**Chapter 2**

**Problem I**

1. Beginning Capital.

|  |  |  |
| --- | --- | --- |
| Income summary………… | 345,600 |  |
| X, drawing……. |  | 144,000 |
| Y, drawing……. |  | 201,600 |

|  |  |
| --- | --- |
| X, capital, January 1……….. | P 360,000 |
| X, capital, January 1……….. | 504,000 |
| Total capitals | P 864,000 |

|  |  |
| --- | --- |
| X’s share of net income: 360/864 of P345,600 | P 144,000 |
| Y’s share of net income 504/864of P345,600 | 201,600 |
| Total capitals | P 345,600 |

2. Ending Capital.

|  |  |  |
| --- | --- | --- |
| Income summary………… | 345,600 |  |
| X, drawing……. |  | 153,600 |
| Y, drawing……. |  | 192,000 |

|  |  |
| --- | --- |
| X, capital, December 31……….. | P 432,000 |
| X, capital, December 31……….. | 540,000 |
| Total capitals | P 972,000 |

|  |  |
| --- | --- |
| X’s share of net income: 432/972 of P345,600 | P 153,600 |
| Y’s share of net income 540/972 of P345,600 | 192,000 |
| Total | P 345,600 |

3. Interest on Excess Average Capital Balance.

|  |  |  |
| --- | --- | --- |
| Income summary………… | 4,320 |  |
| Y, drawing……. |  | 4,320 |
| *Interest allowed based on average capitals.* |  |  |

|  |  |
| --- | --- |
| Y’s interest on excess average capital:  6% of (P486,000 – P414,000)………………….. | P 4,320 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| X: | Capital balance |  | No. of Mos.  Unchanged |  |
| 1/1/x4: | P360,000 | x | 3 | P1,080,000 |
| 4/1/x4: | 432,000 | x | 9 | 3,888,000 |
|  |  |  | 12 | P4,968,000 |
| Average |  |  |  | P 414,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Y: | Capital balance |  | No. of Mos.  Unchanged |  |
| 1/1/x4: | P504,000 | x | 2 | P 1,008,000 |
| 3/1/x4: | 468,000 | X | 8 | 3,744,000 |
| 11/1/x4: | 540,000 | x | 2 | 1,080,000 |
|  |  |  | 12 | P5,832,000 |
| Average |  |  |  | P 486,000 |
| Total |  |  |  | P 900,000 |

The net effect of the foregoing on capitals is:

|  |  |  |  |
| --- | --- | --- | --- |
|  | X | Y | Total |
| Interest on excess  average capital…… |  | P 4,320 | P 4,320 |
| Balance (1:2)……….. | P 113,760 | 227,520 | 341,280 |
| Total | P 113,760 | P 231,840 | P345,600 |

The allocation of net income may be summarized in a single entry as follows:

|  |  |  |
| --- | --- | --- |
| Income summary……………. | 345,600 |  |
| X, drawing……. |  | 113,760 |
| Y, drawing……. |  | 231,840 |

**Problem II**

1. A bonus of 20% of net income before the bonus is deducted, the bonus would be computed as follows:

|  |  |
| --- | --- |
| Let B | = Bonus |
| B | = 20% of Net income |
| B | = 20% of P504,000 |
| B | = P100,800 |

2. A bonus of 20% of net income after deduction of the bonus, the bonus would be computed as follows:

|  |  |
| --- | --- |
| Let B | = Bonus |
| B | = 20% of Net income after Bonus |
| B | = 20% (P504,000 – B) |
| B | = P100,800 - .20B |
| 1.20 B | = P100,800 |
| B | = P84,000 |

**Problem III**

1. Bonus is based on net income before bonus, salaries and interest

The schedule showing the allocation of net income is presented as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Bonus…. | P 100,800 |  | P 100,800 |
| Salaries……… | 48,000 | P 72,000 | 120,000 |
| Interest…………. | 14,400 | 9,600 | 24,000 |
| Balance (2;1)………. | 172,800 | 86,400 | 259,200 |
| Total | P336,000 | P168,000 | P504,000 |

1. Bonus is based on net income after bonus but before salaries and interest

The schedule showing the allocation of net income is presented as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Bonus…. | P 84,000 |  | P 84,000 |
| Salaries……… | 48,000 | P 72,000 | 120,000 |
| Interest…………. | 14,400 | 9,600 | 24,000 |
| Balance (2;1)………. | 184,000 | 92,000 | 276,000 |
| Total | P330,400 | P173,600 | P504,000 |

1. Bonus is based on net income after bonus and salaries but before interest:

|  |  |
| --- | --- |
| Let B | = Bonus; S = Salaries; and I = Interest. |
| B | = 20% of Net income after Bonus and Salaries before Interest |
| B | = 20% (P504,000 – B – S) |
| B | = 20% (P504,000 – B – P120,000) |
| B | = 20% (P384,000 – B) |
| B | = P76,800 - .20B |
| 1.20 B | = P76,800 |
| B | = P64,000 |

Proof:

|  |  |
| --- | --- |
| Net income before bonus, salaries and interests…………… | P504,000 |
| Less: Bonus……………… | 64,000 |
| Salaries……………0 | 120,000 |
| Net income after bonus, salaries before interests…………… | P320,000 |
| Multiplied by: Bonus rate…………. | 20% |
| Bonus………… | P 64,000 |

The schedule showing the allocation of net income is presented as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Bonus…. | P 64,000 |  | P 64,000 |
| Salaries……… | 48,000 | P 72,000 | 120,000 |
| Interest…………. | 14,400 | 9,600 | 24,000 |
| Balance (2;1)………. | 197,333 | 98,667 | 296,000 |
| Total | P323,733 | P180,267 | P504,000 |

1. Bonus is based on net income after bonus, salaries and interest:

|  |  |
| --- | --- |
| Let B | = Bonus; S = Salaries; and I = Interest. |
| B | = 20% of Net income after Bonus, Salaries and Interest |
| B | = 20% (P504,000 – B – S - I) |
| B | = 20% (P504,000 – B – P120,000 – P24,000) |
| B | = 20% (P360,000 – B) |
| B | = P72,000 - .20B |
| 1.20 B | = P72,000 |
| B | = P60,000 |

