

SOLUTIONS**Learning Goal 4****Reinforcement Problems****LG 4-1.**

| | Total Assets = Total Liabilities + Owner's Equity | | |
|---|--|-------------------------------------|--------------------------------------|
| a. Mohawk Company (June 30, 2018) | \$251,000 | \$200,000 | $A - L = OE$ ($OE = \$51,000$) |
| b. Nez Perce Company (December 31, 2018) | $A = L + OE$ ($A = \$40,700$) | \$18,500 | \$22,200 |
| c. Lakota Company (October 31, 2017) | \$50,000 | $A - OE = L$ ($L = \$15,000$) | \$35,000 |
| d. Modoc Company (March 31, 2017) | $A = L + OE$ ($A = \$225,000$) | \$45,000 | \$180,000 |
| e. Cherokee Company (April 30, 2018) | \$200,000 | \$251,000 | $A - L = OE$ ($OE = -\$51,000$) |
| f. Seminole Company (December 31, 2018) | \$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.**

| Item | A, L, or OE |
|---|--|
| 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 |

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.

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.