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# SOLUTIONS Learning Goal 33

## Multiple Choice

1. a. The life a partnership may be shorter than the term in the partnership agreement if there is a change in the partners. A change of partners dissolves the old partnership and creates a new one.
2. b.
3. b. In a general partnership all partners have unlimited liability
4. c. In a limited partnership at least one partner must be a general partner with personal liability.
5. d.
6. a. $81,000 × 4/9 = $36,000
7. c. $50,000 × 3/4 × 2/5 = $15,000
8. d. The correct entry is:

| | | |
|---|---|---|
| Cash | 40,000 | |
| Jones, Capital | | 3,200 |
| Smith, Capital | | 4,800 |
| Green, Capital | | 32,000 |

9. c. Green now has 20%, so Jones and Smith share 80%. Jones: .8 × .4 = 32%; Smith: .8 × .6 = .48 = 48%
10. d. Partner J is receiving $10,000 more than in J 's capital account; therefore, because the partnership did not revalue assets, this is a bonus from K and L to J. 4/6 × $10,000 = $6,667 from K; 2/6 × $10,000 = $3,333 from L. When the cash is paid, the bonus reduces the capital accounts of K and L.
11. a. Because the assets have been revalued, no bonus will occur. All capital accounts are at fair market value. This means that partner J 's capital account will be at $80,000 as follows: $25,000 × 4/10 = $10,000 increase in J 's capital resulting from asset revaluation. $70,000 + $10,000 = $80,000.
12. d. The correct entry is:

| | | |
|---|---|---|
| Cash | 360,000 | |
| Assets (various) | | 300,000 |
| M, Capital | | 20,000 |
| N, Capital | | 20,000 |
| O, Capital | | 20,000 |

13. d.
14. a. Payment of a liability never affects a capital account for any type of business. Payment of a liability only affects the claim of creditors, not the owners.

# SOLUTIONS Learning Goal 33, continued

## Discussion Questions and Brief Exercises

1. Limited life means that the term of a partnership is limited to the time that the existing partners continue to be partners in the partnership (or the term stated in the partnership agreement, if that is less). For example, if the partnership agreement states a life of 20 years but a new partner is admitted after 5 years, the partnership dissolves and a new partnership is formed when the new partner is admitted. Similarly, if a partner leaves, becomes incapacitated, or dies, the existing partnership is dissolved and a new partnership is created if the remaining partners carry on the business.
   Mutual agency means that any partner who appears to be acting within the scope of the partnership 's business creates a binding contract on behalf of the partnership and all the other partners. If a partner enters into any agreement to either provide services or products or to acquire services or products, that partner has created an agreement for the entire partnership.
   Unlimited liability means that each partner is personally obligated to pay partnership debts if there are not enough partnership assets to pay the debts. A creditor can demand full payment from all partners and from any individual partner.
2. Partnership property is co-owned among all partners. Assets invested in a partnership become partnership property and each partner owns a share of the assets, For example, in the AB partnership partner A has a 60% share of capital and partner B has a 40% share. This means that A has a 60% claim on assets and B has a 40% claim on assets. The exact dollar amount of a claim is the balance in a partner 's capital account. A capital account is an owner 's claim on the wealth of a business.
3. **Advantages**: a) A partnership can obtain more financial and intellectual resources than a proprietorship. b) A partnership is extremely flexible in the methods that can be used to allocate income and loss. c) There are several types of partnership entities that can be utilized.
   **Disadvantages**: a) Unlimited personal liability b) Mutual agency when a partner is unreliable c) Potential for partner conflicts d) Dissolution each time ownership changes
4. a) General partnership: this partnership has the features described in #1 above. b) Limited partnership: a limited partnership must have at least one general partner with unlimited liability who manages the partnership. A limited partner 's liability is limited to the amount invested; however, a limited partner can**not** manage the business. c) A limited liability company (LLC) combines the advantages of a partnership and a corporation. An LLC has limited life and income and loss allocation like a partnership, but there is no mutual agency and unlimited liability. d) S corporation: An S corporation is actually a corporation, not a partnership; however, an S corporation has the tax advantage of being able to allocate income and loss similar to a partnership. It therefore avoids the double-taxation aspect of corporate dividends. Partnerships do not pay income tax. Each type of partnership income or loss is allocated among the partners.
5. When partners contribute assets to a partnership, the assets should be valued at fair market value, unless the partners agree otherwise. Here the fair market value is: $30,000 + $19,000 + $82,000 = $131,000. This will be the balance in Candice 's capital account when the partnership is created. A liability assumed or accepted by a partnership reduces the contributing partner 's capital account balance. With the liability, Candice 's capital account balance would be $131,000 – $15,000 = $116,000.
6. When a partnership agreement does not specify how profits and losses are to be shared, they are shared equally among all partners. Therefore the partners of Western partnership will share profits and losses equally. When a partnership agreement specifies only the method of sharing profits, losses are shared in the same manner as profits. Therefore, Eastern partnership will share losses in the same manner as the partnership agreement specifies profits are to be shared. These rules are based on the Uniform Partnership Act.