Proof:

|  |  |
| --- | --- |
| Net income before bonus, salaries and interests…………… | P504,000 |
| Less: Bonus……………… | 60,000 |
| Salaries…………… | 120,000 |
| Interest…………….. | 24,000 |
| Net income after bonus, salaries before interests…………… | P300,000 |
| Multiplied by: Bonus rate…………. | 20% |
| Bonus………… | P 60,000 |

The schedule showing the allocation of net income is presented as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Bonus…. | P 60,000 |  | P 60,000 |
| Salaries……… | 48,000 | P 72,000 | 120,000 |
| Interest…………. | 14,400 | 9,600 | 24,000 |
| Balance (2;1)………. | 200,000 | 100,000 | 300,000 |
| Total | P322,400 | P181,600 | P504,000 |

1. Bonus is based on net income after salaries but before bonus and interest:

|  |  |
| --- | --- |
| Let B | = Bonus; S = Salaries; and I = Interest. |
| B | = 20% of Net income after Salaries before Bonus and Interest |
| B | = 20% (P504,000 – S) |
| B | = 20% (P504,000 – P120,000) |
| B | = 20% (P384,000) |
| B | = P76,800 |

Refer to Note of No. 3.

1. Bonus is based on net income after interest but before bonus and salaries:

|  |  |
| --- | --- |
| Let B | = Bonus; S = Salaries; and I = Interest. |
| B | = 20% of Net income after Interest before Bonus and Salaries |
| B | = 20% (P504,000 – P24,000I |
| B | = 20% (P480,000) |
| B | = P96,000 |

Refer to Note of No. 3.

1. Bonus is based on net income before bonus but after income tax (tax rate is 35%):

|  |  |
| --- | --- |
| Let B | = Bonus; |
| B | = 20% (P504,000 – T) |
| B | = P100,800 - .20T |

|  |  |
| --- | --- |
| Let T | = Income tax |
| T | = 35% (P504,000) |
| T | = P176,400 |

Substituting the equation for T in the equation for B:

|  |  |
| --- | --- |
| Let B | = P100,800 - .20 (P176,400) |
| B | = P100,800 – P35,280 |
| B | = P65,520 |

Proof:

|  |  |
| --- | --- |
| Net income before bonus and income tax…………… | P504,000 |
| Less: Bonus……………… | 65,520 |
| Net income before bonus after income tax…….. | P438,480 |
| Less: Income tax…………… | \_176,400 |
| Net income after bonus and income tax……… | P262,080 |

Bonus as computed above:

|  |  |
| --- | --- |
| Net income before bonus and income tax…………… | P504,000 |
| Less: Income tax (35% x P504,000) | 176,400 |
| Net income after income tax before bonus…….. | P327,600 |
| Multiplied by: Bonus rate……… | \_\_\_\_ 20% |
| Net income after bonus and income tax……… | P 65,520 |

8. Bonus is based on net income, that is, after bonus and income tax:

|  |  |
| --- | --- |
| Let B | = Bonus; T = Income tax |
| B | = 20% (P504,000 – B - T) |
| B | = P100,800 - .20B - .20T |

|  |  |
| --- | --- |
| Let T | = Income tax |
| T | = 35% (P504,000) |
| T | = P176,400 |

Substituting the equation for T in the equation for B:

|  |  |
| --- | --- |
| Let B | = P100,800 - .20B - .20T |
| B | = P100,800 - .2B - .20 (P176,400) |
| 1.20B | = P100,800 – P35,280 |
| 1.20B | = P65,520 |
| B | = P54,600 |

Proof:

|  |  |
| --- | --- |
| Net income before bonus and income tax…………… | P504,000 |
| Less: Bonus……………… | 54,600 |
| Net income before income tax…….. | P449,400 |
| Less: Income tax (35% x P504,000) | 176,400 |
| Net income after bonus and income tax……… | P273,000 |

Bonus as computed above:

|  |  |
| --- | --- |
| Net income after bonus and income tax……… | P273,000 |
| Multiplied by: Bonus rate……… | \_\_\_\_ 20% |
| Bonus…………… | P 54,600 |

**Problem IV**

B = Bonus to Rodgers

B = 0.20(Net Income - interest - salary - bonus)

B = 0.20(P168,000 - [0.08(P150,000)] - P60,000 – B)

B = 0.20(P96,000 - B)

B = P19,200 - 0.20B

1.20B = P19,200

B = P16,000

**Problem V**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | James | Keller | Rivers | Totals |
| Interest (8%) | P4,400 (below) | P5,600 | P7,200 | P17,200 |
| Salary | 13,000 | 15,000 | 20,000 | 48,000 |

Remaining income (loss):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| P30,000 |  |  |  |  |
| (17,200) |  |  |  |  |
| (48,000) |  |  |  |  |
| P(35,000) | (7,040) | (10,560) | (17,600) | (36,200) |
| Totals | P10,360 | P10,040 | P9,600 | P30,000 |

CALCULATION OF JAMES INTEREST ALLOCATION

|  |  |
| --- | --- |
| Balance, January 1 – June 1 (P48,000 x 5 months) | P240,000 |
| Balance, June 1 – December 31 (60,000 x 7 months) | 420,000 |
| Total | P660,000 |
| Months | ÷ 12 |
| Average monthly capital balance | P 55,000 |
| Interest rate | x 8% |
| Interest allocation (above) | \_P 4,400 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| STATEMENT OF PARTNERS’ CAPITAL | | | | |
|  | James | Keller | Rivers | Totals |
| Beginning balances | P 48,000 | P70,000 | P90,000 | P208,000 |
| Additional contribution | 12,000 | 0 | 0 | 12,000 |
| Income (above) | 10,060 | 10,040 | 9,600 | 30,000 |
| Drawings (P1,000/month) | (12,000) | (12,000) | (12,000) | (36,000) |
| Ending capital balances | P58,360 | P68,040 | P87,600 | P214,000 |

**Problem VI**

**1: Net income is P360,000**

|  |  |  |  |
| --- | --- | --- | --- |
|  | P | Q | Total |
| Salaries | P 80,000 | P 100,000 | P180,000 |
| Bonus on net income | 21,600 | 43,200 | 64,800 |
| Interest on average capital balances | 9,800 | 16,800 | 26,600 |
| Remainder is P 88,600 (positive) | \_\_\_53,160 | \_\_35,440 | \_\_\_88,600 |
| Totals | P 164,560 | P195,440 | P 360,000 |

