

# CHAPTER 11

## ACCOUNTING FOR PARTNERSHIPS

### EYE OPENERS

1. Proprietorship: Ease of formation and nontaxable entity.  
Partnership: Expanded owner expertise and capital, nontaxable entity, and ease of formation.
2. Yes. A partnership may incur losses in excess of the total investment of all partners. The division of losses among the partners would be made according to their agreement. In addition, because of the unlimited liability of each partner for partnership debts, a particular partner may actually lose a greater amount than his or her capital balance.
3. The partnership agreement establishes the income-sharing ratio among the partners, amounts to be invested, and buy-sell agreements between the partners.
4. Equally.
5. No. Maholic would have to bear his share of losses. In the absence of any agreement as to division of net income or net loss, his share would be one-third. In addition, because of the unlimited liability of each partner, Maholic may lose more than one-third of the losses if one partner is unable to absorb his or her share of the losses.
6. The delivery equipment should be recorded at \$10,000, the valuation agreed upon by the partners.
7. The accounts receivable should be recorded by a debit of \$150,000 to Accounts Receivable and a credit of \$15,000 to Allowance for Doubtful Accounts.
8. Yes. Partnership net income is divided according to the income-sharing ratio, regardless of the amount of the withdrawals by the partners. Therefore, it is very likely that the partners' monthly withdrawals from a partnership will not exactly equal their shares of net income.
9.
  - a. Debit the partner's withdrawal account and credit Cash.
  - b. No. Payments to partners and the division of net income are separate. The amount of cash paid out to partner C will be affected by the amount of C's withdrawal, but the division of income will not be affected.
  - c. Debit the income summary account for the amount of the net income and credit the partners' capital accounts for their respective shares of the net income.
10.
  - a. By purchase of an interest, the capital interest of the new partner is obtained from the old partner, and neither the total assets nor the total equity of the partnership is affected.
  - b. By investment, both the total assets and the total equity of the partnership are increased.
11. It is important to state all partnership assets in terms of current prices at the time of the admission of a new partner because failure to do so might result in participation by the new partner in gains or losses attributable to the period prior to admission to the partnership. To illustrate, assume that A and B share net income and net loss equally and operate a partnership that owns land recorded at and costing \$20,000. C is admitted to the partnership, and the three partners share in income equally. The day after C is admitted to the partnership, the land is sold for \$35,000 and, since the land was not revalued, C receives one-third distribution of the \$15,000 gain. In this case, C participates in the gain attributable to the period prior to admission to the partnership.
12. A new partner who is expected to improve the fortunes (income) of the partnership, through such things as reputation or skill, might be given equity in excess of the amount invested to join the partnership.
13.
  - a. Losses and gains on sale of assets are divided among partners in the income-sharing ratio.
  - b. Distribution of cash is determined by the credit balances in the partners' capital accounts, after taking into consideration the potential deficiencies that may result from the inability to collect from a deficient partner.

**PRACTICE EXERCISES**

**PE 11-1**

Cash .....	24,000	
Inventory .....	56,000	
Land .....	114,000	
Notes Payable.....		50,000
Josh Beach, Capital .....		144,000
Cash .....	50,000	
Inventory .....	94,000	
Craig Fox, Capital.....		144,000

**PE 11-2**

a. Distribution:

	<u>McDonald</u>	<u>Ward</u>	<u>Total</u>
Annual salary .....	\$ 60,000	\$ 50,000	\$110,000
Remaining income.....	<u>25,000</u>	<u>25,000</u>	<u>50,000</u>
Total distributed .....	<u>\$85,000</u>	<u>\$ 75,000</u>	<u>\$160,000</u>

b. (1) Income Summary .....	160,000	
Jane McDonald, Capital .....		85,000
Dave Ward, Capital .....		75,000
(2) Jane McDonald, Capital.....	48,000	
Dave Ward, Capital .....	48,000	
Jane McDonald, Withdrawals .....		48,000
Dave Ward, Withdrawals .....		48,000

