

# What is the Accounting Equation?

## Worksheet

The accounting equation states that  $\text{Assets} = \text{Liabilities} + \text{Equity}$  - a company's resources always equal what it owes plus what belongs to its owners.

$$A = L + E$$

## Questions

1. A company has \$50,000 in liabilities and \$30,000 in equity. What are total assets?  
A) \$20,000  
B) \$80,000  
C) \$50,000  
D) \$30,000
2. Which equation is correct?  
A)  $\text{Assets} = \text{Liabilities} \text{ Equity}$   
B)  $\text{Assets} = \text{Liabilities} + \text{Equity}$   
C)  $\text{Equity} = \text{Assets} + \text{Liabilities}$   
D)  $\text{Liabilities} = \text{Assets} + \text{Equity}$
3. A firm's assets are \$300,000 and equity is \$120,000. Liabilities?  
A) \$180,000  
B) \$420,000  
C) \$120,000  
D) \$300,000
4. Buying equipment with cash affects the equation how?  
A) Increases total assets  
B) Keeps total assets the same, just changes composition  
C) Increases liabilities  
D) Decreases equity
5. A bakery has \$80,000 in liabilities and \$45,000 in owner's equity. What are its total assets?
6. A store owns \$150,000 in assets and owes \$90,000 in liabilities. Find the owner's equity.
7. A company has \$200,000 in assets and \$70,000 in equity. What are its liabilities?
8. Define: What is the accounting equation?
9. Define: Why must the equation always balance?
10. Define: What counts as equity?

## Answer Key

1. B)  $\$80,000 - \text{Assets} = \text{Liabilities} + \text{Equity} = 50,000 + 30,000 = 80,000$ .
2. B)  $\text{Assets} = \text{Liabilities} + \text{Equity}$  - The accounting equation is  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .
3. A)  $\$180,000 - \text{Liabilities} = \text{Assets} \text{ Equity} = 300,000 - 120,000 = 180,000$ .
4. B) Keeps total assets the same, just changes composition - Cash (asset) decreases while equipment (asset) increases by the same amount - total assets unchanged.
5.  $\text{Assets} = \text{Liabilities} + \text{Equity}$   $\text{Assets} = 80,000 + 45,000$   $\text{Assets} = \$125,000$
6.  $\text{Equity} = \text{Assets} - \text{Liabilities}$   $\text{Equity} = 150,000 - 90,000$   $\text{Equity} = \$60,000$
7.  $\text{Liabilities} = \text{Assets} - \text{Equity}$   $\text{Liabilities} = 200,000 - 70,000$   $\text{Liabilities} = \$130,000$
8.  $\text{Assets} = \text{Liabilities} + \text{Equity}$  - the foundation of every balance sheet.
9. Because every transaction has two sides (double-entry) - resources always equal the claims against them.
10. The owner's residual claim: contributed capital plus retained earnings, after liabilities are subtracted.

### **Bounlu**

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