**2. Net income is P240,000**

|  |  |  |  |
| --- | --- | --- | --- |
|  | P | Q | Total |
| Salaries | P 80,000 | P 100,000 | P 180,000 |
| Bonus on net income | 14,400 | 28,800 | 43,200 |
| Interest on average capital balances | 9,800 | 16,800 | 26,600 |
| Remainder is P 9,800 (negative) | \_(4,900) | \_\_(4,900) | \_\_(9,800) |
| Totals | P 99,300 | P 140,700 | P240,000 |

**3. Net loss is P40,000**

|  |  |  |  |
| --- | --- | --- | --- |
|  | P | Q | Total |
| Salaries | P 80,000 | P 100,000 | P 180,000 |
| Bonus (no distribution) | 0 | 0 | 0 |
| Interest on average capital balances | 9,800 | 16,800 | 26,600 |
| Remainder is P 246,600 (negative) | (123,300) | (123,300) | (246,600) |
| Totals | (P33,500) | (P 6,500) | (P 40,000) |

**Problem VII:**

|  |  |  |  |
| --- | --- | --- | --- |
| 1 and 2. | Total | Carey | Drew |
| Total to allocate: | P150,000 |  |  |
| As Bonus (Note A below) | (25,000) | P25,000 |  |
| As Salaries | (72,000) | 36,000 | P36,000 |
| As Interest (Note B below) | (10,720) | 6,560 | 4,160 |
| Subtotal: | P 42,280 | P67,560 | P40,160 |
| Residual Profit-sharing | (42,280) | 21,140 | 21,140 |
| Final Allocations: | P 0 | P88,700 | P61,300 |

|  |  |
| --- | --- |
| Note A (Bonus): | |
| Bonus | = .20(Net Income  Bonus) |
| 1.2Bonus | = .20(P150,000) |
| 1.2Bonus | = 30,000 |
| Bonus | = P25,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Note B (Interest): |  |  |  |  |
|  | Capital | Fraction | Interest |  |
| Carey: | Amount | of Year | Rate | = Subtotal |
|  | P100,000 | 1/12 | 0.08 | P 667 |
|  | (12,000) |  |  |  |
|  | 88,000 | 6/12 | 0.08 | 3,520 |
|  | (12,000) |  |  |  |
|  | 76,000 | 3/12 | 0.08 | 1,520 |
|  | (12,000) |  |  |  |
|  | P 64,000 | 2/12 | 0.08 | 853 |
|  |  | 1.0000 |  | P6,560 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Capital | Fraction | Interest |  |
| Drew: | Amount | of Year | Rate | = Subtotal |
|  | P70,000 | 1/12 | 0.08 | P 467 |
|  | (12,000) |  |  |  |
|  | 58,000 | 6/12 | 0.08 | 2,320 |
|  | (12,000) |  |  |  |
|  | 46,000 | 3/12 | 0.08 | 920 |
|  | (12,000) |  |  |  |
|  | P34,000 | 2/12 | 0.08 | 453 |
|  |  | 1.0000 |  | P4,160 |

**Problem VIII**

Jones would have to receive a bonus of P12,000 to be indifferent to the two profit-sharing options. Since Cable would receive the same bonus, the total bonus would have to be P24,000. Therefore,

P24,000 = 10%  (Net income - Salaries - Bonuses)

P24,000 = 10%  (Net income - [30,000 + 40,000] - 24,000)

P24,000 = 10%  (Net income - 94,000)

P24,000 = 10%  Net income - 9,400

P33,400 = 10%  Net income

Net income  P334,000

**Problem IX**

1. It should be noted that the order of priority is of no significance when it comes to allocation of net income. Unless in cases, when there is a resulting residual loss, wherein the residual loss should be allocated based on their agreement. In this case, there is no such agreement, so the allocation would still be to satisfy completely all provisions of the profit and loss agreement and use the profit and loss ratios to absorb any deficiency or additional loss cause by such action.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Olsen | Katch | Total |
| Interest | P 2,000 | P 2,400 | P 4,400 |
| Bonus |  | 10,000 | 10,000 |
| Salaries | 48,000 | 36,000 | 84,000 |
| Remainder (6:4) | \_\_8,040 | \_\_5,360 | \_13,400 |
|  | P58,040 | P26,960 | P85,000 |

Weighted Average Calculation:

|  |  |  |  |
| --- | --- | --- | --- |
| Olsen: |  |  |  |
|  | Capital | Gross |  |
|  | Balance | # of Months | Capital |
| 1/1 to 4/1 | 20,000 | 3 | 60,000 |
| 4/1 to 10/1 | 25,000 | 6 | 150,000 |
| 10/1 to 12/31 | 30,000 | 3 | 90,000 |
| Total |  |  | 300,000 |
| Average |  |  | 25,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| Katch: |  |  |  |
|  | Capital | Gross |  |
|  | Balance | # of Months | Capital |
| 1/1 to 3/1 | 40,000 | 2 | 80,000 |
| 3/1 to 9/1 | 30,000 | 6 | 180,000 |
| 9/1 to 11/1 | 20,000 | 2 | 40,000 |
| 11/1 to 12/31 | 30,000 | 2 | 60,000 |
| Total |  |  | 360,000 |
| Average |  |  | 30,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2. |  | Olsen | Katch | Total |
|  | Salaries | P48,000 | P36,000 | P 84,000 |
|  | Bonus |  | 10,000 | 10,000 |
|  | Interest\* | 2,000 | 2,400 | 4,400 |
|  | Remainder | 39,960 | 26,640 | 66,600 |
|  | Final Profit: | P89,960 | P75,040 | P165,000 |
|  |  | | | |
|  | \*see part 'a' solution for weighted average capital calculation | | | |