**PE 11-3**

	<u>Smithson</u>	<u>Mooney</u>	<u>Total</u>
Annual salary .....	\$ —	\$ 53,000	\$ 53,000
Interest.....	2,500 <sup>1</sup>	7,500 <sup>2</sup>	10,000
Remaining income.....	<u>132,750</u>	<u>44,250<sup>3</sup></u>	<u>177,000</u>
Total distributed .....	<u>\$135,250</u>	<u>\$104,750</u>	<u>\$240,000</u>

<sup>1</sup>\$50,000 × 5%

<sup>2</sup>\$150,000 × 5%

<sup>3</sup>(\$240,000 – \$53,000 – \$10,000) × 25%

## PE 11-4

	<u>Smithson</u>	<u>Mooney</u>	<u>Total</u>
Annual salary .....	\$ —	\$ 53,000	\$ 53,000
Interest.....	<u>2,500<sup>1</sup></u>	<u>7,500<sup>2</sup></u>	<u>10,000</u>
Sub-total .....	2,500	60,500	63,000
Remaining income.....	<u>(1,500)</u>	<u>(500)<sup>3</sup></u>	<u>(2,000)</u>
Total distributed .....	<u>\$ 1,000</u>	<u>\$ 60,000</u>	<u>\$61,000</u>

<sup>1</sup>\$50,000 × 5%<sup>2</sup>\$150,000 × 5%<sup>3</sup>(\$61,000 – \$53,000 – \$10,000) × 25%

Income Summary.....	61,000	
Brandon Smithson, Capital.....		1,000
Lakendra Mooney, Capital .....		60,000

## PE 11-5

	<u>Smithson</u>	<u>Mooney</u>	<u>Total</u>
Annual salary .....	\$ —	\$ 53,000	\$ 53,000
Interest.....	<u>2,500<sup>1</sup></u>	<u>7,500<sup>2</sup></u>	<u>10,000</u>
Sub-total .....	2,500	60,500	63,000
Remaining income.....	<u>(54,750)</u>	<u>(18,250)<sup>3</sup></u>	<u>(73,000)</u>
Total distributed .....	<u>\$(52,250)</u>	<u>\$ 42,250</u>	<u>\$(10,000)</u>

<sup>1</sup>\$50,000 × 5%<sup>2</sup>\$150,000 × 5%<sup>3</sup>(\$-10,000 – \$53,000 – \$10,000) × 25%

Brandon Smithson, Capital.....	52,250	
Lakendra Mooney, Capital .....		42,250
Income Summary .....		10,000

## PE 11-6

a. Equipment.....	12,000	
Jordon Garmon, Capital .....		8,000
Kali Miller, Capital .....		4,000
b. Cash .....	64,000	
Brandon Tarr, Capital .....		64,000

## PE 11-7

Equity of Maples .....	\$ 65,000
Baker contribution.....	<u>25,000</u>
Total equity after admitting Baker.....	90,000
Baker's equity interest .....	x 30%
Baker's equity after admission.....	\$ 27,000
Baker's contribution.....	<u>25,000</u>
Bonus paid to Baker.....	<u>\$ 2,000</u>

## PE 11-8

Jackie Landall .....	89,400	
Cash .....		85,000
Kitchener, Capital .....		2,200*
Page, Capital .....		2,200
*( $\$89,400 - \$85,000$ ) x 1/2		

## PE 11-9

Penn's equity prior to liquidation.....		\$160,000
Sale of assets.....	\$250,000	
Book value of assets ( $\$160,000 + \$100,000 + \$15,000$ ).....	<u>275,000</u>	
Loss on liquidation.....	<u>\$ 25,000</u>	
Penn's share of loss (50% x \$25,000) .....		<u>(12,500)</u>
Penn's cash distribution .....		<u>\$147,500</u>

## PE 11-10

a. Min's equity prior to liquidation.....		\$ 120,000
Sale of assets .....	\$ 60,000	
Book value of assets.....	<u>320,000*</u>	
Loss on liquidation .....	<u>\$260,000</u>	
Min's share of loss (50% x \$260,000) .....		<u>(130,000)</u>
Min's deficiency .....		<u>\$ (10,000)</u>
*\$120,000 + \$200,000		

- b. \$60,000.  $\$200,000 - \$130,000$  share of loss – \$10,000 Min deficiency, also equals the amount realized from asset sales.

