APPENDIX F

Accounting for Partnerships

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Exercises	Problems
1. Identify the characteristics of the partnership form of business organization.	1, 2, 3			
2. Explain the accounting entries for the formation of a partnership.	4	1, 2	1	1
3. Identify the bases for dividing net income or net loss.	5, 6, 7, 8, 9	3, 4, 5	2	2
4. Describe the form and content of partnership financial statements.	10		3	1, 2
5. Explain the effects of the entries to record the liquidation of a partnership.	11, 12, 13, 14	6	4, 5, 6	3

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1	Prepare entries for formation of a partnership and a statement of financial position.	Simple	20–30
2	Journalize divisions of net income and prepare a partners' capital statement.	Moderate	30–40
3	Prepare entries with a capital deficiency in liquidation of a partnership.	Moderate	30–40

ANSWERS TO QUESTIONS

1. (a) Association of individuals. A partnership is a voluntary association of two or more individuals based on as simple an act as a handshake. Preferably, however, the agreement should be in writing. A partnership is both a legal entity and an accounting entity, but it is not a taxable entity.

(b) Limited life. A partnership does not have unlimited life. A partnership may be ended voluntarily or involuntarily. Thus, the life of a partnership is indefinite. Any change in the members of a partnership results in the dissolution of the partnership.

(c) Co-ownership of property. Partnership assets are co-owned by all the partners. If the partnership is terminated, the assets do not legally revert to the original contributor. Each partner has a claim on total assets equal to his or her capital balance. This claim does not attach to specific assets the individual partner contributed to the firm.

2. (a) Mutual agency. This characteristic means that the act of any partner is binding on all other partners when engaging in partnership business. This is true even when the partners act beyond the scope of their authority, so long as the act appears to be appropriate for the partnership.

(b) Unlimited liability. Each partner is personally and individually liable for all partnership liabilities. Creditors' claims attach first to partnership assets and then to personal resources of any partner, irrespective of that partner's equity in the partnership.

3. The advantages of a partnership are: (1) combining skills and resources of two or more individuals, (2) ease of formation, (3) freedom from governmental regulations and restrictions, and (4) ease of decision making. Disadvantages are: (1) mutual agency, (2) limited life, and (3) unlimited liability.

4. The capital balance should be ₤112,000, comprised of land ₤75,000, and equipment ₤57,000, less debt ₤20,000.

5. When the partnership agreement does not specify the division of net income or net loss, net income and net loss should be divided equally.

6. Factors to be considered in discussing how income and loss should be divided are: (1) a fixed ratio is easy to apply and it may be an equitable basis in some circumstances; (2) capital balance ratios when the funds invested in the partnership are considered the most critical factor; and (3) salary allowance and/or interest allowance coupled with a fixed ratio. This last approach gives specific recognition to differences that may exist among partners by providing salary allowances for time worked and interest allowances for capital invested.

7. The net income of €24,000 should be divided equally—€12,000 to Mandy Elston and €12,000 to Jeff Baker.

8. (a) Account debited: Income Summary; accounts credited: Debbie Hunt, Capital and Kyle Keegan, Capital.

(b) Account debited: Debbie Hunt, Drawing; account credited: Cash.

Questions Appendix F (Continued)

9. Division of Net Income

	G. Jocketty	B. Madson	Total
Salary Allowance	€30,000	€25,000	€55,000
Deficiency: (€5,000)			
(€50,000 – €55,000)			
G. Jocketty (60% X €5,000)	(3,000)		(3,000)
B. Madson (40% X €5,000)		(2,000)	(2,000)
Total division	€27,000	€23,000	€50,000

10. The financial statements of a partnership are similar to those of a corporation. The income statement for a partnership is identical to the income statement for a corporation except for the division of net income and there is no income tax expense. The equity statement is called the partners' capital statement. This statement shows the changes in each partner's capital account and in total partnership capital during the year. On the statement of financial position each partner's capital balance is reported in the equity section.

11. No, Dean is not correct. All gains and losses on liquidation should be allocated to the partners on the basis of their income-sharing ratio. However, final cash distributions should be based on their capital balances.

12. Yes, Bill is correct. Capital balances are used because they represent the individual partner's equity in the partnership. The objective of the distribution is to eliminate the balance in each partner's capital account.

13.