**Problem X**

Weighted Average Capital Calculation:

|  |  |  |  |
| --- | --- | --- | --- |
| **Matt** | | | |
|  | Cap Bal | # months | Gross Cap |
| 1/1 to 6/1 | 35,000 | 5 | 175,000 |
| 6/1 to 10/1 | 45,000 | 4 | 180,000 |
| 10/1 to 12/31 | 50,000 | 3 | 150,000 |
|  |  | Total | 505,000 |
|  |  | Average | 42,083 |
|  |  |  |  |
| **Jeff** | | | |
|  | Cap Bal | # months | Gross Cap |
| 1/1 to 3/1 | 25,000 | 2 | 50,000 |
| 3/1 to 9/1 | 35,000 | 6 | 210,000 |
| 9/1 to 11/1 | 25,000 | 2 | 50,000 |
| 11/1 to 12/1 | 20,000 | 1 | 20,000 |
| 12/1 to 12/31 | 28,000 | 1 | 28,000 |
|  |  | Total | 358,000 |
|  |  | Average | 29,833 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1. |  | Matt | Jeff | Total |
|  | Salary | P N/A | P N/A | P 0 |
|  | Bonus | N/A | N/A | 0 |
|  | Interest | 4,208 | 2,983 | 7,191 |
|  | Subtotal | P 4,208 | P 2,983 | P 7,191 |
|  | Remainder | 29,404 | 29,405 | 58,809 |
|  | Total | P33,612 | P32,388 | P66,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2. |  | Matt | Jeff | Total |
|  | Salary | P 0 | P 9,000 | P 9,000 |
|  | Bonus | N/A | N/A | 0 |
|  | Interest | 5,000 | 2,800 | 7,800 |
|  | Subtotal | P 5,000 | P11,800 | P16,800 |
|  | Remainder | 29,520 | 19,680 | 49,200 |
|  | Total | P34,520 | P31,480 | P66,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 3. |  | Matt | Jeff | Total |
|  | Salary | P10,000 | P15,000 | P25,000 |
|  | Bonus | N/A | N/A | 0 |
|  | Interest | N/A | N/A | 0 |
|  | Subtotal | P10,000 | P15,000 | P25,000 |
|  | Remainder | 23,992 | 17,008 | 41,000 |
|  | Total | P33,992 | P32,008 | P66,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 4. |  | Matt | Jeff | Total |
|  | Salary | P20,000 | P35,000 | P55,000 |
|  | Bonus\* | 6,000 | N/A | 6,000 |
|  | Interest | 4,208 | 2,983 | 7,191 |
|  | Subtotal | P30,208 | P37,983 | P68,191 |
|  | Remainder | (1,096) | (1,095) | (2,191) |
|  | Total | P29,112 | P36,888 | P66,000 |

**Problem XI**

**1. Allocation/Distribution of Net Income**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **AA** | **BB** | **CC** | **Total** |
| Salaries | 14,400 | 12,000 | 13,600 | 40,000 |
| Interest-12% of Ave. Cap. | 12,960 | 17,280 | 24,840 | 55,080 |
| Balance/Remainder (4:3:3) | ( 1,200) | ( 900) | ( 900) | ( 3,000) |
| Share in Net Income | 26,160 | 28,380 | 37,540 | 92,080 |

**2. Statement of Partners’ Capital**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **AA** | **BB** | **CC** | **Total** |
| Capital, January 2, 2010 | 96,000 | 144,000 | 216,000 | 456,000 |
| Additional Investments  (Withdrawals) | 24,000 |  | (36,000) | (12,000) |
| Net Income | 26,160 | 28,380 | 37,540 | 92,080 |
| Personal Withdrawals | ( 9,000) | ( 9,000) | ( 9,000) | (27,000) |
| Capital, December 31, 2010 | 137,160 | 163,380 | 208,540 | 509,080 |

**3. Allocation/Distribution of Net Income**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **AA** | **BB** | **CC** | **Total** |
| Interest-12% of Ave. Cap. | 12,960 | 17,280 | 24,840 | 55,080 |
| Balance/Remainder (4:3:3) | ( 1,200) | ( 900) | ( 900) | ( 3,000) |
| Share in Net Income | 11,760 | 16,380 | 23,940 | 52,080\* |

**\***Net income before partners’ salaries and interests…………………P 92,080

Less: Operating expenses (including salaries)……………………….. 40,000

Net Income after partners’ salaries but before interests……………P 52,080

***Incidentally, the entry to record the salaries would be:***

Operating expenses (for salaries)…………………. 40,000

AA, capital……………………………………………………….. 14,400

BB, capital……………………………………………………….. 12,000

CC, capital……………………………………………………….. 13,600

**3. Statement of Partners’ Capital**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **AA** | **BB** | **CC** |
| Capital, January 2, 2010 | 96,000 | 144,000 | 216,000 |
| Addit’l. Inv. (Withdrawals) | 24,000 |  | ( 36,000) |
| Net Income | 11,760 | 16,380 | 23,940 |
| Sal. (refer to entry above) | 14,400 | 12,000 | 13,600 |
| Personal Withdrawals | ( 9,000) | ( 9,000) | ( 9,000) |
| Capital. December 31, 2010 | 137,160 | 163,380 | 208,540 |

**Problem XII**

Partners Cumulative

Components of Allocation Durand Price Russell Total

Profit/loss percentage 35% 25% 40%

Gain on sale of equipment P 5,000 P 5,000 P 5,000 P 15,000

Salaries 40,000 20,000 45,000 105,000

Bonus (Note A) 5,000 5,000

Bonus (Note A) 2,692 2,692 2,692 8,076

Interest on capital (Note B) 7,958 11,417 6,750 26,125

Remaining profit (loss) 14,280 10,200 16,319 40,799

Profit (loss) allocation P 69,930 P 54,309 P75,761 P200,000

Note A: Bonus to Price based on sales is 5% × (P1,100,000 – P1,000,000)

Bonus to all partners based on net income:

Bonus = 30% × [(net income – P150,000) – bonus]

Bonus = 30% × [(P185,000 – P150,000) – bonus]

130% Bonus = P10,500

Bonus = P8,076

The total bonus of P8,076 divided equally among the partners is P2,692 per partner.

Note B: Calculation of weighted-average capital (capital is reduced by draws in excess of salaries):

Durand Price Russell

P75,000 × 5/12 = P 31,250 P125,000 × 1/12 = P 10,417 P40,000 × 1/12 = P 3,333

 85,000 × 4/12 = 28,333 120,000 × 2/12 = 20,000 70,000 × 11/12 = 64,167

 80,000 × 3/12 = 20,000 115,000 × 3/12 = 28,750

110,000 × 6/12 = 55,000

P 79,583 P 114,167 P 67,500

10% 10% 10%

P 7,958 P 11,417 P 6,750

**Problem XIII**

1. Distribution of income for 20x4:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Norr | Caylor | Total |
| Interest | P 12,000 | P 9,600 | P 21,600 |
| Compensation | \_\_10,000 | \_\_14,000 | \_\_24,000 |
| Subtotals | P 22,000 | P 23,600 | P 45,600 |
| Allocation of remainder | \_\_14,640 | \_\_9,760 | \_\_24,400 |
| Totals | P 36,640 | P 33,360 | P 70,000 |