**EXERCISES****Ex. 11-1**

Cash .....	13,000	
Accounts Receivable.....	130,000	
Inventory .....	84,700	
Equipment.....	69,500	
Allowance for Doubtful Accounts.....		10,200
Gwen Delk, Capital .....		287,000

Cash .....	130,000	
Accounts Receivable.....	76,500	
Inventory .....	33,000	
Equipment.....	52,500	
Allowance for Doubtful Accounts.....		5,000
Alliesha Johnson, Capital.....		287,000

**Ex. 11-2**

Cash .....	40,000	
Accounts Receivable.....	75,000	
Land .....	250,000	
Equipment.....	21,000	
Allowance for Doubtful Accounts.....		6,000
Accounts Payable .....		22,500
Notes Payable.....		65,000
Brandi Bonds, Capital.....		292,500

Ex. 11-3

	<u>Haskett</u>	<u>Humphrys</u>
a. ....	\$160,000	\$160,000
b. ....	240,000	80,000
c. ....	144,800	175,200
d. ....	150,000	170,000
e. ....	162,000	158,000

Details

	<u>Haskett</u>	<u>Humphrys</u>	<u>Total</u>
a. Net income (1:1) .....	<u>\$160,000</u>	<u>\$160,000</u>	<u>\$320,000</u>
b. Net income (3:1) .....	<u>\$240,000</u>	<u>\$ 80,000</u>	<u>\$320,000</u>
c. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Remaining income (2:3).....	<u>108,800</u>	<u>163,200</u>	<u>272,000</u>
Net income .....	<u>\$144,800</u>	<u>\$175,200</u>	<u>\$320,000</u>
d. Salary allowance .....	\$ 50,000	\$ 70,000	\$120,000
Remaining income (1:1).....	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Net income .....	<u>\$150,000</u>	<u>\$170,000</u>	<u>\$320,000</u>
e. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Salary allowance .....	50,000	70,000	120,000
Remaining income (1:1).....	<u>76,000</u>	<u>76,000</u>	<u>152,000</u>
Net income .....	<u>\$162,000</u>	<u>\$158,000</u>	<u>\$320,000</u>

**Ex. 11-4**

	<u>Haskett</u>	<u>Humphrys</u>
a. ....	\$240,000	\$240,000
b. ....	360,000	120,000
c. ....	208,800	271,200
d. ....	230,000	250,000
e. ....	242,000	238,000

Details

	<u>Haskett</u>	<u>Humphrys</u>	<u>Total</u>
a. Net income (1:1) .....	<u>\$240,000</u>	<u>\$240,000</u>	<u>\$480,000</u>
b. Net income (3:1) .....	<u>\$360,000</u>	<u>\$120,000</u>	<u>\$480,000</u>
c. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Remaining income (2:3).....	<u>172,800</u>	<u>259,200</u>	<u>432,000</u>
Net income .....	<u>\$208,800</u>	<u>\$271,200</u>	<u>\$480,000</u>
d. Salary allowance .....	\$ 50,000	\$ 70,000	\$120,000
Remaining income (1:1).....	<u>180,000</u>	<u>180,000</u>	<u>360,000</u>
Net income .....	<u>\$230,000</u>	<u>\$250,000</u>	<u>\$480,000</u>
e. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Salary allowance .....	50,000	70,000	120,000
Remaining income (1:1).....	<u>156,000</u>	<u>156,000</u>	<u>312,000</u>
Net income .....	<u>\$242,000</u>	<u>\$238,000</u>	<u>\$480,000</u>

**Ex. 11-5**

	<u>Haskett</u>	<u>Humphrys</u>
a. ....	\$55,000	\$55,000
b. ....	82,500	27,500
c. ....	60,800	49,200
d. ....	45,000	65,000
e. ....	57,000	53,000

