departments such as Accounts Receivable, Accounts Payable, or Payroll. While most often these people are referred to as “clerks”, they might also be considered bookkeepers as they are “keeping the books” for a company. In small companies, the bookkeeper may perform the entire bookkeeping process, or might just enter data to be given to the “accountant”.

All bookkeeping steps are mechanical in nature. Bookkeeping is a regimented process usually occur in monthly cycles consisting of entering transactions into the journals, making adjustments, and preparing reports. The Accounts Receivable clerk may be assigned to enter all sales on account, and all payments from the customers. The Accounts Payable clerk’s responsibility would be to enter purchase orders and checks. Again, in a small company, both duties may be performed by the same person.

The full-charge bookkeeper is someone who can do them all—including compiling the data into the General Ledger and preparing financial statements.

### **2.2 What is Accounting?**

The accounting field has existed longer than the finance field. Accounting relates to preparation of accounting records, preparation, analysis and interpretation of financial statements.

Someone has to set up the bookkeeping system, monitor it, and interpret the results. These processes are called “accounting”. The accounting process is much less mechanical and more subjective. It begins with designing a system that will benefit the business, by capturing the financial information in a useful manner

without being overly burdensome to the bookkeeper. Once set up, the accountant monitors the system to ensure it is doing what it's supposed to do. And finally, on a monthly basis usually, the accountant presents the financial statements to the business management in such a way that decisions can be made.

Since accounting requires an understanding of the bookkeeping process, accountants typically supervise the bookkeepers. In a large corporation there may be several, possibly even thousands of accountants. One will be designated as the “controller” who oversees the entire accounting and bookkeeping system.

In a small business, one person, often a freelancer(a contracted accountant) will perform all the phases of accounting and bookkeeping for a company. Since “Accountant” is the more prestigious title, most small-business jack-of-all-trades call themselves an “Accountant”.

It merits some note that a few states actually regulate the use of the title “Accountant”. In these states, the title is “Accountant” reserved for CPA's only. This does not necessarily coincide with the definition of an accountant since most CPAs don't perform the role of an “Accountant” as described above and many people that perform the accountant's roles are not CPAs. Nevertheless the laws define it as such.

Therefore, most of our graduates, in states that permit use of such a title, refer to themselves as “Accountants.”

### 2.3 What about Tax Preparers?

Technically speaking, tax preparers are not accountants. In the early 1900s accountants usually regarded filling out the relatively simple forms as one of their duties. Today, with the tax preparation industry becoming a specialty all its own and the tax laws becoming increasingly complex, tax preparation is a totally different field populated by thousands of individuals that have never performed bookkeeping or accounting. Most are educated individuals who know how to organize tax data and how to enter it on the tax forms. Their title is “Tax Preparer.”

Of course, there are those, including a fraction of CPAs, who do perform all three tasks. Again, because “Accountant” is the most recognized title, it's one of the choices for most such professionals.

## 3. Financial Reporting

A key product of an accounting system is a set of financial statements. The



ultimate product from the accounting function is the provision of financial data through income statements, balance sheet and the statement of cash flow. A good financial manager must know how to interpret and use the financial statements in allocating firm's financial resources to generate the best return possible in the long run. Finance links the economic theory with the numbers of accounting and all managers in whatever firm setting must know what it means to assess the financial performance of a firm.

Specific areas studied in accounting include financial accounting, cost accounting, auditing and taxation.

### 3.1 Financial Accounting and Management Accounting

Users of accounting information may be categorized as external users or internal users. This distinction allows classifying accounting into two fields: financial accounting and management accounting.

Financial accounting focuses on information for people outside the firm. Creditors and outside investors, for example, are not part of the day-to-day management of the company. Government agencies and the general public are external users of a firm's accounting information.

Management accounting focuses on information for internal decision makers, such as top executives, department heads, college deans, hospital administrators, telecommunication managers, and ICT operators.

### 3.2 Financial Statements

Four major financial statements(reports)are designed to allow a “view” of the company from different perspectives. At year end the first financial statement prepared is that of the Income Statement. This view is focusing on the results of business transactions with customers. Economic inflow from the customer is termed as revenue, sales, or fees earned. The cost of satisfying customer demands(economic outflow)is termed as expense. The income statement details the revenues and expenses of the business, usually for a year, sometimes for shorter periods. If revenues exceed expenses, the business has been profitable. Other terms that indicate the profitability of a business are net earnings and net income. If expenses exceed revenues, the business has incurred a net loss. This is the only financial statement that details the revenues and expenses. Because the owners are responsible for the operation of a business, any net income(profit) increases stockholders' equity while a net loss decreases stockholders' equity.

