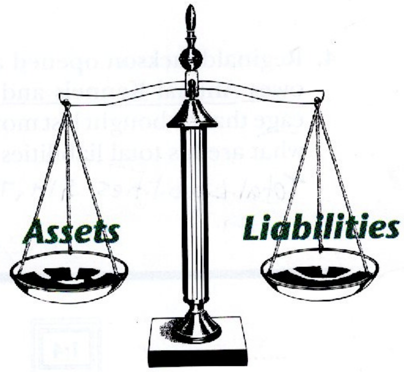
1·5

Capital



In most families' financial affairs, there are both assets and liabilities. No doubt, you have assets and liabilities. Remember, anything you own, such as a car, clothes, stereo, or camera, is your asset. Any debts you have, such as the five dollars you owe your sister, are liabilities. Do you have more assets than liabilities? If not, you are headed for financial trouble.

Most businesses have assets and liabilities. Of course, the goal of a business is to make money. Therefore, a business owner needs to know by how much the assets exceed the liabilities. This amount is called the business capital. ***The* capital** is ***the amount of money invested (assets) minus the business liabilities.*** Sometimes the terms *net worth* or *owner's equity* are used instead of *capital.*

Assets, liabilities, and capital are known as the three accounting elements. The **accounting equation** can best describe their relationship to each other.

Assets = Liabilities + Capital

When any two of the accounting elements are known, the third element can be found.

Liabilities = Assets − Capital
Capital = Assets − Liabilities

Example 1

Shane Smith has a computer shop with these assets: cash, $1,300; accounts receivable, $10,860; computer inventory, $75,000; office furniture, $1,243. He owes ABC Computer Manufacturing $20,000 and Maxwell's Office Suppliers $50. What is Mr. Smith's capital?

a. First, find the sum of all his assets.

Assets	
$1,300	
10,860	
75,000	
+ 1,243	
$88,403	**Total assets**

b. Second, find the sum of all his liabilities.

Liabilities	
$20,000	
+ 50	
$20,050	**Total liabilities**

c. Use the equation to find the capital.

Capital = Assets − Liabilities
Capital = $88,403 − $20,050
Capital = $68,353

Homework

Find the capital (net worth) of each business.

1. Assets: $58,900
   Liabilities: $ 7,350
   Capital: ?

2. Assets: $112,316
   Liabilities: $ 63,780
   Capital: ?

3. Assets: $86,440
   Liabilities: $80,931
   Capital: ?

4. Assets: $1,400,520
   Liabilities: $ 615,372
   Capital: ?

Complete the chart.

	Assets	Liabilities	Capital
5.		$9,780	$10,403
6.	$104,930	$23,988	
7.	$1,306,224		$899,879
8.	$632,483		$97,886
9.		$265,723	$1,487,942
10.	$932,604	$729,325	

Solve the word problems.

11. Brad Ames owns his own accounting firm with these assets: cash, $2,200; office equipment, $132,680; office furniture, $9,168; land and building, $198,329. He owes McGee Construction Company $11,885 and Landis Office Supplier $20,500. What is Brad Ames's capital?

12. Greg Oliver runs a car garage. On December 31, 20–, his assets were: cash, $5,623; tools and equipment, $54,630; office furniture, $2,118; building, $95,400. He owes the First Businessman's Bank $92,987. What was Greg Oliver's capital?

12. Teri Wetzel is a seamstress who works out of her house. She has these assets: material, $250.19; sewing machine, $600.99; sewing table, $126.26. She owes Suzanne's Cloth Store $21.65, the Silver Dollar Advertising Newspaper $10.15, and Professional Business Card Printers $8.54. What is the amount of her capital?

13. Zana Lovley has a small craft shop with these assets for the month of February: cash, $400.25; craft inventory, $612.84; craft-making equipment, $58.72; office furniture, $468.22. She owed the bank $807.58 and Creative Craft Company $112.89. What was Zana Lovley's capital?

14. Maurice Godfrey owns a home improvement store. During April he had these assets: cash—$2,480.59; accounts receivable—$8,923.88; merchandise—$52,840; office furniture—$2,800; and supplies—$4,950. He had these liabilities: accounts payable—$2,384.18; rent—$2,500; and services rendered—$9,425. What was the amount of capital?

15. In March, Bread for Less had assets of $145,000 and liabilities of $75,500. During April, everything remained the same, except that the owner put $1,000 in equity into the capital. (A) Find the capital for March. (B) Find the capital for April.

16. Magic Mirror has $428,210 in capital and $87,498 in liabilities. Find the assets.