The Accounting Equation

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1. **The Equation**
    - Assets = Liabilities + Equity. This fundamental relationship must always balance and underlies the double-entry system.
2. **Assets**
    - Resources owned or controlled by the business expected to provide future economic benefit (cash, inventory, equipment, receivables).
3. **Liabilities**
    - Obligations owed to outside parties (loans, accounts payable, accrued expenses).
4. **Equity**
    - The owner's residual claim on the assets after liabilities are settled; increases with profit/owner contributions, decreases with losses/withdrawals.
5. **How Transactions Affect the Equation**
    - Every transaction affects at least two elements while keeping the equation balanced (e.g., buying equipment with cash: one asset increases, another decreases).
6. **Why It Matters**
    - This equation is the foundation of the balance sheet and the logical basis for double-entry bookkeeping.