Total cash after paying liabilities	₤119,000
Total capital balances (₤34,000 + ₤31,000 + ₤28,000)	93,000
Excess (gain on sale of noncash assets)	₤ 26,000
Allocated to Matt (₤26,000 X 3/10)	₤ 7,800
Cash to Matt (₤31,000 + ₤7,800)	₤ 38,800

14.

Capital deficiency, T. Luthi	€ 6,000
Loss allocated to: L. Seastrom, capital (€6,000 X 3/8)	€ 2,250
Cash to L. Seastrom (€12,000 – €2,250)	€ 9,750

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE F-1

Cash	110,000	
Equipment	65,000	
Chen Guo, Capital		175,000

BRIEF EXERCISE F-2

Accounts Receivable	£16,000	
Less: Allowance for doubtful accounts	3,500	£12,500
Equipment		10,000

Accumulated depreciation should not be shown because a new company cannot have any accumulated depreciation.

BRIEF EXERCISE F-3

The division is: Guang NT$120,000 (NT$200,000 X 60%) and Qing NT$80,000 (NT$200,000 X 40%). The entry is:

Income Summary	200,000	
Guang, Capital		120,000
Qing, Capital		80,000

BRIEF EXERCISE F-4

Division of Net Income

	Grand	Easley	Rod	Total
Salary allowance	€20,000	€ 5,000	€ 5,000	€30,000
Remaining income, €35,000:				
(€65,000 – €30,000)				
G (€35,000 X 50%)	17,500			
E (€35,000 X 30%)		10,500		
R (€35,000 X 20%)			7,000	
Total remainder				35,000
Total division	€37,500	€15,500	€12,000	€65,000

BRIEF EXERCISE F-5

Division of Net Income

	Jabb	Nabb	Total
Salary allowance	£15,000	£12,000	£27,000
Interest allowance	6,000	5,000	11,000
Total Salaries and interest	21,000	17,000	38,000
Remaining deficiency, (£6,000):			
(£32,000 – £38,000)			
Jabb (£6,000 X 50%)	(3,000)		
Nabb (£6,000 X 50%)		(3,000)	
Total remainder			(6,000)
Total division	£18,000	£ 14,000	£32,000

BRIEF EXERCISE F-6

C, Capital	9,000	
A, Capital	7,000	
B, Capital	5,000	
Cash		21,000

SOLUTIONS TO EXERCISES

EXERCISE F-1

Jan. 1	Cash	140,000	
	Accounts Receivable	130,000	
	Equipment	175,500	
	Allowance for Doubtful Accounts		28,000
	Liu Jiqin, Capital		417,500

EXERCISE F-2

(a) 1. **DIVISION OF NET INCOME**

	B. Pedigo	W. Vernon	Total
Salary allowance	€20,000	€12,000	€32,000
Interest allowance			
B. Pedigo (€50,000 X 10%)	5,000		
W. Vernon (€40,000 X 10%)		4,000	
Total interest			9,000
Total salaries and interest	25,000	16,000	41,000
Remaining income, €14,000 (€55,000 – €41,000)			
B. Pedigo (€14,000 X 70%)	9,800		
W. Vernon (€14,000 X 30%)		4,200	
Total remainder			14,000
Total division	€34,800	€20,200	€55,000

2. **DIVISION OF NET INCOME**

	B. Pedigo	W. Vernon	Total
Salary allowance	€20,000	€12,000	€32,000
Interest allowance	5,000	4,000	9,000
Total salaries and interest	25,000	16,000	41,000
Remaining deficiency, (€11,000) (€41,000 – €30,000)			
B. Pedigo (€11,000 X 70%)	(7,700)		
W. Vernon (€11,000 X 30%)		(3,300)	
Total remainder			(11,000)
Total division	€17,300	€12,700	€30,000

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EXERCISE F-2 (Continued)

(b)	1.	Income Summary	55,000	
		B. Pedigo, Capital		34,800
		W. Vernon, Capital		20,200
	2.	Income Summary	30,000	
		B. Pedigo, Capital		17,300
		W. Vernon, Capital		12,700

EXERCISE F-3

(a)

ROYWEB CO.
Partners' Capital Statement
For the Year Ended December 31, 2017

	K. Rory	D. Webb	Total
Capital, January 1	£20,000	£18,000	£38,000
Add: Net income	14,500	14,500	29,000
	34,500	32,500	67,000
Less: Drawings	7,000	3,000	10,000
Capital, December 31	£27,500	£29,500	£57,000