2. Capital account balances at the end of 20x4:

|  |  |  |
| --- | --- | --- |
|  | Norr | Caylor |
| Beginning capital balances | P 100,000 | P 80,000 |
| Share of income | 36,640 | 33,360 |
| Withdrawals | \_(12,000) | \_(12,000) |
| Ending capital balances | P 124,640 | P 101,360 |

3. Distribution of income for 20x5:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Norr | Caylor | Total |
| Interest | P 14,957 | P 12,163 | P 27,120 |
| Compensation | \_\_8,000 | \_\_12,000 | \_\_240,000 |
| Subtotals | P 22,957 | P 24,163 | P 47,120 |
| Allocation of remainder | \_\_13,872 | \_\_9,248 | \_(23,120) |
| Totals | P 9,085 | P 14,915 | P 24,000 |

4. Capital account balances at the end of 20x5:

|  |  |  |
| --- | --- | --- |
|  | Norr | Caylor |
| Beginning capital balances | P 124,640 | P 101,360 |
| Share of income | 9,085 | 14,915 |
| Withdrawals | \_(12,000) | \_(12,000) |
| Ending capital balances | P 121,725 | P 104,275 |

**Problem XIV**

1. The interest factor was probably inserted to reward Page for contributing P50,000 more to the partnership than Childers. The salary allowance gives an additional P15,000 to Childers in recognition of the full‑time (rather than part‑time) employment. The 40:60 split of the remaining income was probably negotiated by the partners based on other factors such as business experience, reputation, etc.

2. The drawings show the assets removed by a partner during a period of time. A salary allowance is added to each partner's capital for the year (usually in recognition of work done) and is a component of net income allocation. The two numbers are often designed to be equal but agreement is not necessary. For example, a salary allowance might be high to recognize work contributed by one partner. The allowance increases the appropriate capital balance. The partner might, though, remove little or no money so that the partnership could maintain its liquidity.

3.

Page, Drawings 5,000

Repair Expense 5,000

(To reclassify payment made to repair personal residence.)

Page, Capital 13,000

Childers, Capital 11,000

Page, Drawings (adjusted) 13,000

Childers, Drawings 11,000

(To close drawings accounts for 2008.)

Revenues 90,000

Expenses (adjusted by first entry) 59,000

Income Summary 31,000

(To close revenue and expense accounts for 2008.)

Income Summary 31,000

Page, Capital 11,000

Childers, Capital 20,000

(To close net income to partners' capital–see allocation plan shown below.)

*Allocation of Income Page Childers*

Interest (10% of beginning balance) P 8,000 P 3,000

Salary allowances 5,000 20,000

Remaining income (loss):

P31,000

(11,000)

(25,000)

P (5,000) (2,000) (40%) (3,000) (60%)

P11,000 P20,000

4. Total capital (original balances of P110,000 plus 2008

net income less drawings) P117,000

Investment by Smith 43,000

Total capital after investment P160,000

Ownership portion acquired by Smith 20%

Smith, capital P 32,000

Amount paid 43,000

Bonus paid by Smith—assigned to original partners P 11,000

Bonus to Page (40%) P4,400

Bonus to Childers (60%) P6,600

Cash 43,000

Smith, Capital (20% of total capital) 32,000

Page, Capital 4,400

Childers, Capital 6,600

**Multiple Choice Problems**

1. c

|  |  |
| --- | --- |
| Capital, Beg | 45,000 |
| Additional Investment | 50,000 |
| Withdrawal (800 x 12) | (96,000) |
| Net income (?) | 31,000 |
| Capital, Ending | P 30,000 |

2. b

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Salaries | 20,000 | 25,000 | 45,000 |
| Bonus | 8,000 | 0 | 8,000 |
| Interest (20% x average capital) | 8,000 | 10,000 | 18,000 |
| Balance - equally | 8,500 | 8,500 | 17,000 |
| Total | 44,500 |  | 88,000 |

\*Bonus= 10% (NI - B)

B= .10 (8,800 - B)

B= 8,800 - .10B

1.10B= 8,800

B= 8,000

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 3. | b | The net income of P80,000 is allocated to Blue and Green in the following manner: | | | | |
|  | |  | | Blue | Green | Net Income |
|  | | |  |  |  | P 80,000 |
|  | | | Salary allowances | P 55,000 | P45,000 | (100,000) |
|  | | | Remainder |  |  | P (20,000) |
|  | | | Allocation of the negative |  |  |  |
|  | | | remainder in the |  |  |  |
|  | | | 60:40 ratio | (12,000) | (8,000) | 20,000 |
|  | | | Allocation of net income | P 43,000 | P37,000 | P     -0- |

4. a

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Salaries | 30,000 | P 45,000 | P 75,000 |
| Bonus\* | 3,600 |  | 3,600 |
| Interest: 10% x Ave. capital | 5,000 | 6,500 | 11,500 |
| 1:3 | 4,625 |  | 18,500 |
| Total | P 43,225 |  | P 108,600 |

**\***Bonus = 12% (NI – S – B)

B = .12 (108,600 – 75,000 – B)

B = .12 (33,600 – B)

B = 4,032 - .12B

1.12B = 4,032

B = 3,600

5. a

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Salaries | P 40,000 | P 45,000 | P 85,000 |
| Bonus (refer to Note) |  |  | 0 |
| Interest on average capital (15%) | 6,000 | 9,000 | 15,000 |
| Balance (2:1) | (32,000) | (16,000) | (48,000) |
| Total | P 14,000 | P 38,000 | P 52,000 |

Note:

1. The basis of the bonus is negative, so there’s no bonus at all.

2. It should be noted that the order of priority is of no significance when it comes to allocation of net income. When there is a resulting residual loss, wherein the residual loss should be allocated based on their agreement. In this case, there is no such agreement, so the allocation would still be to satisfy completely all provisions of the profit and loss agreement and use the profit and loss ratios to absorb any deficiency or additional loss caused by such action.

