

## 17.2 An exercise on the nature of the accounting equation

An inexperienced examiner has prepared a test for students who are learning the accounting equation, as shown below:

*Accounting Equation: fill in the gaps in this table*

business	assets £	liabilities £	capital £
A	800	200	?
B	450	?	300
C	?	100	400

Carefully explain why rows B and C may give a misleading impression of the accounting equation and the nature of capital.

### Response

Rows B and C appear to ignore the fact that capital is the dependent variable in the balance sheet equation. You cannot use the value of capital to find the value of assets or liabilities in the equation, because you cannot know the value of capital unless you already know the value of assets and liabilities.