(b)

ROYWEB CO.
Partial Statement of Financial Position
December 31, 2017

Equity		
K. Rory, Capital	£27,500	
D. Webb, Capital	29,500	
Total owners' equity		£57,000

EXERCISE F-4

DAYNEN COMPANY
Schedule of Cash Payments

Item	Cash	+	Noncash Assets	=	Liabilities	+	Day Capital	+	Nen Capital
Balances before liquidation	£ 20,000		£100,000		£55,000		£45,000		£20,000
Sale of noncash assets and allocation of gain	120,000		(100,000)				11,000*		9,000
New balances	140,000		0		55,000		56,000		29,000
Pay liabilities	(55,000)				(55,000)				
New balances	85,000		0		0		56,000		29,000
Cash distribution to partners	(85,000)						(56,000)		(29,000)
Final balances	£ 0		£ 0		£ 0		£ 0		£ 0

*(120,000 – 100,000) X .55

EXERCISE F-5

		Debit	Credit
(a)	Cash	120,000	
	Noncash Assets		100,000
	Gain on Realization		20,000
(b)	Gain on Realization	20,000	
	Day, Capital (£20,000 X 55%)		11,000
	Nen, Capital (£20,000 X 45%)		9,000
(c)	Liabilities	55,000	
	Cash		55,000

EXERCISE F-5 (Continued)

(d)	Day, Capital		56,000	
	Nen, Capital		29,000	
	Cash			85,000

EXERCISE F-6

(a)	(1)	Cash	2,000	
		Dody, Capital		2,000
	(2)	Kolmer, Capital	18,000	
		Noble, Capital	14,000	
		Cash		32,000
(b)	(1)	Kolmer, Capital (€2,000 X 5/8)	1,250	
		Noble, Capital (€2,000 X 3/8)	750	
		Dody, Capital		2,000
	(2)	Kolmer, Capital (€18,000 – €1,250)	16,750	
		Noble, Capital (€14,000 – €750)	13,250	
		Cash		30,000

SOLUTIONS TO PROBLEMS

PROBLEM F-1

(a)	Jan. 1	Cash	14,000	
		Accounts Receivable	17,500	
		Inventory	28,000	
		Equipment	25,000	
		Allowance for Doubtful Accounts		2,500
		Notes Payable		22,000
		Accounts Payable		20,000
		Yung, Capital		40,000
	1	Cash	13,000	
		Accounts Receivable	26,000	
		Inventory	20,000	
		Equipment	18,000	
		Allowance for Doubtful Accounts		4,000
		Notes Payable		15,000
		Accounts Payable		31,000
		Olde, Capital		27,000
(b)	Jan. 1	Cash	3,000	
		Yung, Capital		3,000
	1	Cash	16,000	
		Olde, Capital		16,000

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PROBLEM F-1 (Continued)

(c)

OLDE YUNG COMPANY
Statement of Financial Position
January 1, 2017

Assets		
Current assets		
Cash		£ 46,000
(£14,000 + £13,000 + £3,000 + £16,000)		
Accounts receivable		
(£17,500 + £26,000)	£43,500	
Less: Allowance for doubtful accounts		
(£2,500 + £4,000)	6,500	37,000
Inventory (£28,000 + £20,000)		48,000
Total current assets...........................		131,000
Property, plant, and equipment		
Equipment (£25,000 + £18,000).................		43,000
Total assets.......................................		£174,000
Liabilities and Owners' Equity		
Current liabilities		
Notes payable (£22,000 + £15,000)............		£ 37,000
Accounts payable (£20,000 + £31,000)......		51,000
Total current liabilities.......................		88,000
Equity		
Yung, Capital (£40,000 + £3,000)	£43,000	
Olde, Capital (£27,000 + £16,000)	43,000	
Total owners' equity..........................		86,000
Total liabilities and owners' equity....		£174,000

PROBLEM F-2

(a)	(1)	Income Summary..	28,000	
		Jodi Ames, Capital (£28,000 X 60%)..........		16,800
		Jill Bolen, Capital (£28,000 X 30%)............		8,400
		Ann Saylo, Capital (£28,000 X 10%)		2,800
	(2)	Income Summary..	34,000	
		Jodi Ames, Capital (£18,000 + £2,000)		20,000
		Jill Bolen, Capital (£10,000 + £2,000)		12,000
		Ann Saylor, Capital (£0 + £2,000)		2,000