6. d

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | A | B | C | Total |
| Salaries | P 40,000 | P 40,000 |  | P 80,000 |
| Bonus\* |  |  | P 1,000 | 1,000 |
| 3:4:3 | \_\_3,000 | 4,000 | \_3,000 | 10,000 |
| Total | P 43,000 |  | P 4,000 | P 91,000 |

**\***Bonus = 10% (NI – S – B)

B = .10 (91,000 – 80,000 – B)

B = .10 (11,000 – B)

B = 1,100 - .10B

1.10B = 1,100

B = 1,000

7. c

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | Total |
| Salaries | P 41,600 | P 38,400 | P 80,000 |
| Bonus (refer to Note) |  |  | 0 |
| Interest on average capital (10%) | 2,000 | 3,500 | 5,500 |
| Balance (1:2) | (16,500) |  | (49,500) |
| Total | P 27,100 |  | P 52,000 |

Note:

1. The basis of the bonus is negative, so there’s no bonus at all.

2. It should be noted that the order of priority is of no significance when it comes to allocation of net income. When there is a resulting residual loss, wherein the residual loss should be allocated based on their agreement. In this case, there is no such agreement, so the allocation would still be to satisfy completely all provisions of the profit and loss agreement and use the profit and loss ratios to absorb any deficiency or additional loss caused by such action.

8. b

2/1/20x4: P20,000 x 4 = P 80,000

6/1/20x4: P40,000 x 3 = 120,000

9/1/20x4: P30,000 x 4 = 120,000

P 320,000 / 12 months = P26,667

Note: Annual is 12 months.

9. c

|  |  |  |  |
| --- | --- | --- | --- |
|  | Mack | Ruben | Total |
| Salaries | P 90,000 | P 60,000 | P 150,000 |
| 6:4 | \_30,000 | \_\_20,000 | 50,000 |
| Total | P120,000 | P 80,000 | P 200,000 |

10. c – Robbie, P50,000 x 90/150 = P30,000; Ruben, P50,000 x 60/150 = P20,000

11. c - B = .05(P180,000 - P150,000)

12. d - B = {[(P540,000 - P500,000)/P500,000] - .05} P120,000

13. d - (P60,000 - P50,000)(.60) + (P80,000 - P60,000)(.70)

14. b - (P300,000 - P200,000)(.75) + (P380,000 - P300,000)(.60)

15. c - (P300,000 - P100,000)(.35) + (P450,000 - P300,000)(.55)

16. d - (P120,000 - P50,000)(.40)

17. a - (P600,000 - P350,000)(.40 - .30)

18. b

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | XX | YY | ZZ | Total |
| Salary | 60,000 | 48,000 | 36,000 | 144,000 |
| Interest: 10% x average capital |  |  | 7,500 | 48,750 |
| Balance: equally | 5,000 | 5,000 | 5,000 | 15,000 |
|  |  |  |  | 207,750 |

X: P100,000 x 6 = P600,000

P160,000 x 6 = 960,000 P1,560,000 / 12 = P 130,000

Y (same with beginning since no additional

investments or withdrawals were made) 150,000

Z: P225,000 x 9 = P2,025,000

P155,000 x 3 = 465,000 P2,490,000/12 = 207,500

P 487,500 x 10% = P48,750

19. d - ASSIGNMENT OF INCOME

*ARTHUR BAXTER CARTWRIGHT TOTAL*

Interest—10% of

beginning capital P 6,000 P 8,000 P10,000 P24,000

Salary 20,000 20,000

Allocation of remaining income

(P6,000 divided on a 3:3:4 basis) 1,800 1,800 2,400 6,000

Totals P 7,800 P29,800 P12,400 P50,000

STATEMENT OF CAPITAL

*ARTHUR BAXTER CARTWRIGHT TOTAL*

Beginning capital P60,000 P80,000 P100,000 P240,000

Net income (above) 7,800 29,800 12,400 50,000

Drawings (given) (5,000) (5,000) (5,000) (15,000)

Ending capital P62,800 P104,800 P107,400 P275,000

20. a

ASSIGNMENT OF INCOME—YEAR ONE

*WINSTON DURHAM SALEM TOTAL*

Interest—10% of

beginning capital P11,000 P 8,000 P11,000 P30,000

Salary 20,000 ‑0‑ 10,000 30,000

Allocation of remaining loss

(P80,000 divided on a 5:2:3 basis) (40,000) (16,000) (24,000) (80,000)

Totals P(9,000) P (8,000) P (3,000) P (20,000)

STATEMENT OF CAPITAL—YEAR ONE

*WINSTON DURHAM SALEM TOTAL*

Beginning capital P110,000 P80,000 P110,000 P300,000

Net loss (above) (9,000) (8,000) (3,000) (20,000)

Drawings (given) (10,000) (10,000) (10,000) (30,000)

Ending capital P 91,000 P62,000 P 97,000 P250,000

ASSIGNMENT OF INCOME—YEAR TWO

*WINSTON DURHAM SALEM TOTAL*

Interest—10% of

beginning capital P 9,100 P 6,200 P 9,700 P25,000

Salary 20,000 ‑0‑ 10,000 30,000

Allocation of remaining loss

(P15,000 divided on a 5:2:3 basis) (7,500) (3,000) (4,500) (15,000)

Totals P21,600 P3,200 P15,200 P40,000

STATEMENT OF CAPITAL—YEAR TWO

*WINSTON DURHAM SALEM TOTAL*

Beginning capital (above) P 91,000 P62,000 P 97,000 P250,000

Net income (above) 21,600 3,200 15,200 40,000

Drawings (given) (10,000) (10,000) (10,000) (30,000)

Ending capital P102,600 P55,200 P102,200 P260,000

21. a

Capital, Beginning

Additional investment 25,000  
 Withdrawals (130,000)

Net income 45,000 / 30% = P 150,000

Net Decrease (60,000)

22. a

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | F | G | H | Total |
| 10% interest a Average capital | 12,000 | 6,000 | 4,000 | 22,000 |
| Salaries | 30,000 |  | 20,000 | 50,000 |
| Equally | (35,000) | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ | (105,000) |
|  | 7,000 |  |  | (33,000) |

23. d, P66,200; E, P34,100; F, P29,700

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | D | E | F | Total |
| Salaries | 25,000 | 20,000 | 25,000 | 70,000 |
| Bonus on income (10% x P130,000) | 13,000 |  |  | 13,000 |
| Remainder (6:3:1) | 28,200 | 14,100 | \_4,700 | 47,000 |
|  | 66,200 | 34,100 | 29,700 | 130,000 |