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## SOLUTIONS Learning Goal 33, continued

7. The allocation of profits and losses should recognize how the partners contribute to the partnership. In some cases this may be the investment of assets. In other cases the contribution may be in the form of time spent in management or of skills, talent, and experience. In some cases, partners may want partnership losses to allocate other income. Usually the final allocation arrangement is the result of negotiation between the prospective partners.
8. The financial statements of a partnership are essentially the same as those of a proprietorship, with the following differences: a) The balance sheet will show a capital account for each partner b) On the income statement, accountants will sometimes show how the net income is allocated among partners. This is shown directly below net income.
9. a) Able and Baker (net income): Debit Income Summary for the balance and credit Able, Capital and Baker, Capital according to the profit sharing agreement. B) Cooper and Dawson (net loss): Credit Income Summary for the balance and debit Cooper, Capital and Dawson, Capital according to the loss sharing agreement. These entries remove the balance in the Income Summary account and allocate the balance to the partners ’ capital account.
10. The most common profit and loss allocations are: a) Fixed ratio, percentage, or fraction b) Salary allocation c) A ratio based on beginning or average capital balances d) Interest on beginning or average capital balances e) A combination of method ’b ’, ’c ’, or ’d ’ with any remaining balance allocated according to method ’a ’. Salary allocations are most often used to reward partners for time spent managing a partnership. Capital balance allocations reward partners for the amount of capital invested and for maintaining an larger capital balance in the partnership.
    A priority allocation is an allocation that must be made before using the constant or default partnership ratio, percentage, or fraction to each partner. Examples of priority allocations are salary and allocations based on capital. Note: remember that a "salary" and "interest" on capital are only part of the allocation process and are methods of allocating income or loss to capital accounts, NOT cash. Cash payments to partners are controlled by the drawing account provisions in the partnership agreement.
11.

| Method | Partner A | Partner B |
|---|---|---|
| a) A 3:2 ratio for A and B | $30,000 | $20,000 |
| b) A 60:40 ratio for A and B | 30,000 | 20,000 |
| c) A $10,000 salary to A, the remainder equally | 30,000 | 20,000 |
| d) A $20,000 salary to B, the remainder 1/3 A and 2/3 B | 10,000 | 40,000 |

Calculations:

a) A: 3 parts out of 5 total parts = 3/5 = .6 Therefore .6 × $50,000 = $30,000
   B: 2 parts out of 5 total parts = 2/5 = .4 Therefore .4 × $50,000 = $20,000

b) A: 60 parts out of 100 parts = 60/100 = .6 Therefore .6 × $50,000 = $30,000
   B: 40 parts out of 100 parts = 40/100 = .4 Therefore .4 × $50,000 = $20,000

c)

| Item | Total | A 50% | B 50% |
|---|---|---|---|
| Total to Allocate | $50,000 | | |
| Salary | $10,000 | $10,000 | – |
| Balance | 40,000 | 20,000 | 20,000 |
| Total Allocated | $50,000 | $30,000 | $20,000 |

## SOLUTIONS Learning Goal 33, continued

**11.** d)

| Item | Total | A 50% | B 50% |
|---|---|---|---|
| Total to Allocate | $50,000 | | |
| Salary | $20,000 | – | $20,000 |
| Balance | 30,000 | $10,000 | 20,000 |
| Total Allocated | $50,000 | $10,000 | $40,000 |

**12.** a)

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| A, Capital | | 30,000 |
| B, Capital | | 20,000 |

b)

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| A, Capital | | 30,000 |
| B, Capital | | 20,000 |

c)

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| A, Capital | | 30,000 |
| B, Capital | | 20,000 |

d)

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| A, Capital | | 10,000 |
| B, Capital | | 40,000 |

**13.** Because the problem is telling us that Albert is paying Deshawn, we know that this is a personal transaction between Albert and Deshawn, therefore no cash or other assets go into the partnership. After Albert purchases 20% of Deshawn's 50% partnership interests, the profit and loss allocations to Albert are: .2 × .5 = .1 or 10%. Deshawn shares profits and losses in the remaining 80% of his 50% share, which is .8 × .5 = .4 or 40%. Dave each retains his 50% share of profits and losses. (Notice that all percentages add up to 100%.)

**14.** Because the problem is telling us that C is investing for a 40% interest in the partnership (no cash is going to either A or B), the partnership assets increase by $50,000. After C becomes a partner, the profit and loss allocations are: 40% to C, therefore A and B share the remaining 60% in their ratios of 30% and 70%. Therefore, A shares .3 × .6 = .18, or 18%. B shares .7 × .6 = .42, or 42%. (Notice that all percentages add up to 100%)

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## SOLUTIONS Learning Goal 33, continued

**15.** Journal entry for #13:

| | | |
|---|---|---|
| Deshawn, Capital (.2 × $112,000) | 22,400 | |
| Albert, Capital | | 22,400 |

