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 cannot 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.

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%)

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

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.

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.

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.

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

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

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

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)

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

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