Details

	<u>Haskett</u>	<u>Humphrys</u>	<u>Total</u>
a. Net income (1:1) .....	<u>\$55,000</u>	<u>\$55,000</u>	<u>\$110,000</u>
b. Net income (3:1) .....	<u>\$82,500</u>	<u>\$ 27,500</u>	<u>\$110,000</u>
c. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Remaining income (2:3).....	<u>24,800</u>	<u>37,200</u>	<u>62,000</u>
Net income .....	<u>\$60,800</u>	<u>\$49,200</u>	<u>\$110,000</u>
d. Salary allowance .....	\$ 50,000	\$ 70,000	\$120,000
Remaining income (1:1).....	<u>(5,000)</u>	<u>(5,000)</u>	<u>(10,000)</u>
Net income .....	<u>\$45,000</u>	<u>\$65,000</u>	<u>\$110,000</u>
e. Interest allowance .....	\$ 36,000	\$ 12,000	\$ 48,000
Salary allowance .....	50,000	70,000	120,000
Remaining income (1:1).....	<u>(29,000)</u>	<u>(29,000)</u>	<u>(58,000)</u>
Net income .....	<u>\$57,000</u>	<u>\$53,000</u>	<u>110,000</u>

**Ex. 11-6**

	<u>Casey Fisher</u>	<u>Logan Baylor</u>	<u>Total</u>
Salary allowances.....	\$ 40,000	\$ 35,000	\$ 75,000
Remainder (net loss, \$20,000 plus \$75,000 salary allowances) divided equally .....	<u>(47,500)</u>	<u>(47,500)</u>	<u>(95,000)</u>
Net loss.....	<u>\$ (7,500)</u>	<u>\$ (12,500)</u>	<u>\$ (20,000)</u>

## Ex. 11-7

a.

	McGillivray	Gillis	Newton	Total
Salary allowance.....			\$40,000	\$40,000
Interest allowance .....	\$ 1,080 <sup>1</sup>	920 <sup>2</sup>	600 <sup>3</sup>	2,600
Remaining income (3:2:1).....	<u>-4,500</u>	<u>-3,000</u>	<u>-1,500</u>	<u>-9,000</u>
Net income .....	<u>\$-3,420</u>	<u>\$-2,080</u>	<u>\$39,100</u>	<u>\$33,600</u>

<sup>1</sup>4% × (10,000 + \$12,000 + \$5,000)<sup>2</sup>4% × (\$5,000 + \$13,000 + \$5,000)<sup>3</sup>4% × (\$10,000 + \$5,000)

b.

Dec. 31, 2015	Income Summary.....	33,600	
	McGillivray, Capital.....	3,420	
	Gillis, Capital.....	2,080	
	Newton, Capital.....		39,100
Dec. 31, 2015	Newton, Capital.....	25,000	
	Newton, Withdrawals.....		25,000

## Ex. 11-8

a.

Net income: \$188,000

	<u>Bowman</u>	<u>Mapes</u>	<u>Total</u>
Salary allowance.....	\$ 75,000	\$60,000	\$135,000
Remaining income.....	<u>31,800</u>	<u>21,200</u>	<u>53,000</u>
Net income .....	<u>\$106,800</u>	<u>\$81,200</u>	<u>\$188,000</u>

Bowman remaining income: (\$188,000 – \$135,000) × 3/5

Mapes remaining income: (\$188,000 – \$135,000) × 2/5

**Ex. 11–8 Concluded**

b.  
(1)

Income Summary.....	188,000	
B. Bowman, Capital.....		106,800
S. Mapes, Capital.....		81,200

(2)

B. Bowman, Capital .....	75,000	
S. Mapes, Capital .....	60,000	
B. Bowman, Withdrawals.....		75,000
S. Mapes, Withdrawals.....		60,000

**Note:** The reduction in partners' equity from withdrawals would be disclosed on the statement of partners' equity but does not affect the allocation of net income in part (a) of this exercise.

**Ex. 11–9**

a.

Net income: \$100,000

	<u>Bowman</u>	<u>Mapes</u>	<u>Total</u>
Salary allowance.....	\$ 75,000	\$60,000	\$135,000
Remaining income.....	<u>(21,000)</u>	<u>(14,000)</u>	<u>(35,000)</u>
Net income .....	<u>\$54,000</u>	<u>\$46,000</u>	<u>\$100,000</u>

Bowman remaining income:  $(\$100,000 - \$135,000) \times 3/5$

Mapes remaining income:  $(\$100,000 - \$135,000) \times 2/5$

**Ex. 11–9 Concluded**

b.

