

Jack and Jill (Based on the understanding of the accounting equation)

Jack and Jill were schoolmates in their childhood. Both were good in studies and smart in all extra-curricular activities and sports. After completing the 12th, Jack moved to Chennai to join IIT and pursue an engineering degree in computer science. Jill stayed back in the village with her parents and joined a Government Arts college to pursue graduation in Kannada Literature. Jack spent around eleven lakh rupees to complete his course from IIT, whereas Jill completed her BA and MA by spending a mere sum of eighty thousand rupees. Microsoft recruited Jack from campus itself for an annual package of Rs. 12 lakhs, and he moved to Hyderabad, where he slowly settled.

On completing her MA, Jill got selected to the nearby Government college as a lecturer in the Languages department for a starting salary of Rs. 42000 per month.

Both friends met after 10 years and started talking about their lives. Their conversations regarding their financial status are given below.

Jack: I am happily living in my luxurious apartment, which I purchased for 2.5 crore 3 years ago. But I had taken an 80% loan for this apartment. In three years, I could repay only 11 lakhs of this loan. But my apartment has appreciated to 2.6 crore now. I also purchased a BMW car for 45 lakhs recently, but of course, took a loan of 40 lakhs against it. I have investments in the share market, which are worth 12 lakhs now. Not to forget, I have a personal loan of 5 lakhs against my salary account. Right now, my annual salary is around 60 lakhs, but my annual expenses come to around 90% of that. I feel I am financially settled.

Jill: My story is different. I bought 2 acres of land for 40 lakhs and built a villa in it for 55 lakhs. Though I never liked the idea of taking loans, I took just one for 22 lakhs against my villa to save my tax bill. I have given loans of 5 lakh each to my three cousins. But I feel one among them will not pay me back. I have gold worth 10 lakhs and horses and cows worth 8 lakhs. At present, my annual salary is 11 lakhs, and I have spent only 60% of that.

Considering the information given above, whose financial position is better?

Identify Assets, Liabilities, Equity, Income, and Expenses

Accounting Equation: Assets = Liabilities + Equity

Balance sheet, Income Statement, or Profit and Loss Account

Balance Sheet of Jack

Balance Sheet as on 30/6/17

Particulars	Amount
ASSETS	
Non-Current Assets	
Car	45,00,000
Apartment	260,00,000
Shares	12,00,000
Current Assets	
Total Assets	317,00,000
EQUITY AND LIABILITIES	
EQUITY	
Capital	83,00,000
Total Equity	83,00,000
LIABILITY	
Car Loan	40,00,000
Home Loan	189,00,000
Personal Loan	5,00,000
Total Liabilities	2,34,00,000
Total Equity and Liabilities	317,00,000

Balance Sheet of Jill**Balance Sheet as on 30/6/17**

Particulars	Amount
ASSETS	
Non-Current Assets	
Land	40,00,000
Loan to cousins	
Villa	10,00,000
Livestock	55,00,000
	8,00,000
Gold	10,00,000
Current Assets	
Total Assets	123,00,000
EQUITY AND LIABILITIES	
EQUITY	
Capital	101,00,000
Total Equity	83,00,000
LIABILITY	
Home Loan	22,00,000
Total Liabilities	22,00,000
Total Equity and Liabilities	123,00,000