24. a

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | C | W | N | Total |
| Capital, 1/1/x4 | 100,000 | 150,000 | 200,000 | 450,000 |
| Net Income – 20x4 | 29,000 | 63,000 | 58,000 | 150,000 |
| Withdrawal – personal | (12,000) | (12,000) | (12,000) | (36,000) |
| Capital, 12/31/x4 | 117,000 | 20,100 | 24,600 | 564,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net income – 20x4 | C | W | N | Total |
| 10% interest on beginning capital | 10,000 | 15,000 | 20,000 | 45,000 |
| Salary | - | 10,000 | - | 10,000 |
| 20% : 40% : 40% | 19,000 | 38,000 | 38,000 | 95,000 |
|  | 29,000 | 63,000 | 58,000 | 150,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital, 1/1/x5 | 117,000 | 201,000 | 246,000 | 564,000 |
| Net income | 34,420 | 75,540 | 70,040 | 180,000 |
| Withdrawals – personal | (12,000) | (12,000) | (12,000) | (36,000) |
| Capital, 12/31/x5 | 139,420 | 264,540 | 304,040 | 708,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net income – 20x5 | 117,000 | 201,000 | 246,000 | 564,000 |
| 10% interest a beginning capital | 34,420 | 75,540 | 70,040 | 180,000 |
| Salary | (12,000) | (12,000) | (12,000) | (36,000) |
| 20% : 40% : 40% | 139,420 | 264,540 | 304,040 | 708,000 |

25. d - refer to No.24

26. b - refer to No.24

27. c - refer to No.24

28. b

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Y | E | I | Total |
| Capital, 1/1/YearI | 143,000 | 104,000 | 143,000 | 390,000 |
| Net income (loss) | (11,700) | (10,400) | (3,900) | (26,000) |
| Withdrawals – personal | (13,000) | (13,000) | (13,000) | (39,000) |
| Capital, 12/31/ Year I | 118,300 | 80,600 | 126,100 | 325,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year I Net loss |  |  |  |  |
| Salary | 26,000 | - | 13,000 | 3,900 |
| Interest – 10% x beginning capital | 14,300 | 10,400 | 14,300 | 3,900 |
| 5:2:3 | (52,000) | (20,800) | (31,200) | (10,400) |
| Total | (11,700) | (10,400) | (3,900) | (2,600) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital, 1/1/Year2 | 118,300 | 80,600 | 126,100 | 325,000 |
| Net income (loss) | 28,080 | 76,700 | 19,760 | 52,000 |
| Withdrawals – personal | (13,000) | (13,000) | (13,000) | (3,900) |
| Capital, 12/31/ Year 2 | 133,380 | 144,300 | 132,860 | 338,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year 2 Net loss | 26,000 |  | 13,000 | 3,900 |
| Salary | 11,830 | 8,060 | 12,610 | 32,500 |
| Interest – 10% x beginning capital | (9,750) | (3,900) | (5,850) | (19,500) |
| 5:2:3 | 28,080 | 76,700 | 19,750 | 52,000 |

29. d - refer to No.28

30. c - refer to No.28

31. a - refer to No.28

32. d

Because both partners have equal capital balances, NN's capital has to be increased to equal that of MM's. Since MM's capital balance is P60,000 and NN's is P20,000, an additional P40,000 has to be credited to NN's capital to make it equal MM's capital. This additional amount credited to NN's capital is the goodwill that NN is bringing to the partnership.

|  |  |
| --- | --- |
| 33. | a - MM's share of the net income of P25,000 is 60%, or P15,000. |

34. b

2/1/20x4: P20,000 x 4 = P 80,000

6/1/20x4: P40,000 x 3 = 120,000

9/1/20x4: P30,000 x 4 = 120,000

P 320,000 / 12 months = P26,667

*Note: Annual - 12 months.*

35. b

|  |
| --- |
| Interest: (P500,000 x 10%) = P50,000 |
| Salary: (P10,000 + P20,000) = P30,000 |
| Bonus: Condition not met = P0 |
|  |
| Total allocations = P80,000 and over-allocations = |
| P80,000 - P60,000 = P20,000 |

36. b

|  |
| --- |
| Bloom: |
| Interest allocation: P20,000 |
| Salary allocation: P10,000 |
|  |
| Carnes: |
| Interest allocation: P30,000 |
| Salary allocation: P20,000 |
|  |
| There is a total of P80,000 for positive allocations. To bring them down to a P20,000 loss, a residual adjustment of (P100,000) is needed which is allocated (P40,000) to Bloom and (P60,000) to Carnes. After these amounts are assigned to the partners, each partner’s capital account will be reduced by a net P10,000. |

37. c

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | J | P | B | Total |
| Salaries | P 50,000 | P 60,000 | P 30,000 | P140,000 |
| Bonus\* | 16,000 | 8,000 | 16,000 | 40,000 |
| Remainder (3:4:3) | (6,000) | (8,000) | (6,000) | (20,000) |
| Total | P 60,000 | P 60,000 | P 40,000 | P160,000 |

*\*since problem is silent it should be based on net income before any deductions.*

38. c

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | A | P | B | Total |
| Salaries | P 30,000 | P 10,000 | P 40,000 | P 80,000 |
| Bonus (10% of average capital) | 5,000 | 3,000 | 2,000 | 10,000 |
| Remainder (4:4:2) | \_ 24,000 | \_\_24,000 | \_12,000 | 60,000 |
| Total | P 59,000 | P 37,000 | P 54,000 | P150,000 |

39. c

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | A | P | B | Total |
| Salaries | P 30,000 | P 10,000 | P 40,000 | P 80,000 |
| Bonus (10% of average capital) | 5,000 | 3,000 | 2,000 | 10,000 |
| Remainder (4:4:2) | (16,000) | (16,000) | ( 8,000) | (40,000) |
| Total | P 19,000 | (P3,000) | P 34,000 | P 50,000 |

40. b

|  |  |
| --- | --- |
| Total agreed capital = total contributed capital\* |  |
| (P200,000 + P100,000 + P100,000) | P 400,000 |
| Multiplied by: Capital interests of May | \_\_\_\_\_35% |
|  | P 140,000 |

*\*No goodwill or asset adjustment*

41 d

P60,000, salary = P25,000, salary + [.20 (NI – B)]

P60,000 = P25,000 + P35,000, bonus

Therefore, bonus would be P35,000

B = .20 (NI – B)

P35,000 = . 20 (NI – P35,000)

P35,000 = .20NI – P7,000

P35,000 + P7,000 = .20NI

P42,000 = .20NI

NI = P210,000

42. c - P30,000 + P40,000 = P70,000, annual salary to allocate net income.