(1)

Income Summary.....	100,000	
B. Bowman, Capital.....		54,000
S. Mapes, Capital.....		46,000

(2)

B. Bowman, Capital.....	75,000	
S. Mapes, Capital.....	60,000	
B. Bowman, Withdrawals.....		75,000
S. Mapes, Withdrawals.....		60,000

**Ex 11–10**

a.

	Sheila Frances	Lindsey Wilson	Maureen Culver	Total
Salary allowance.....		\$115,600		\$115,600
Interest allowance.....	\$ 24,000 <sup>1</sup>	6,000 <sup>2</sup>	\$ 14,400 <sup>3</sup>	44,400
Remaining income (4:3:3).....	<u>196,000</u>	<u>147,000</u>	<u>147,000</u>	<u>490,000</u>
Net income.....	<u>\$220,000</u>	<u>\$268,600</u>	<u>\$161,400</u>	<u>\$650,000</u>

<sup>1</sup>12% × \$200,000

<sup>2</sup>12% × \$50,000

<sup>3</sup>12% × \$120,000

b.

Dec. 31, 2015	Income Summary.....	650,000	
	Sheila Frances, Capital.....		220,000
	Lindsey Wilson, Capital.....		268,600
	Maureen Culver, Capital.....		161,400

Dec. 31, 2015	Sheila Frances, Capital.....	24,000	
	Lindsey Wilson, Capital.....	121,600	
	Maureen Culver, Capital.....	14,400	
	Sheila Frances, Withdrawals.....		24,000
	Lindsey Wilson, Withdrawals.....		121,600
	Maureen Culver, Withdrawals.....		14,400

**Ex. 11–10 Concluded**

c.

**INTERMEDIA LLP**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>Sheila Frances</u>	<u>Lindsey Wilson</u>	<u>Maureen Culver</u>	<u>Total</u>
Partners' equity, January 1, 2015.....	\$200,000	\$ 50,000	\$120,000	\$ 370,000
Additional investment during the year	<u>50,000</u>			<u>50,000</u>
	250,000	50,000	120,000	420,000
Net income for the year.....	<u>220,000</u>	<u>268,600</u>	<u>161,400</u>	<u>650,000</u>
	470,000	318,600	281,400	1,070,000
Withdrawals during the year.....	<u>24,000</u>	<u>121,600</u>	<u>14,400</u>	<u>160,000</u>
Partners' equity, December 31, 2015 ...	<u>\$446,000</u>	<u>\$197,000</u>	<u>\$267,000</u>	<u>\$ 910,000</u>

**Ex. 11–11**

a. and b.

Lia Wu, Capital.....	50,000	
Kara Oliver, Capital.....		50,000
\$150,000 × 1/3		

**Note:** The sale to Oliver is not a transaction of the partnership; so, the sales price is not considered in this journal entry.

**Ex. 11–12**

a. Cash.....	80,000	
Diana de Courcay, Capital.....	8,750	
Leah Kalleen, Capital.....	8,750	
Gary Daniel, Capital.....		97,500
$(\$62,500 + \$150,000 + \$80,000) \div 3 = \$97,500$		
$\$97,500 - \$80,000 = \$17,500$ bonus to Gary		
b. Cash.....	120,500	
Diana de Courcay, Capital .....		4,750
Leah Kalleen, Capital.....		4,750
Gary Daniel, Capital.....		111,000
$(\$62,500 + \$150,000 + \$120,500) \div 3 = \$111,000$		
$\$111,000 - \$120,500 = \$9,500$ bonus to existing partners		

**Ex. 11–13**

a. (1) Barbara Shaw, Capital (20% × \$120,000).....	24,000	
Jane O’Halloran, Capital (25% × \$100,000) .....	25,000	
Juan Rohon, Capital .....		49,000
(2) Cash .....	50,000	
Marco Galen, Capital .....		50,000
b. Barbara Shaw (\$120,000 – \$24,000) .....	96,000	
Jane O’Halloran (\$100,000 – \$25,000) .....	75,000	
Juan Rohon.....	49,000	
Marco Galen.....	50,000	