Journal entry for #14:
Use the following table when there is an investment into a partnership:

| Step | Example |
|---|---|
| 1 | Total capital: $105,000 + $70,000 = $175,000 |
| 2 | New partner's share: $175,000 × .4 = $70,000 |
| 3 | New partner's investment = $70,000 |
| 4 | $70,000 − $70,000 = 0 No bonus to any partner |

| | | |
|---|---|---|
| Cash | 70,000 | |
| C, Capital | | 70,000 |

**16.**

| Situation | Rockford | Ramos | Chen |
|---|---|---|---|
| a) Chen invests $100,000 and receives a 40% interest in capital and profits and losses | -0- | -0- | $40,000 |
| b) Chen invests $80,000 and receives a 20% interest in capital and profits and losses | $5,600 | $8,400 | -0- |
| c) Chen invests $250,000 and receives a 50% interest in capital and profits and losses | -0- | -0- | -0- |

Calculations:
Use the following table when there is an investment into a partnership:
a)

| Step | Example |
|---|---|
| 1 | Total capital: $105,000 + $145,000 + $100,000 = $350,000 |
| 2 | New partner's share: $350,000 × .4 = $140,000 |
| 3 | New partner's investment = $100,000 |
| 4 | $140,000 – $100,000 = $40,000. Bonus is to Chen |

b)

| Step | Example |
|---|---|
| 1 | Total capital: $105,000 + $145,000 + $80,000 = $330,000 |
| 2 | New partner's share: $330,000 × .2 = $66,000 |
| 3 | New partner's investment = $80,000 |
| 4 | $66,000 - $80,000 = – $14,000. Bonus is to old partners (2:3 ratio) |

## SOLUTIONS Learning Goal 33, continued

**16.** *continued*

c)

| Step | Example |
|---|---|
| 1 | Total capital: \$105,000 + \$145,000 + \$250,000 = \$500,000 |
| 2 | New partner's share: \$500,000 × .5 = \$250,000 |
| 3 | New partner's investment = \$250,000 |
| 4 | \$250,000 − \$250,000 = 0. No bonus to any partner |

**17.** a)

| | | |
|---|---|---|
| Cash | 100,000 | |
| Rockford, Capital (,4 x \$40,000) | 16,000 | |
| Ramos, Capital (,6 x \$40,000) | 24,000 | |
| Chen, Capital | | 140,000 |

b)

| | | |
|---|---|---|
| Cash | 80,000 | |
| Rockford, Capital (,4 × \$14,000) | | 5,600 |
| Ramos, Capital (,6 x \$14,000) | | 8,400 |
| Chen, Capital | | 66,000 |

c)

| | | |
|---|---|---|
| Cash | 250,000 | |
| Chen, Capital | | 250,000 |

**18.** a) Anne receives 3/10 (30%) of the appraisal increase, which is \$15,000. Therefore, the new balance in her capital account is: \$70,000 + \$15,000 = \$85,000

b)

| | | |
|---|---|---|
| White, Capital | 85,000 | |
| Cash | | 34,000 |
| Note Payable | | 51,000 |

c)

| | | |
|---|---|---|
| White, Capital | 85,000 | |
| Cash | | 27,200 |
| Notes Payable | | 40,800 |
| Black, Capital (\$17,000 × 5/7) | | 12,143 |
| Green, Capital (\$17,000 × 2/7) | | 4,857 |

## SOLUTIONS Learning Goal 33, continued

**18.** *continued*

Anne is accepting $85,000 × .8 = $68,000. $68,000 ×. 4 = $27,200 cash. $68,000 – $27,200 = $40,800 note payable. The discount is $85,000 – $68,000 = $17,000 and creates a bonus to Black and Green allocated in their respective profit and loss ratio of 5/7 and 2/7.

d. This is a personal transaction between Green and White. Partnership assets are not affected.

| | | |
|---|---|---|
| White, Capital | 85,000 | |
| Green, Capital | | 85,000 |

**19.**

| Explanation | Cash | Other Assets | = | Liabilities | R, Capital | S, Capital | T, Capital |
|---|---|---|---|---|---|---|---|
| Beginning Balances | $55,000 | $276,000 | | $49,000 | $64,000 | $123,000 | $95,000 |
| **Step 1:** sell non-cash assets | 376,000 | (276,000) | | | 40,000 | 30,000 | 30,000 |
| New Balances | 431,000 | -0- | | 49,000 | 104,000 | 153,000 | 125,000 |
| **Step 2:** pay all liabilities | (49,000) | | | (49,000) | | | |
| New Balances | 382,000 | -0- | | -0- | 104,000 | 153,000 | 125,000 |
| **Step 3:** distribute cash to partners | (382,000) | | | | (104,000) | (153,000) | (125,000) |
| Final Balances | -0- | -0- | | -0- | -0- | -0- | -0- |

**20.** a)

| | Cash | Non-cash assets | Liabilities | Nguyen | Ramirez | Miller |
|---|---|---|---|---|---|---|
| New Balances | $186,000 | -0- | -0- | $75,000 | $129,000 | $(18,000) |
| **Step 3:** receive cash from Miller | 18,000 | | | | | 18,000 |
| New Balances | 204,000 | -0- | -0- | 75,000 | 129,000 | -0- |
| distribute cash to partners | (204,000) | | | (75,000) | (129,000) | |
| Final Balances | -0- | -0- | -0- | -0- | -0- | -0- |

| | | |
|---|---|---|
| Cash | 18,000 | |
| Miller, Capital | | 18,000 |
| Nguyen, Capital | 75,000 | |
| Ramirez, Capital | 129,000 | |
| Cash | | 204,000 |