Net income..........................	£34,000
Salary allowance	
Ames	(18,000)
Bolen	(10,000)
Remainder........................	£ 6,000
To each partner	
(£6,000 X 1/3)....................	£ 2,000

	(3)	Income Summary..	22,000	
		Jodi Ames, Capital		
		(£4,800 + £15,000 – £1,100)		18,700
		Jill Bolen, Capital (£3,000 – £1,100)		1,900
		Ann Saylor, Capital (£2,500 – £1,100).........		1,400

Net income..........................	£22,000
Interest allowance	
Ames (£48,000 X 10%)......	(4,800)
Bolen (£30,000 X 10%)......	(3,000)
Saylor (£25,000 X 10%).....	(2,500)
Balance	11,700
Salary allowance	
Ames	(15,000)
Remainder........................	£ (3,300)
To each partner	
(£3,300 X 1/3)....................	£ (1,100)

PROBLEM F-2 (Continued)

(b) **DIVISION OF NET INCOME**

	Jodi Ames	Jill Bolen	Ann Saylor	Total
Salary allowance	£15,000			£15,000
Interest allowance				
Jodi Ames (£48,000 X 10%)	4,800			
Jill Bolen (£30,000 X 10%)		£3,000		
Ann Saylor (£25,000 X 10%)			£2,500	
Total interest				10,300
Total salaries and interest	19,800	3,000	2,500	25,300
Remaining deficiency, (£3,300)				
Jodi Ames (£3,300 X 1/3)	(1,100)			
Jill Bolen (£3,300 X 1/3)		(1,100)		
Ann Saylor (£3,300 X 1/3)			(1,100)	
Total remainder				(3,300)
Total division	£18,700	£1,900	£1,400	£22,000

(c)

ABS COMPANY
Partners' Capital Statement
For the Year Ended December 31, 2017

	Jodi Ames	Jill Bolen	Ann Saylor	Total
Capital, January 1	£48,000	£30,000	£25,000	£103,000
Add: Net income	18,700	1,900	1,400	22,000
	66,700	31,900	26,400	125,000
Less: Drawings	23,000	14,000	10,000	47,000
Capital, December 31	£43,700	£17,900	£16,400	£ 78,000

PROBLEM F-3

(a)

(1)

Cash	50,000	
Allowance for Doubtful Accounts	1,000	
Accumulated Depreciation	5,500	
Loss on Realization	22,000	
Accounts Receivable		23,000
Inventory		34,500
Equipment		21,000

Noncash assets (net)	€72,000*
Sale proceeds	50,000
Loss on sale of non cash assets	€22,000

*€23,000 + €34,500 + €21,000 – €1,000 – €5,500

(2)

S. Ruscoe, Capital (€22,000 X 5/10)	11,000	
J. Sorenson, Capital (€22,000 X 3/10)	6,600	
M. Posada, Capital (€22,000 X 2/10)	4,400	
Loss on Realization		22,000

(3)

Notes Payable	12,500	
Accounts Payable	27,000	
Salaries and Wages Payable	3,800	
Cash		43,300

(4)

Cash	3,200	
M Posada, Capital		3,200

(5)

S. Ruscoe, Capital (€36,000 – €11,000)	25,000	
J. Sorenson, Capital (€19,000 – €6,600)	12,400	
Cash		37,400

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PROBLEM F-3 (Continued)

(b)

Cash

Bal.	27,500	(3)	43,300
(1)	50,000	(5)	37,400
(4)	3,200		
	80,700		80,700

S. Ruscoe, Capital

(2)	11,000	Bal.	36,000
(4)	25,000		
	36,000		36,000

J. Sorenson, Capital

(2)	6,600	Bal.	19,000
(4)	12,400		
	19,000		19,000

M. Posada, Capital

(2)	4,400	Bal.	1,200
		(4)	3,200
	4,400		4,400

(c)

1.	S. Ruscoe, Capital (€3,200 X 5/8)	2,000	
	J. Sorenson, Capital (€3,200 X 3/8)	1,200	
	M. Posada, Capital		3,200
2.	S. Ruscoe, Capital (€25,000 – €2,000)	23,000	
	J. Sorenson, Capital (€12,400 – €1,200)	11,200	
	Cash (€37,400 – €3,200)		34,200

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