Because the income statement is the first financial statement prepared at year end, the end-of-year balance (net income) is readily available to be carried forward to the subsequent statement (stockholders' equity) and blended there with the results of other owner activity during the period. The statement of stockholders' equity allows a view of these changes in the components of ownership equity from the beginning to the end of the company's fiscal year (or shorter period). The two major components of stockholders' equity are paid-in capital (amount paid in for stock) and retained earnings. Retained earnings is the cumulative sum of earnings, less dividends, to shareholders since the business has been in operation. In summary format, information from the statement of stockholders' equity is carried to the Balance Sheet.

The purpose of the Balance Sheet is to allow (at the end of the fiscal period) a view of the economic resources (assets) under management's control on that specific date and to disclose the parties who have legal claim on those assets. Assets are either loaned by the creditors (to whom the business is liable (liabilities)) or represent stockholders' investment or earnings generated by management. The two parties of legal claim are creditors and owners; therefore, the dollar value of assets under management's control must equal the dollar claims on those assets. Assets must equal liabilities plus stockholders' equity. This balanced equation is, in fact, the Balance Sheet prepared at year end.

The Statement of Cash Flows isolates one asset account (cash) and prepares a summary of the movement of cash into and out of the business. These sources and uses of cash are grouped into three categories—operating, financing, and investing activities. It is possible for a firm to have a positive net income and a negative cash flow for the same year. Over several years, however, successful businesses will generate positive operating cash flows. The rules, concepts, and principles for financial statements are GAAP (Generally Accepted Accounting Principles). The FASB (Financial Accounting Standards Board), a private sector body, is the principal rule-making body for the accounting profession in US.

#### **4. Accounting Principles and Basic Assumptions**

Accounting principles define the bases to be applied in order to provide the usage of basic accounting principles on financial statements and accounting transactions. In case there is more than one option for a specific transaction, the appropriate one of those principles is chosen and applied in a consistent manner.

Accounting principles are generally applied by means of accounting standards. Accounting standards are the regulations that minimize the differences between accounting principles obligatory to be taken as a basis in accounting transactions as well as in the preparation of financial statements and the practice area.

The significant ones of accounting policies applied are to be shown on financial statements through footnotes and annexes in a clear and comprehensible manner. The explanations regarding accounting policies are inseparable parts of the financial statements.

Accounting can be as complicated as it can be simple. In preparing accounts it is important that certain principles be adhered to, these are commonly referred to as Generally Accepted Accounting Principles (GAAP). When accounts are prepared using the principles listed below, they are said to be “prepared based on generally accepted accounting principles” or GAAP.

Generally Accepted Accounting Principles (GAAP) are the accounting rules used to prepare financial statements for publicly traded companies and many private companies in the United States. In the United States, as well as other countries practicing English common law system, the government does not set accounting standards, in the belief that the private sector has better knowledge and resources. The GAAP is not written in law, although the SEC requires that it be followed in financial reporting by publicly traded companies.

#### 4.1 Basic Assumptions

*Economic Entity Assumption* assumes that the business is separated from its owners or other businesses. Revenues and expenses should be kept separately from personal expenses. This applies even for partnerships and sole proprietorships. The entity concept does not necessarily refer to a legal entity. The business is what is referred to as a separate legal entity and maintains its separate accounts. For those with advanced knowledge in accounting, you will realize that this applies not only to small companies but to large complicated companies as well. For example, the payment of dividends which is a transaction between the business and its owners (basically the owners withdrawing cash or other assets from the business) is not treated as an expense, but as distribution to owners.

*Going Concern Assumption* assumes that the business will be in operation for a long time. This validates the methods of asset capitalization, depreciation, and amortization. Only when liquidation is certain is this assumption not applicable. Where it is known that the business will not continue to operate it should be

clearly stated as well. For a business that is not a going concern, the value of the assets will be determined differently with that for a going concern. This will therefore affect any analytical review of the accounts.

In case the activities are finalized or the tendency or need for the limitation of the scale engenders or uncertainties that could affect the going concern are determined, these points must be explained in the footnotes of the financial statements. If the determinations made necessitate a change in the accounting policy, the changes made in the accounting policy are shown in the explanations and footnotes of the financial statement together with its possible effects.

*Monetary Unit Assumption* assumes a stable currency is going to be the unit of record. The FASB accepts nominal value of US dollar as the monetary unit of record (unadjusted for inflation).

*Periodicity Assumption* assumes that the business operations can be recorded and separated into different periods (the most common periods are months, quarters and years). This is required for comparison between present and past performance.