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## SOLUTIONS Learning Goal 33, continued

20. *continued*

b)

| | Cash | Non-cash assets | Liabilities | Nguyen | Ramirez | Miller |
|---|---|---|---|---|---|---|
| New Balances | $186,000 | -0- | -0- | $75,000 | $129,000 | $(18,000) |
| **Step 3:** deficiency adjustment | | | | (6,000) | (12,000) | 18,000 |
| New Balances | 186,000 | -0- | -0- | 69,000 | 117,000 | -0- |
| distribute cash to partners | (186,000) | | | (69,000) | (117,000) | |
| Final Balances | -0- | -0- | -0- | -0- | -0- | -0- |

Nguyen and Ramirez absorb the loss of capital in their respective loss sharing ratios of 1/3 and 2/3.

| Account | Debit | Credit |
|---|---|---|
| Nguyen, Capital | 6,000 | |
| Ramirez, Capital | 12,000 | |
| Miller, Capital | | 18,000 |
| | | |
| Nguyen, Capital | 69,000 | |
| Ramirez, Capital | 117,000 | |
| Cash | | 186,000 |

### Reinforcement Problems

**LG 33-1.** a.

| Account | Debit | Credit |
|---|---|---|
| Cash | 120,000 | |
| Accounts Receivable | 19,380 | |
| Prepaid Rent | 2,500 | |
| Office Equipment | 25,000 | |
| Allowance for Bad Receivables | | 2,180 |
| Notes Payable | | 14,600 |
| Adams, Capital | | 150,100 |
| | | |
| Cash | 135,000 | |
| Maxwell, Capital | | 135,000 |

## SOLUTIONS Learning Goal 33, continued

### LG 33-1, *continued*

b.

**Adams and Maxwell Partnership**
**Balance Sheet**
**October 12, 20XX**

| Assets | | | Liabilities and Partners' Capital | |
|---|---|---|---|---|
| Cash | | $255,000 | Notes payable | $14,600 |
| Accounts receivable | $19,380 | | | |
| Less: allowance for | | | D. Adams, Capital | 150,100 |
| bad accounts | | (2,180) | B. Maxwell, Capital | 135,000 |
| | | 17,200 | Total Partners' Capital | 285,100 |
| Prepaid rent | | 2,500 | | |
| Office equipment | | 25,000 | Total liabilities and | |
| Total assets | | $299,700 | partners' Capital | $299,700 |

c.

| Account | Debit | Credit |
|---|---|---|
| Income Summary | 24,000 | |
| D. Adams, Capital | | 12,000 |
| B. Maxwell, Capital | | 12,000 |
| | | |
| D. Adams, Capital | 5,000 | |
| B. Maxwell, Capital | 7,500 | |
| D. Adams, Drawing | | 5,000 |
| B. Maxwell, Drawing | | 7,500 |

d. The partners probably agreed on an equal allocation of profits and losses because they believe that aside from the initial investment, each partner brings something equally important to the partnership. This could be technical knowledge, business experience, or time spent managing the affairs of the partnership operations. The partners also feel that risk should be shared equally. Also, in this case the amount of the capital invested by each partner, although different, is not significantly different. In cases where the capital investments are very different, some partnerships create fixed allocations that are based on the capital balance maintained by each partner.

## SOLUTIONS

Learning Goal 33, continued

**LG 33-2.** a.

| | | |
|---|---|---|
| Income Summary | 70,000 | |
| A, Capital | | 17,500 |
| B, Capital | | 28,000 |
| C, Capital | | 24,500 |

Partner A: $70,000 × .25 = $17,500
Partner B: $70,000 × .40 = $28,000
Partner C: $70,000 × .35 = $24,500

b.

| | | |
|---|---|---|
| A, Capital | 25,000 | |
| B, Capital | 16,667 | |
| C, Capital | 8,333 | |
| Income Summary | | 50,000 |

Partner A: $50,000 × 3/6 = $25,000
Partner B: $50,000 × 2/6 = $16,667
Partner C: $50,000 × 1/6 = $8,333

c.

| Item | Total | A 1/4 | B 1/2 | C 1/4 |
|---|---|---|---|---|
| Total to Allocate | $80,000 | | | |
| Salary | 20,000 | | | $20,000 |
| Balance | 60,000 | $15,000 | $30,000 | 15,000 |
| Total Allocated | $80,000 | $15,000 | $30,000 | $35,000 |

| | | |
|---|---|---|
| Income Summary | 80,000 | |
| A, Capital | | 15,000 |
| B, Capital | | 30,000 |
| C, Capital | | 35,000 |

## SOLUTIONS Learning Goal 33, continued

### LG 33-2, *continued*

d.

