

## SOLUTIONS

## Learning Goal 4

## Reinforcement Problems

## LG 4-1.

	Total Assets = Total Liabilities + Owner's Equity		
a. Mohawk Company (June 30, 2008)	\$251,000	\$200,000	$A - L = OE$ ( $OE = \$51,000$ )
b. Nez Perce Company (December 31, 2008)	$A = L + OE$ ( $A = \$40,700$ )	\$18,500	\$22,200
c. Lakota Company (October 31, 2007)	\$50,000	$A - OE = L$ ( $L = \$15,000$ )	\$35,000
d. Modoc Company (March 31, 2007)	$A = L + OE$ ( $A = \$225,000$ )	\$45,000	\$180,000
e. Cherokee Company (April 30, 2008)	\$200,000	\$251,000	$A - L = OE$ ( $OE = -\$51,000$ )
f. Seminole Company (December 31, 2008)	\$815,000	$A - OE = L$ ( $L = \$170,000$ )	\$645,000

Meaning of situation (e): Yes, this is not unusual. It means that a business has consumed so many assets that there are not enough assets left to pay the creditors. This negative owner's equity means that the owner will have to invest \$51,000 more so the business can pay all the liabilities, if the business were to be terminated today.

**SOLUTIONS****Learning Goal 4, continued****LG 4-2.**

<b>Item</b>	<b>A, L, or OE</b>
a. Money owed to a supplier	L
b. Cash	A
c. Office supplies	A
d. Money owed to the bank for a loan	L
e. The amount of assets that would go to the owner after the all creditors are paid	OE
f. A signed contract requiring us to provide services next month	None (perhaps some undetermined legal obligation, but no financial liability to creditor.)
g. A computer	A
h. Computer software	A
i. A bill from the telephone company for this month's service	L
j. Land	A
k. An employee	None (It doesn't meet the definition of asset.)
l. An office building our company is renting	None (Somebody else owns the building.)
m. Money owed to us by our customers	A

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**LG 4-3.** Any business consists of three fundamental financial elements: Assets, Liabilities, and Owner's Equity. They are always related to each other in this way:  $A = L + OE$ , so this relationship will always explain the essential financial condition of any business.

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**LG 4-4.** This feature is sometimes written into business loans. If \$80,000 is the only debt, then \$80,000 is 40% of what amount?  $\$80,000 / .4 = \$200,000$  amount of assets. So if the assets were \$200,000 and the liabilities were \$80,000, then owner's equity would be \$120,000.

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