## 4.2 Accounting Principles

### **Accrual Principle**

The Accrual Principle may be called the mother of all accounting principles. It ensures that revenues and expenses are booked (recorded) when earned and incurred and not necessarily when cash is exchanged. The Accrual Principle therefore brings into play other important principles such as Revenue Recognition and Matching. The company will therefore book revenue when the sale is made (based on the principles of Revenue Recognition) and will book expenses when incurred and against the revenue it helped to generate (The Matching Principle). Recognition of income and expenses according to accrual basis, directly association of transactions bearing income and profits with costs, expenses and losses belonging to the same period is the requirement of this principle. Nevertheless, this matching does not mean to display the items that do not cover asset or liability definition on the balance sheet.

### **Historical Cost Principle**

*The Historical Cost Principle* requires companies to account and report based on acquisition costs rather than fair market value for most assets and liabilities. This principle provides information that is reliable (removing possibility to provide subjective and potentially biased market values), but not very

relevant. Thus there is a trend to use fair values. Although most debts and securities are now reported at market values, accountants tend to use historical cost in preparing other accounts. This is a simple concept that means that the data you see on a balance sheet is recorded at the historical cost. The historical cost is therefore the cost at the time the company or entity completed the transaction. Historical cost accounting is therefore the opposite of current cost accounting. Current cost accounting would record account transactions at the current (the cost at the time the financials were prepared) cost.

### **Relevance Principle**

The information presented in the financial statements shall have the qualities necessary that may be used by the readers of the financial statements in making decisions and it shall be in compliance with its purpose. Compliance of the information with needs refers to assessment of events in the past, present and future and shall affect economical decisions of users thereby ensuring confirmation or correction of past assessments.

Information placed in the financial statements shall be presented timely and in a manner that enables constitution, confirmation and changing of the expectations on future events and their results provided that its up-to-dateness is kept.

### **Reliability Principle**

Information presented in financial statements shall be reliable. The provable information which is presented in a neutral manner and disclosed completely and which accurately discloses transactions and events is deemed reliable.

Accuracy refers to the fact that transactions and events are disclosed accurately in the financial statements. Information disclosed in the financial statements shall accurately disclose assets and liabilities along with its own funds as well as the transactions and events that change them.

Provability refers to the fact that mainly the same results can be obtained from the information presented in financial statements by different persons who made use of the same measurement methods. Provable information ensures that transactions and events are reflected in the financial statements accurately and in a neutral manner.

Neutrality requires that accounting data should be disclosed in a manner that enables economic activities be reflected as accurately as possible and regardless of a purpose aiming at affecting decision-making mechanism. Neutrality requires complying with prudence principle provided that making decisions and practice

thereof under uncertainty.

### **Consistency Principle**

The Consistency Principle is just as the name suggests. It requires that accounts be prepared using the same method from period to period. Changes are inevitable, however, when these changes are made the accountant is required to explain the change in the notes to the financials. This principle is very important, as different methods of preparing the accounts may render completely different results. This would make it difficult for users of the financials to accurately interpret the financial results. Without the Consistency Principle, unscrupulous accountants would be able to change methods in an attempt to manipulate the results. The Consistency Principle also ensures that the method used to allocate cost is the same method used to establish the value of assets.

### **Comparability Principle**

With a view to ensuring assessment of the financial status and operations, financial statements of an entity for different periods and financial statements of different entities shall be comparable. So as to observe changes in financial status and operations within time, financial statements shall include the information regarding previous terms and selected accounting policies shall be applied in following periods without any change, in compliance with consistency concept.

The Comparability Principle stipulates accounting policies used in preparation of financial statements and changes in these policies as well as the information for the effects of these changes and determination of changes in accounting policies of a entity in a period along with variations in accounting policies of different entities. Comparability is related with the preparation and reporting of the financial statements in conformity with the principles and standards on accounting and principles on financial statements. However, this principle does not foresee the absolute stability of the financial statement and accounting policy. In cases where the adopted accounting policy is insufficient from the viewpoint of relevance and reliability or the alternative accounting policies answer more efficiently to the relevance and reliability, the practiced accounting policy shall be changed. Values on the financial statements and their explanations and footnotes shall be given in coherence with the previous year's values concerning the same period in a way to allow annual comparison. Issues taking place in previous periods' financial statements, effects of which continue on the current financial statements shall be included in disclosures after being determined in a comparative manner. In case.

presentation or classification of the items on financial statements are changed on condition that it is conforming with the form and contents of financial statements determined in the communiqués relating to the regulation hereof, the comparative financial statements shall be re-prepared by stating the content, reasons for the changes made and the amount.

### **Understandability**

Information presented in the financial statements should be explicit, comprehensible and complete. Besides, information necessary shall be presented in footnotes and annexes. In preparation of financial statements, it is assumed that those persons concerned have a specific level of related knowledge and have the ability to analyze the information presented. However, explanation of the specific information and its reflection in financial statements cannot be avoided grounding on the difficulty in understanding thereof due to its complexity.