| Item | Total | A 50% | B 30% | C 20% |
|---|---|---|---|---|
| Total to Allocate | $80,000 | | | |
| Interest on capital | 10,000 | $2,000 | $5,000 | $3,000 |
| Balance | 70,000 | 35,000 | 21,000 | 14,000 |
| Total Allocated | $80,000 | $37,000 | $26,000 | $17,000 |

| | Debit | Credit |
|---|---|---|
| Income Summary | 80,000 | |
| A, Capital | | 37,000 |
| B, Capital | | 26,000 |
| C, Capital | | 17,000 |

e.

| Item | Total | A 50% | B 30% | C 20% |
|---|---|---|---|---|
| Total to Allocate | $100,000 | | | |
| Interest on capital | 40,000 | $8,000 | $20,000 | $12,000 |
| Balance | 60,000 | 30,000 | 18,000 | 12,000 |
| Total Allocated | $100,000 | $38,000 | $38,000 | $24,000 |

Capital Balance Ratios Allocation
Partner A: $20,000/$100,000 × $40,000 = $ 8,000
Partner B: $50,000/$100,000 × $40,000 = $ 20,000
Partner C: $30,000/$100,000 × $40,000 = $ 12,000
$ 40,000

| | Debit | Credit |
|---|---|---|
| Income Summary | 100,000 | |
| A, Capital | | 38,000 |
| B, Capital | | 38,000 |
| C, Capital | | 24,000 |

f.

| Item | Total | A 50% | B 30% | C 20% |
|---|---|---|---|---|
| Total to Allocate | $30,000 | | | |
| Salaries | 25,000 | | $10,000 | $15,000 |
| Interest on capital | 10,000 | $2,000 | 5,000 | 3,000 |
| Balance | (5,000) | (2,500) | (1,500) | (1,000) |
| Total Allocated | $30,000 | $(500) | $13,500 | $17,000 |

## SOLUTIONS Learning Goal 33, continued

### LG 33-2, *continued*

Even though the partnership has a net income, partner A's capital account is being reduced.

| | | |
|---|---|---|
| Income Summary | 30,000 | |
| A, Capital | 500 | |
| B, Capital | | 13,500 |
| C, Capital | | 17,000 |

g.

| | | |
|---|---|---|
| B, Capital | 10,000 | |
| C, Capital | 7,500 | |
| B, Drawing | | 10,000 |
| C, Drawing | | 7,500 |

### LG 33-3. a.

| | | |
|---|---|---|
| Nancy, Capital | 45,000 | |
| Oscar, Capital | 33,750 | |
| Peter, Capital | 11,250 | |
| Income Summary | | 90,000 |

If the partnership agreement is silent as to loss allocation, then losses are allocated in the same manner as profits. If the partnership agreement is silent as to both profits and losses, then they are both allocated equally among all partners.

Nancy: $90,000 × 4/8 = $45,000
Oscar: $90,000 × 3/8 = $33,750
Peter: $90,000 × 1/8 = $11,250

b.

| Item | Total | Nancy 1/3 | Oscar 1/3 | Peter 1/3 |
|---|---|---|---|---|
| Total to Allocate | $(50,000) | | | |
| Salary | 10,000 | | $10,000 | |
| Balance | (60,000) | $(20,000) | (20,000) | $(20,000) |
| Total Allocated | $(50,000) | $(20,000) | $(10,000) | $(20,000) |

## SOLUTIONS Learning Goal 33, continued

### LG 33-3, *continued*

| | | |
|---|---|---|
| Nancy, Capital | 20,000 | |
| Oscar, Capital | 10,000 | |
| Peter, Capital | 20,000 | |
| Income Summary | | 50,000 |

c.

| Item | Total | Nancy .3 | Oscar .3 | Peter .4 |
|---|---|---|---|---|
| Total to Allocate | $50,000 | | | |
| Interest on Capital | 9,000 | $3,000 | $3,500 | $2,500 |
| Balance | 41,000 | 12,300 | 12,300 | 16,400 |
| Total Allocated | $50,000 | $15,300 | $15,800 | $18,900 |

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| Nancy, Capital | | 15,300 |
| Oscar, Capital | | 15,800 |
| Peter, Capital | | 18,900 |

d.

| Item | Total | Nancy .3 | Oscar .3 | Peter .4 |
|---|---|---|---|---|
| Total to Allocate | $50,000 | | | |
| Interest on Capital | 25,000 | $8,333 | $9,722 | $6,945 |
| Balance | 25,000 | 7,500 | 7,500 | 10,000 |
| Total Allocated | $50,000 | $15,833 | $17,222 | $16,945 |

Capital Balance Ratios Allocation

Nancy: $60,000/$180,000 × $25,000 = $ 8,333
Oscar: $70,000/$180,000 × $25,000 = $ 9,722
Peter: $50,000/$180,000 × $25,000 = $ 6,945
$25,000

e.

| Item | Total | Nancy 1/4 | Oscar 1/4 | Peter 1/2 |
|---|---|---|---|---|
| Total to Allocate | $20,000 | | | |
| Interest on Capital | 25,000 | $7,143 | $7,143 | $10,714 |
| Salary | 5,000 | | 5,000 | |
| Balance | (10,000) | (2,500) | (2,500) | (5,000) |
| Total Allocated | $20,000 | $4,643 | $9,643 | $5,714 |

