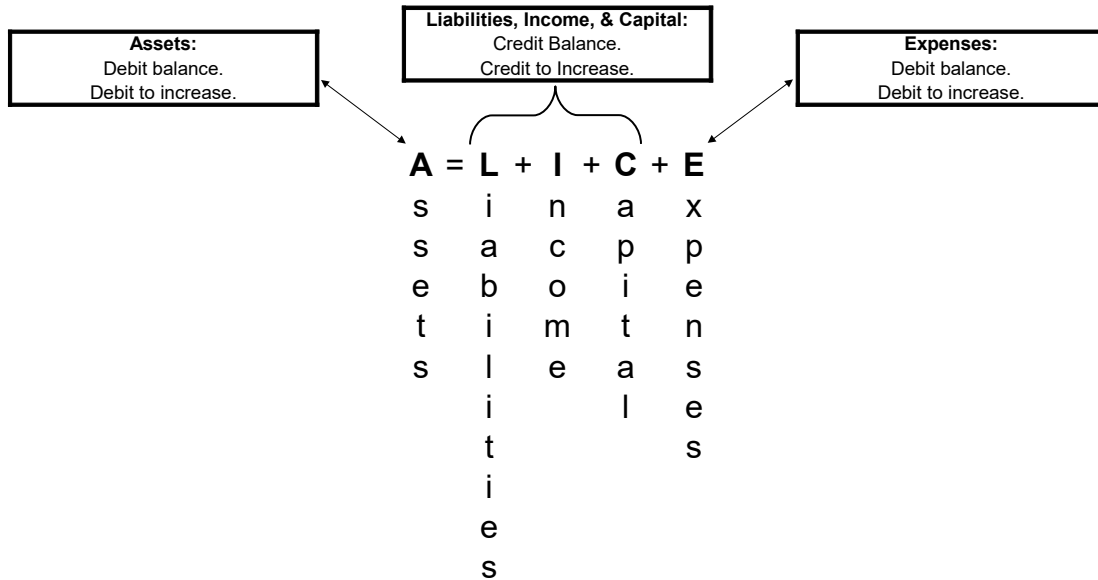


EXPANDED ACCOUNTING EQUATION



The Expanded Accounting Equation is similar to the Accounting Equation, but it is expanded to include the Income Statement accounts (Income and Expenses). As a result, ALE is expanded into ALICE. Consequently, what the letters stand for in ALE and ALICE also change (see below).

The Accounting Equation is: Assets = Liabilities + Equity. This represents the Balance Sheet. Assets are on the Debit side of the equation. Assets are equal to the Credit side of the equation which is where Liabilities and Equity are found.

Another way of looking at the Accounting Equation is that Assets – Liabilities = Equity.

The Expanded Accounting Equation expands the Accounting Equation to include Income and Expenses which are Income Statement Accounts.

Attention! The letters in ALE and ALICE can be confusing!

In both ALE and ALICE, the letter “A” stands for Assets and the letter “L” stands for Liabilities.

In ALE, the letter “E” stands for Equity.

In ALICE, the letter “E” stands for Expenses.

In ALICE, the letter “C” is added to the equation for Capital which is another term for Equity.

In ALICE, the letter “I” is added to the equation for Income.

Balance Sheet Accounts:
Assets, Liabilities,
& Equity (Capital)

Income and Expenses:
Close into Income Summary.

Income Summary is a transitional account that closes into Retained Earnings on the Balance Sheet in the Equity (Capital) section.

This means that income and expenses affect the Equity (Capital) of a business

Income Statement Accounts:
Income & Expenses