43. b

[P70,000 – (P40,000 + P10,000 +P2,000)]

* Salary to partners is an allocation of net income (they are not expenses)
* Partner’s withdrawals are deduction to capital accounts.

44. c

Bonus = 20% (NI before deduction on salaries, interests and bonus)

B = 20% (NI after deduction of salaries, interests and bonus + salaries + interests + bonus)

B = 20% [P46,750 + (P1,000 x 12 months) + (.05 x P25,000) + B]

B = .20 [P60,000 + B]

B = P12,000 + .20B

1.20 B = P12,000

B = P15,000

45. a

Allocation/Distribution of Net Income

|  |  |  |  |
| --- | --- | --- | --- |
|  | DD | EE | Total |
| Salaries | 18,000 | 24,000 | 42,000 |
| Interest (10% of Ave. Cap.) | 15,000 | 20,000 | 35,000 |
| Balance/Remainder (60%:40%) | 25,800 | 17,200 | \_\_43,000 |
| Share in Net Income | 58,800 | 61,200 | 120,000\* |

\*P 500,000 – P100,000 (excluding salaries and int. – P100,000

Statement of Partners’ Capital

|  |  |  |  |
| --- | --- | --- | --- |
|  | DD | EE | Total |
| Capital, March 1, 2011 | 150,000 | 180,000 | 330,000 |
| Additional Investments |  | 60,000 | 60,000 |
| Net Income | 58,800 | 61,200 | 1240,000 |
| Personal Withdrawals | (18,000) | (24,000) | ( 42,000) |
| Capital, March 1, 2012 | 190,800 | 277,200 | 468,000 |

Allocation/Distribution of Net Income

|  |  |  |  |
| --- | --- | --- | --- |
|  | DD | EE | Total |
| Interest on Average Capital – 10% | P 15,000 | P20,000 | P 35,000 |
| Balance/Remainder – 60%:40% | 51,000 | 34,000 | 85,000 |
| Share in Net Income | P 66,000 | P54,000 | P 120,000 |

Statement of Partners’ Capital

|  |  |  |
| --- | --- | --- |
|  | DD | EE |
| Capital balance, 2/28/20x4 | P 150,000 | P 180,000 |
| Additional Investment |  | 60,000 |
| Share in Net Income | 66,000 | 54,000 |
| Salaries | 18,000 | 24,000 |
| Salary withdrawals | ( 18,000) | ( 24,000) |
| Capital balance, March 1, 20x5 | P 216,000 | P 294,000 |

46. a – refer to No. 45

47. b – refer to No. 45

48. c – refer to No. 45

49. a

|  |  |  |  |
| --- | --- | --- | --- |
|  | NN | OO | Total |
| Salary allowances | P180,000 | P - | P180,000 |
| Balance/Remainder: Equally | 15,000 | 15,000 | 30,000 |
| Net Income for 20x5 | P195,000 | P 15,000 | P 210,000 |
| Adjustment of net income for 20x4 – 60% : 40% | 24,000 | 16,000 | 40,000 |
| Total | P219,000 | P31,000 | P250,000 |

Note: *Any adjustments related to a particular year, the profit and loss ratio existing on that year should be used as a basis for allocating the required adjustments.*

50. b

|  |  |  |  |
| --- | --- | --- | --- |
|  | Old P & L | Interests Acquired | New P & L |
| Abe | 70% |  | 59.50% |
| Bert | 20% | 85% | 17.00% |
| Carl | 10% |  | 8.50% |
| Dave |  | 15% | 15.00% |
| Total | 100% | 100% | 100% |

51. b

|  |  |
| --- | --- |
| Unadjusted net income, 20x5 | P 15,000 |
| Add (deduct): adjustments - |  |
| Accrued expense – 20x5 | (1,050) |
| Accrued income – 20x5 | 875 |
| Prepaid expense – 20x4 | (1,400) |
| Deferred or unearned income – 20x4 | \_\_1,225 |
| Adjusted net income, 20x5 | P 14,650 |
| Multiplied by: P& L of Dave | \_\_\_\_\_17% |
| Share in net income – 20x5 | P2,490.50 |

**THEORIES**

**True of False**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | False | 6. | False | 11. | True | 16. | True | 21. | False | 26. | False |
| 2. | True | 7. | True | 12. | True | 17. | False | 22. | True | 27. | True |
| 3. | True | 8. | False | 13. | False | 18. | False | 23. | False | 28. | False |
| 4. | False | 9. | True | 14. | True | 19. | True | 24. | True |
| 5. | True | 10. | False | 15. | False | 20. | True | 25. | False |

***Note for the following numbers:***

***1. While the partnership law may have indicated that the partners cannot withdraw resources and make the partnership insolvent, withdrawals are typically controlled by the articles of partnership.***

***4. If the partnership agreement is silent with regard to profit and loss allocation, profits and losses are shared equally.***

***6. The interest component of partnership profit and loss allocation rewards partners for capital contributions.***

***8. The interest on capital balances component of partnership profit and loss allocation may be based on the beginning, ending, simple average capital balance, or weighted average capital balance.***

***10. The salary component of the partnership profit and loss allocation would be expected to be renegotiated periodically as the duties of the partners change.***

***13. Partnerships can offer bonuses to anyone. The choice is up to the partners. On the other hand, there is no requirement to ever offer a bonus.***

***15. While many bonuses are based on a measure of income, it is not required. Bonus can be based on other criteria such as market share, revenue, or average cost per unit.***

***17. Residual interests may be equal but they are not required to be equal.***

***18. While profit residual ratios and loss residual ratios are generally the same, they can differ.***

***21. Residual profit and loss percentages are the last component of the profit and loss allocation process applied because they are designed to allocate any remaining amount to the partners.***

***23. There are several ways that the difference between market and book value of assets can be addressed when the profit and loss ratios are changed. Revaluing the assets is one of the possibilities along with maintaining a record of assets with market and book value differences as well as directly adjusting capital accounts while leaving asset values unchanged.***

**Multiple Choice**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | c | 34. | d | 39. | b | 44. | c |
| 30. | d | 35. | d | 40. | e | 45. | a |
| 31. | c | 36. | c | 41. | c | 46. | b |
| 32. | d | 37. | d | 42. | b |  |  |
| 33. | a | 38. | a | 43. | dc |  |  |