## SOLUTIONS

## Learning Goal 33, continued

### LG 33-3, *continued*

| | | |
|---|---|---|
| Income Summary | 20,000 | |
| Nancy, Capital | | 4,643 |
| Oscar, Capital | | 9,643 |
| Peter, Capital | | 5,714 |

f.

| Item | Total | Nancy 2/7 | Oscar 2/7 | Peter 3/7 |
|---|---|---|---|---|
| Total to Allocate | $50,000 | | | |
| Interest on Capital | 25,000 | $7,143 | $7,143 | $10,714 |
| Salary | 5,000 | | 5,000 | |
| Balance | 20,000 | 5,714 | 5,714 | 8,572 |
| Total Allocated | $50,000 | $12,857 | $17,857 | $19,286 |

| | | |
|---|---|---|
| Income Summary | 50,000 | |
| Nancy, Capital | | 12,857 |
| Oscar, Capital | | 17,857 |
| Peter, Capital | | 19,286 |

### LG 33-4.

a. This is a personal transaction between Ames and Bloch; no money is invested in the partnership. Therefore, the balance in Ames' capital account simply becomes the balance for Bloch because Ames has left the partnership. The profit and loss sharing percentages remain the same among the three partners. Lee: 25%, Fisher: 35%, Bloch: 40%.

| | | |
|---|---|---|
| Ames, Capital | 61,000 | |
| Bloch, Capital | | 61,000 |

b. This is also a personal transaction between Ames and Bloch and no money is entering the partnership. However, in this case a new capital account will be created for John Bloch, and one-half of Ames' capital balance will be moved into Bloch's capital account. The profit and loss sharing percentage changes for Ames because Bloch also will now have one-half of Ames' profit and loss sharing interest. Lee: 25%, Fisher: 35%, Ames: 20%, Bloch: 20%.

| | | |
|---|---|---|
| Ames, Capital | 30,500 | |
| Bloch, Capital | | 30,500 |

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## SOLUTIONS Learning Goal 33, continued

**LG 33-4**, *continued*

c.

| | | |
|---|---|---|
| Total capital of new partnership | $250,000 | |
| New partner's share of total capital | 50,000 | ($250,000 × 1/5) |
| New partner's investment | 50,000 | |
| Bonus | -0- | (50,000 – 50,000 = 0) |

| | | |
|---|---|---|
| Cash | 50,000 | |
| Bloch, Capital | | 50,000 |

Bloch receives credit for exactly the amount invested in the partnership. Bloch will have a profit and loss percentage of 20% (one-fifth). The old partners will share the remaining 80%. Lee: 80% × 25% = 20%; Fisher: 80% × 35% = 28%; Ames: 80% × 40% = 32%.

d.

| | | |
|---|---|---|
| Total capital of new partnership | $250,000 | |
| New partner's share of total capital | 37,500 | ($250,000 × .15) |
| New partner's investment | 50,000 | |
| Bonus to old partners | 12,500 | (37,500 – 50,000 = –12,500) |

| | | |
|---|---|---|
| Cash | 50,000 | |
| Bloch, Capital | | 37,500 |
| Lee, Capital | | 3,125 |
| Fisher, Capital | | 4,375 |
| Ames, Capital | | 5,000 |

Bloch invests $50,000 but receives credit in his capital account for only $37,500. The difference of $12,500 is a bonus to the old partners that is allocated in their profit sharing percentages of 25%, 35%, and 40%. Bloch will have a profit and loss percentage of 15%. The old partners will share the remaining 85%. Lee: 85% × 25% = 21.25%; Fisher: 85% × 35% = 29.75%; Ames: 85% × 40% = 34%.

e.

| | | |
|---|---|---|
| Total capital of new partnership | $230,000 | |
| New partner's share of total capital | 34,500 | ($230,000 × .15) |
| New partner's investment | 30,000 | |
| Bonus to new partner | 12,500 | (34,500 – 30,000 = 4,500) |

## SOLUTIONS Learning Goal 33, continued

### LG 33-4, *continued*

| | | |
|---|---|---|
| Cash | 30,000 | |
| Lee, Capital | 1,125 | |
| Fisher, Capital | 1,575 | |
| Ames, Capital | 1,800 | |
| Bloch, Capital | | 34,500 |

Bloch invests $30,000 but receives credit in his capital account for $34,500. The difference of $4,500 is a bonus to Bloch. This bonus comes from the capital accounts of the old partners in their loss sharing percentages.

Bloch will have a profit and loss percentage of 15%. The old partners will share the remaining 85%. Lee: 85% × 25% = 21.25%; Fisher: 85% × 35% = 29.75%; Ames: 85% × 40% = 34%.

