

# Liabilities, shareholders' equity

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## Liabilities

In a company business operation, transactions or other events transpire all the time. In financial accounting this leads to a transfer of economic benefits including money, goods or services.

Liabilities are settled when this transfer occurs. In the balance sheet you can find them on the right side. Assets are on the left.

Loans, debts, mortgages, deferred income and accrued expenses are liabilities and important for a company's business because they are used for financing and for new investments.

They can also facilitate transactions between companies.

For example, goods that you use for maintenance of apartments and haven't yet paid for are liabilities. It's a short-term liability and will be paid for within a year. Loans taken when the investment in properties was made are long-term liabilities.

Liabilities can be based on ethics and morals or may depend on informal facts of a specific situation. Of course, they can also be based on legal contracts.

## Shareholders' equity

Ownership equity, or when the owners are shareholders is called "shareholders equity".

This is a form of liability, but it is different as the interest remains. It describes the owners' claim on the company or conversely, the company's debt to the owners.

Shareholders' equity is a company's total assets minus its total liabilities. This is the mathematical formula of the balance sheet:

$$\text{Shareholders' equity} = \text{Total Assets} - \text{Total Liabilities}$$

Or the total share capital plus total retained earnings minus treasury shares, which is own shares in the company:

$$\text{Shareholders' equity} = \text{Share Capital} + \text{Retained Earnings} - \text{Treasury Shares}$$

Equity capital is the amount of capital provided by the company's owners. The primary source of money is the first investment plus additional investments. The other portion comes from retained earnings and accumulates over time.

*The table below shows how assets were financed: either by borrowing money from someone (liability) or by paying in your own money (shareholders' equity).*

Transaction Number	Assets	Liabilities	Shareholders' Equity
1	+10000	+10000	
2	-9000	-9000	
3	+20000	+8000	+12000
4	+70		+70
5	-25		-25
6		+100	-100
7	-500	-500	
8	0	0	

$$\text{Assets} - \text{Liabilities} = (\text{Shareholders' or Owners' Equity})$$

1. Buying a property by borrowing money.
2. Selling another property for cash and pay off liabilities.
3. Buying an additional property for cash using shareholders' money (8000) and borrowing (12000).
4. Takings from rent.
5. Paying expenses for maintenance and heating.
6. Recording expenses but not paying them at that time.
7. Paying for a debt that I owe.
8. Receiving cash for sale of a property.

Important terms:

- deferred income
- accrued expenses