### **Conservative Principle**

Accountants are not supposed to be too optimistic or ambitious in their work! In personal life they may well be the most ambitious and optimistic among us, but not at work. Accountants are required to be conservative in their preparation of the books. While the analysis should be as sound as possible, it is always better for an accountant to err on the “low” side. The accountant should be careful therefore not to overstate assets or understate liabilities. Provision for bad debt is a good example of the conservative principle at work. The provision is made because it is generally accepted that not all debtors will pay all of what they owe. The accountant will therefore make a deduction for a percentage she/he thinks will not be collected.

### **Matching Principle**

Expenses have to be matched with revenues as long as it is reasonable to do so. Expenses are recognized not when the work is performed, or when a product is produced, but when the work or the product actually makes its contribution to revenue. Only if no connection with revenue can be established, cost can be charged as expenses to the current period (e. g. , office salaries and other administrative expenses). This principle allows greater evaluation of actual profitability and performance (which shows how much was spent to earn revenue). Depreciation and Cost of Goods Sold are good examples of application of this principle.

### **Prudence Principle**

The Prudence Principle is similar to the Conservative Principle in that it

speaks for the need of accountants to be more willing to understate than overstate profit. Under the prudence principle revenue should not be anticipated, while expenses and losses should be anticipated and charged against income. In fact, The prudence principle means being in a deliberate and prudent manner under uncertainty for foreseeing in decision-making and practicing. Accounting policies should be grounded on a basis which takes into consideration the risks and uncertainties to be encountered and ensures recognition thereof in a prudent manner according to their structures and scopes. According to these, while necessary provisions are set aside for possible expenditures, losses and debts, any accounting record isn't required for possible revenues and profits.

### **Materiality Principle**

This principle allows the accountant to ignore generally accepted accounting principles if doing so would not influence the financial position of the company and/or would be costly and difficult to accomplish. Where an entry affects the financial position of the business entity, the entry is considered material and should to be recorded according to GAAP stipulations. Most companies will establish its own materiality guidelines specific for certain activities. For example, a million-dollar company may purchase a wheelbarrow for \$100. The wheelbarrow, with a life exceeding three years(at least!) should be capitalized (booked as a fixed asset). However, due to the low value and the difficulties in tracking a wheelbarrow, the accountant will more than likely to expense the item. In a case like this, the accountant may have set a value of \$3,000 as the minimum for capitalization. "Assets" items costing less than \$3,000 will therefore be expensed.

### **Substance Over Form Principle**

The Substance Over Form Principle means the fact that not only the legal framework but also the actual content in terms of economical value should be taken as basis in recognition of transactions along with the economical activities and evaluations to be made regarding them. Generally forms of the transactions are in compliance with their substances but in case a difference occurs between them substance over form is accepted.

In recognition of the transactions, financial status thereof and their significance for a business entity shall be taken into consideration prior to their legal characteristics. In case to represent faithfully the transaction differs from tax legislation, recognition shall be carried out in accordance with actual



characteristic of the transaction and the difference shall be removed from financial statements to be prepared with the aim of tax calculation.

### **Full Disclosure Principle**

Amount and kinds of information disclosed should be decided based on trade-off analysis as larger amount of information costs more to be prepared and used. Information disclosed should be enough to make judgment while keeping costs reasonable. Information is presented in the main body of financial statements, in the notes or as supplementary information.

## **5. Accounting Elements and Accounting Equation**

Accounting basics are key to the learning process. They lead to your understanding of financial statements, accounting ratios, budgets and other features of all accounting systems. The basic accounting elements are assets, liabilities and owner's equity.

*Assets*—the assets are property that represents a value. Buildings, cash, furniture, merchandise, accounts receivable, stock, bonds, land and equipment are a few of the most common assets owned by the business and certainly one of the most recognizable of the accounting basics. Some businesses have few assets, such as consultant or accounting firm. Others, of course, have many assets of great value. You have personal assets just like the business assets, cars, boats, furniture and so on.

*Liabilities*—these represent the obligations of the business and money owed. The most common are accounts payable, the bills owed to your suppliers. You may have loans, notes payable, taxes payable, etc. All are obligations of your business.

*Owner's Equity*—What's left? The difference between the assets and the liabilities are called Owner's equity, much like the equity in your home or car.

*Accounting Equation*—the relationship shown above between assets, liabilities and owner's equity is shown in the form of an equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Of course once you know any two of the elements you can easily compute the third. For example, if ABC Company owned \$15,000 in assets and owed \$12,500 on a loan you can compute the owner's equity very easily.

$$\text{Assets}(\$15,000) = \text{Liabilities}(\$12,500) + \text{Owner's Equity}(\$2,500)$$

If the company has a profitable year, then cash is likely to increase and they