---

### LG 33-5.

a. This is a personal transaction between Baxter and Smith; no money is invested in the partnership. Therefore, the balance in Smith's capital account simply becomes the balance for Baxter because Smith has left the partnership. The profit and loss sharing remains the same between Jones and Baxter as they were between Jones and Smith, which was a 3:2 to ratio.

| | | |
|---|---|---|
| Smith, Capital | 160,000 | |
| Baxter, Capital | | 160,000 |

b. This is a personal transaction between Baxter and both Jones and Smith. No money goes into the partnership. However, in this case a new capital account will be created for Baxter, and one-half of Jones' capital balance and one half of Smith's capital balance will be moved into Baxter's capital account. The profit and loss sharing changes for Jones and Smith because Baxter now will have a 50% share of partnership profit and losses. Jones and Smith will share the remaining 50% between each other in their 3:2 ratio. (In other words, Jones will have 3/5 of the remaining 50% and Smith will have 2/5 of the remaining 50%.) The profit and loss sharing percentages are: Jones 30%, Smith 20%, and Baxter 50%.

| | | |
|---|---|---|
| Jones, Capital | 95,000 | |
| Smith, Capital | 80,000 | |
| Baxter, Capital | | 175,000 |

c.

| | | |
|---|---|---|
| Total capital of new partnership | $500,000 | |
| New partner's share of total capital | 150,000 | ($500,000 × .3) |
| New partner's investment | 150,000 | |
| Bonus | -0- | (150,000 – 150,000 = 0) |

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## SOLUTIONS Learning Goal 33, continued

**LG 33-5,** *continued*

| | | |
|---|---|---|
| Cash | 150,000 | |
| Baxter, Capital | | 150,000 |

Baxter receives credit for exactly the amount invested in the partnership. Baxter will have a profit and loss percentage of 30%. The old partners will share the remaining 70% in their 3:2 ratio. The profit and loss sharing percentages are: Jones 42%, Smith 28%, and Baxter 30%.

d.

| | | |
|---|---|---|
| Total capital of new partnership | $500,000 | |
| New partner's share of total capital | 250,000 | ($500,000 × .5) |
| New partner's investment | 150,000 | |
| Bonus to new partner | 100,000 | (250,000 – 150,000 = 100,000) |

| | | |
|---|---|---|
| Cash | 150,000 | |
| Jones, Capital | 60,000 | |
| Smith, Capital | 40,000 | |
| Baxter, Capital | | 250,000 |

Baxter invests $150,000 but receives credit in his capital account for $250,000. The difference of $100,000 is a bonus to Baxter. This bonus comes from the capital accounts of the old partners in their ratio of 3:2. Baxter will have a 50% share of profits and losses. Jones and Smith will share the remaining 50% between each other in their 3:2 ratio. The profit and loss sharing percentages are: Jones 30%, Smith 20%, and Baxter 50%.

e.

| | | |
|---|---|---|
| Total capital of new partnership | $500,000 | |
| New partner's share of total capital | 100,000 | ($500,000 × .2) |
| New partner's investment | 150,000 | |
| Bonus to old partners | 50,000 | (100,000 – 150,000 = –50,000) |

| | | |
|---|---|---|
| Cash | 150,000 | |
| Jones, Capital | | 30,000 |
| Smith, Capital | | 20,000 |
| Baxter, Capital | | 100,000 |

Baxter invests $150,000 but receives credit in his capital account for $100,000. The difference of $50,000 is a bonus to Jones and Smith that they share in their ratio of 3:2. Baxter will have a 20% share of profits and losses. Jones and Smith will share the remaining 80% between each other in their 3:2 ratio. The profit and loss sharing percentages are: Jones 48%, Smith 32%, and Baxter 20%.

## SOLUTIONS

## Learning Goal 33, continued

### LG 33-6.

a. Because this is a personal transaction between the partners, only the balance of partner F's equity share is transferred, one-half each to D and E.

| | | |
|---|---|---|
| F, Capital | 146,300 | |
| D, Capital | | 73,150 |
| E, Capital | | 73,150 |

b.

| | | |
|---|---|---|
| F, Capital | 146,300 | |
| Cash | | 40,000 |
| Notes Payable | | 106,300 |

c. Because F is receiving more than the book value of her partnership interest, the excess reduces the capital accounts of D and E in their profit/loss sharing ratios relative to each other. The excess is $156,300 − $146,300 = $10,000. For D: 3/8 × 10,000 = $3,750. For E: 5/8 × $10,000 = $6,250.

| | | |
|---|---|---|
| F, Capital | 146,300 | |
| D, Capital | 3,750 | |
| E, Capital | 6,250 | |
| Cash | | 30,000 |
| Notes Payable | | 126,300 |

d. First, the asset and capital accounts are adjusted for the increase in asset value, then they are adjusted for the decrease in asset value. Finally, the withdrawal of partner F is recorded at the adjusted capital value. The new balance of F's capital account is: $146,300 + $3,000 − $1,400 = $147,900.

| | | |
|---|---|---|
| Merchandise Inventory | 15,000 | |
| D, Capital | | 4,500 |
| E, Capital | | 7,500 |
| F, Capital | | 3,000 |

| | | |
|---|---|---|
| D, Capital | 2,100 | |
| E, Capital | 3,500 | |
| F, Capital | 1,400 | |
| Accumulated Depreciation-Office Equipment | | 7,000 |

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## SOLUTIONS Learning Goal 33, continued