**Ex. 11–14**

a. Cash.....	45,000	
Travis Harris, Capital.....	7,500	
Keelyn Kidd, Capital.....	7,500	
Felix Flores, Capital.....		60,000
b. Travis Harris (\$60,000 – \$7,500) .....	52,500	
Keelyn Kidd (\$90,000 – \$7,500).....	82,500	
Felix Flores.....	60,000	

**Ex. 11–15**

a. Medical Equipment.....	25,000	
Douglass, Capital.....		10,000 <sup>1</sup>
Finn, Capital .....		15,000 <sup>2</sup>
<sup>1</sup> \$25,000 × 2/5 = \$10,000		
<sup>2</sup> \$25,000 × 3/5 = \$15,000		
b. (1) Cash.....	310,000	
Douglass, Capital .....		22,000
Finn, Capital .....		33,000
Koster, Capital .....		255,000

**Ex. 11–15 Concluded**

**Supporting calculations for the bonus:**

Equity of Douglass .....	\$250,000
Equity of Finn .....	290,000
Contribution by Koster .....	<u>310,000</u>
Total equity after admitting Koster.....	\$850,000
Koster's equity interest after admission.....	<u>x 30%</u>
Koster's equity after admission.....	<u>\$255,000</u>
Contribution by Koster .....	\$310,000
Koster's equity after admission.....	<u>255,000</u>
Bonus paid to Douglass and Finn .....	<u>\$ 55,000</u>

Douglass:  $\$55,000 \times 2/5 = \$22,000$

Finn:  $\$55,000 \times 3/5 = \$33,000$

b. (2) Cash .....	160,000	
Douglass, Capital.....	6,000	
Finn, Capital .....	9,000	
Koster, Capital .....		175,000

**Supporting calculations for the bonus:**

Equity of Douglass .....	\$250,000
Equity of Finn .....	290,000
Contribution by Koster .....	<u>160,000</u>
Total equity after admitting Koster.....	\$700,000
Koster's equity interest after admission.....	<u>x 25%</u>
Koster's equity after admission.....	<u>\$175,000</u>
Contribution by Koster .....	160,000
Bonus paid to Koster.....	<u>\$ 15,000</u>

Douglass:  $\$15,000 \times 2/5 = \$6,000$

Finn:  $\$15,000 \times 3/5 = \$9,000$

**Ex. 11–16**

a. P. Whyte, Capital .....	8,000	
M. Cunningham, Capital .....	8,000	
Equipment.....		16,000
 b. (1) Cash.....	 50,000	
P. Whyte, Capital.....	2,300	
M. Cunningham, Capital .....	2,300	
L. Harris, Capital .....		54,600

**Supporting calculations for the bonus:**

Equity of Whyte.....	\$ 92,000
Equity of Cunningham.....	131,000
Contribution by Harris.....	<u>50,000</u>
Total equity after admitting Harris.....	\$273,000
Harris’s equity interest after admission.....	<u>x 20%</u>
Harris’s equity after admission.....	<u>\$ 54,600</u>
Contribution by Harris.....	<u>50,000</u>
Bonus paid to Harris.....	<u>\$ 4,600</u>

The bonus to Harris is debited equally between Whyte’s and Cunningham’s capital accounts.

b. (2) Cash.....	125,000	
P. Whyte, Capital .....		10,300
M. Cunningham, Capital.....		10,300
L. Harris, Capital .....		104,400

**Supporting calculations for the bonus:**

Equity of Whyte.....	\$ 92,000
Equity of Cunningham.....	131,000
Contribution by Harris.....	<u>125,000</u>
Total equity after admitting Harris.....	\$348,000
Harris’s equity interest after admission.....	<u>x 30%</u>
Harris’s equity after admission.....	<u>\$104,400</u>
Contribution by Harris.....	\$125,000
Harris’s equity after admission.....	<u>104,400</u>
Bonus paid to Whyte and Cunningham .....	<u>\$ 20,600</u>

The bonus to Whyte and Cunningham is credited equally between Whyte’s and Cunningham’s capital accounts.

