PACT English Department

SOLUTIONS:

a) and b):

	ASSETS =	OWNER'S EQUITY +	*LIABILITIES*
December 31, 2009	$760,000	**a) $520,000**	$240,000
Changes during 2010	+ $120,000		+ $72,000
December 31, 2010	**$880,000**	**b) $568,000**	**$312,000**

To get the answer for a) above, we simply use the basic accounting equation.

ASSETS = OWNER'S EQUITY + LIABILITIES

If we turn this around to make owner's equity the subject, then:

OWNER'S EQUITY = ASSETS - LIABILITIES

So we take the assets and minus the liabilities.

In other words, $760,000 - $240,000 = $520,000

For b) we first add the changes to assets and liabilities to get their new balances. Then we work out the new balance of owner's equity in the same way: $880,000 - $312,000 = $568,000

The answers below for c) and d) basically work in the exact same way - get the new balance of assets and liabilities and then use these new balances to work out the new balance of equity.

c):

	ASSETS =	OWNER'S EQUITY +	*LIABILITIES*
December 31, 2009	$760,000	**$520,000**	$240,000
Changes during 2010	- $60,000		+ $21,600
December 31, 2010	**$700,000**	**c) $438,400**	**$261,600**

d):

	ASSETS =	OWNER'S EQUITY +	*LIABILITIES*
December 31, 2009	$760,000	**$520,000**	$240,000
Changes during 2010	+ $100,000		- $38,400
December 31, 2010	**$860,000**	**d) $658,400**	**$201,600**

e):

	ASSETS =	OWNER'S EQUITY +	*LIABILITIES*
December 31, 2009	$760,000	**$520,000**	$240,000
Changes during 2010 (net income)		**e) $284,000**	
December 31, 2010	$960,000	**$804,000**	$156,000

This last part (e) is a bit trickier than the previous ones.

What you have to do is first calculate the new balance of owner's equity.

The net income (also simply known as net profit) is the change for the year, and is the difference between the old and new balances of owner's equity.

In other words, $804,000 - $520,000 = $284,000