### LG 33-6, *continued*

| | | |
|---|---|---|
| F, Capital | 147,900 | |
| Cash | | 25,000 |
| Notes Payable | | 122,900 |

### LG 33-7.

a. Because this is a personal transaction between the partners, only the balance of Able's equity share is transferred to Cooper.

| | | |
|---|---|---|
| Able, Capital | 240,500 | |
| Cooper, Capital | | 240,500 |

b.

| | | |
|---|---|---|
| Able, Capital | 146,300 | |
| Cash | | 20,000 |
| Notes Payable | | 220,500 |

c. Because Able is receiving less than the book value of his partnership interest, the difference increases the capital accounts of Baker and Cooper in their profit/loss sharing ratios relative to each other. The difference is: $240,500 – $235,000 = $5,500. For Baker: 35/60 × $5,500 = $3,208. For Cooper: 25/60 × $5,500 = $2,292.

| | | |
|---|---|---|
| Able, Capital | 240,500 | |
| Cash | | 10,000 |
| Merchandise Inventory | | 50,000 |
| Notes Payable | | 175,000 |
| Baker, Capital | | 3,208 |
| Cooper, Capital | | 2,292 |

d. First, the asset and capital accounts are adjusted for the increase in asset value, then they are adjusted for the decrease in asset value. Finally, the withdrawal of Able is recorded at his adjusted capital value. The new balance of Able's capital account is: $240,500 + $44,000 – $10,000 v $274,500.

| | | |
|---|---|---|
| Accumulated Depreciation | 110,000 | |
| Able, Capital | | 44,000 |
| Baker, Capital | | 38,500 |
| Cooper, Capital | | 27,500 |

## SOLUTIONS Learning Goal 33, continued

### LG 33-7, *continued*

| | | |
|---|---|---|
| Able, Capital | 10,000 | |
| Baker, Capital | 8,750 | |
| Cooper, Capital | 6,250 | |
| Merchandise Inventory | | 25,000 |

| | | |
|---|---|---|
| Able, Capital | 274,500 | |
| Cash | | 25,000 |
| Notes Payable | | 249,500 |

### LG 33-8.

a.

| Explanation | Cash | Other Assets | = | Liabilities | Ramsey, Capital | Smith, Capital | Tolliver, Capital |
|---|---|---|---|---|---|---|---|
| Beginning Balances | $75,000 | $250,000 | | $182,000 | $25,700 | $52,100 | $65,200 |
| **Sale of non-cash assets** | 279,000 | (250,000) | | | 5,800 | 8,700 | 14,500 |
| New Balances | 354,000 | -0- | | 182,000 | 31,500 | 60,800 | 79,700 |
| **Payment of liabilities** | (182,000) | | | (182,000) | | | |
| New Balances | 172,000 | -0- | | -0- | 31,500 | 60,800 | 79,700 |
| **Cash distribution** | (172,000) | | | | (31,500) | (60,800) | (79,700) |
| Final Balances | -0- | -0- | | -0- | -0- | -0- | -0- |

b.

| | | |
|---|---|---|
| Cash | 279,000 | |
| Other Assets (various accounts) | | 250,000 |
| Gain on Realization | | 29,000 |

| | | |
|---|---|---|
| Gain on Realization | 29,000 | |
| Ramsey, Capital | | 5,800 |
| Smith, Capital | | 8,700 |
| Tolliver, Capital | | 14,500 |

## SOLUTIONS Learning Goal 33, continued

### LG 33-8, *continued*

b.

| | | |
|---|---|---|
| Accounts Payable | 182,000 | |
| Cash | | 182,000 |

| | | |
|---|---|---|
| Ramsey, Capital | 31,500 | |
| Smith, Capital | 60,800 | |
| Tolliver, Capital | 79,700 | |
| Cash | | 172,000 |

### LG 33-9.

a.

| Explanation | Cash | Other Assets | = | Liabilities | Benny, Capital | Carlin, Capital | Dangerfield, Capital |
|---|---|---|---|---|---|---|---|
| Beginning Balances | $92,000 | $552,000 | | $147,000 | $240,000 | $187,000 | $70,000 |
| **Sale of non-cash assets** | 352,000 | (552,000) | | | (75,000) | (50,000) | (75,000) |
| New Balances | 444,000 | -0- | | 147,000 | 165,000 | 137,000 | (5,000) |
| **Payment of liabilities** | (147,000) | | | (147,000) | | | |
| New Balances | 297,000 | -0- | | -0- | 165,000 | 137,000 | (5,000) |
| **Deficiency adjustment** | | | | | (3,000) | (2,000) | 5,000 |
| New Balances | 297,000 | -0- | | -0- | 162,000 | 135,000 | -0- |
| **Cash distribution** | (297,000) | | | | (162,000) | (135,000) | |
| Final Balances | -0- | | | | -0- | -0- | |

b.

| | | |
|---|---|---|
| Cash | 352,000 | |
| Allowance for Bad Receivables | 5,000 | |
| Accumulated Depreciation- Building | 490,000 | |
| Loss on Realization | 200,000 | |
| Accounts Receivable | | 44,000 |
| Merchandise Inventory | | 375,000 |
| Building | | 628,000 |