

SOLUTIONS

Learning Goal 14

LG 14-1. Statement of owner's equity:

David Running-Elk, M.D.		
Statement of Owner's Equity		
For the Month Ended July 31, 2008		
David Running-Elk, Capital, July 1, 2008		\$ 0-
Add: Initial investment by owner	\$37,000	
Net income	<u>1,450</u>	
Subtotal		38,450
Less: Withdrawals		<u>(1,000)</u>
David Running-Elk, Capital, July 31, 2008		<u><u>\$37,450</u></u>

(The statement of owner's equity explains the David Running-Elk, Capital, balance of \$37,450 on the balance sheet.)

LG 14-2. As before, with any "missing information" financial statement problem, there are two good ways to set up the problem and identify what you need to do. You can either:

- a. Prepare a statement using the amounts available, so you can identify what is missing, or . . .
- b. You can use the formula relationship that the statement is based on.

a. A statement using the amounts available:

West Valley Company		
Statement of Owner's Equity		
For the Year Ended December 31, 2008		
Lucy Palangian, Capital, January 1, 2008		\$ 3,800
Add: Investment by owner	\$15,000	
Net income/loss	<u> ?</u>	
Subtotal		
Less: Withdrawals		<u>(5,300)</u>
Lucy Palangian, Capital, December 31, 2008		<u><u> \$?</u></u>

- b. Use the formula that the statement is based on: beginning balance + (net income/(loss) + investments – withdrawals) = ending balance. Filling in what you know: \$3,800 + net income/(loss) + \$15,000 – \$5,300 = ending balance.

Reviewing the information, you see that because you know total assets and total liabilities on December 31, you can calculate the balance of owner's capital as $A - L = OE$, or $\$41,000 - \$37,000 = \$4,000$ on December 31.

SOLUTIONS**Learning Goal 14, continued****LG 14-2, continued**

When you know the ending balance, you can complete the statement by filling in the difference as a net loss on the statement or by calculating it in the formula as: $\$3,800 + X + \$15,000 - \$5,300 = \$4,000$. Therefore, $X = -9,500$ (a net loss).

West Valley Company		
Statement of Owner's Equity		
For the Year Ended December 31, 2008		
Lucy Palangian, Capital, January 1, 2008		\$ 3,800
Add: Investment by owner		15,000
Less: Withdrawals	(5,300)	
Net (Loss)	<u>(9,500)</u>	
Subtotal		<u>(14,800)</u>
Lucy Palangian, Capital, December 31, 2008		<u>\$ 4,000</u>