**In practice[[edit source](http://en.wikipedia.org/w/index.php?title=Accounting_equation&action=edit&section=1" \o "Edit section: In practice) |** [**editbeta**](http://en.wikipedia.org/w/index.php?title=Accounting_equation&veaction=edit&section=1)**]**

For example: A student buys a [computer](http://en.wikipedia.org/wiki/Computer) for $945. This student borrowed $500 from his friend and spent another $445 earned from his part-time job. Now his [assets](http://en.wikipedia.org/wiki/Asset) are worth $945, [liabilities](http://en.wikipedia.org/wiki/Liability_%28accounting%29) are $500, and equity $445.

The formula can be rewritten:

**Assets** - **Liabilities** = (Shareholders' or Owners' **Equity**)[[1]](http://en.wikipedia.org/wiki/Accounting_equation%22%20%5Cl%20%22cite_note-meigs-1)

Now it shows owners' interest is equal to [property](http://en.wikipedia.org/wiki/Property) (assets) minus [debts](http://en.wikipedia.org/wiki/Debts) (liabilities). Since in a corporation owners are [shareholders](http://en.wikipedia.org/wiki/Shareholders), owner's interest is called [shareholders' equity](http://en.wikipedia.org/wiki/Shareholders%27_equity). Every [accounting](http://en.wikipedia.org/wiki/Accounting) [transaction](http://en.wikipedia.org/wiki/Financial_transaction) affects at least one element of the equation, but always balances. Simplest transactions also include:[[2]](http://en.wikipedia.org/wiki/Accounting_equation%22%20%5Cl%20%22cite_note-2)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TransactionNumber** | **Assets** | **Liabilities** | **Shareholder'sEquity** | **Explanation** |
| 1 | + | 6,000 |  |  | + | 6,000 | Issuing [stocks](http://en.wikipedia.org/wiki/Stock) for cash or other assets |
| 2 | + | 10,000 | + | 10,000 |  |  | Buying assets by borrowing money (taking a loan from a bank or simply buying on credit) |
| 3 | − | 900 | − | 900 |  |  | Selling assets for cash to pay off liabilities: both assets and liabilities are reduced |
| 4 | + | 1,000 | + | 400 | + | 600 | Buying assets by paying cash by shareholder's money (600) and by borrowing money (400) |
| 5 | + | 700 |  |  | + | 700 | Earning revenues |
| 6 | − | 200 |  |  | − | 200 | Paying expenses (e.g. rent or professional fees) or dividends |
| 7 |  |  | + | 100 | − | 100 | Recording expenses, but not paying them at the moment |
| 8 | − | 500 | − | 500 |  |  | Paying a debt that you owe |
| 9 |  | 0 |  | 0 |  | 0 | Receiving cash for sale of an asset: one asset is exchanged for another; no change in assets or liabilities |

These are some simple examples, but even the most complicated transactions can be recorded in a similar way. This equation is behind [debits](http://en.wikipedia.org/wiki/Debit), [credits](http://en.wikipedia.org/wiki/Credit_%28accounting%29), and journal entries.

This equation is part of the transaction analysis model,[[3]](http://en.wikipedia.org/wiki/Accounting_equation%22%20%5Cl%20%22cite_note-3) for which we also write

Owners equity = Contributed Capital + Retained Earnings

Retained Earnings = Net Income − Dividends

and

Net Income = Income − Expenses

The equation resulting from making these substitutions in the accounting equation may be referred to as the *expanded* accounting equation, because it yields the breakdown of the [equity](http://en.wikipedia.org/wiki/Ownership_equity) component of the equation