## Ex. 11-17

**ANGEL INVESTOR ASSOCIATES**  
**Statement of Changes in Partnership Equity**  
**For the Year Ended December 31, 2015**

	<u>Jen Wilson, Capital</u>	<u>Teresa McDonald, Capital</u>	<u>Jaime Holden, Capital</u>	<u>Total Partner- ship Capital</u>
Partnership capital, January 1, 2015.....	\$ 45,000	\$ 55,000	—	\$100,000
Admission of Jaime Holden.....	—	—	\$ 25,000	25,000
Salary allowance.....	30,000	—	—	30,000
Remaining income.....	46,800	57,200	26,000	130,000
Less: Partner withdrawals .....	<u>(38,400)</u>	<u>(28,600)</u>	<u>(13,000)</u>	<u>(80,000)</u>
Partnership capital, December 31, 2015 ..	<u>\$ 83,400</u>	<u>\$ 83,600</u>	<u>\$ 38,000</u>	<u>\$205,000</u>

**Admission of Jaime Holden:**

Equity of initial partners prior to admission .....	\$100,000
Contribution by Holden.....	<u>25,000</u>
Total.....	\$125,000
Holden's equity interest after admission.....	<u>x 20%</u>
Holden's equity after admission .....	\$ 25,000
Contribution by Holden.....	<u>25,000</u>
No bonus .....	<u>\$ 0</u>

**Net income distribution:**

The income-sharing ratio is equal to the proportion of the capital balances after admitting Holden according to the partnership agreement:

$$\text{Jen Wilson: } \frac{\$45,000}{\$125,000} = 36\%$$

$$\text{Teresa McDonald: } \frac{\$55,000}{\$125,000} = 44\%$$

$$\text{Jaime Holden: } \frac{\$25,000}{\$125,000} = 20\%$$

These ratios can be multiplied by the \$130,000 remaining income (\$160,000 – \$30,000 salary allowance to Wilson) to distribute the earnings to the respective partner capital accounts.

**Withdrawals:**

Half of the remaining income and salary allowance is distributed to the three partners.

**Ex. 11–18**

a. and b.

Joe Chew, Capital .....	86,000	
Candace Heraghty, Capital .....		43,000
Chris Kilgour, Capital .....		43,000

The amount paid does not impact the journal entry as the transaction is between Chew, Heraghty, and Kilgour, not between Chew and the partnership.

**Ex. 11–19**

a.

Andy Heel, Capital .....	307,800	
Jeff Hanning, Capital .....		61,560
Les Paull, Capital .....		246,240

b.

Andy Heel, Capital .....	307,800	
Les Paull, Capital .....		307,800

The amount paid does not impact the journal entry as the transaction is between Heel, Hanning, and Paull, not between Heel and the partnership.

**Ex. 11–20**

a. Joe Collins, Capital .....	26,000	
Cash .....		26,000
b. Joe Collins, Capital .....	26,000	
Cash .....		24,000
Heather Catte, Capital .....		1,600*
Chris Gilgan, Capital .....		400
*( $\$2,000 \times 4/5$ )		
c. Joe Collins, Capital .....	26,000	
Heather Catte, Capital .....	1,600*	
Chris Gilgan, Capital .....	400	
Cash .....		28,000
*( $\$2,000 \times 4/5$ )		

**Ex. 11–21**

a.			
	Carissa Alton, Capital .....	66,000	
	Cash .....		60,000
	Terry Constantino, Capital .....		4,000*
	Andrew Morris, Capital .....		2,000
	*( $\$6,000 \times 4/6$ )		
b.	Income Summary .....	100,500	
	Terry Constantino, Capital .....		67,000*
	Andrew Morris, Capital .....		33,500
	*( $\$100,500 \times 4/6$ )		

**Ex. 11–22**

a.

	<u>Elena Oprescu</u>	<u>Xiru Wang</u>	<u>Reg Miller</u>	<u>Kendra Batty</u>	<u>Total</u>
Salary allowance.....	\$96,000	\$96,000	-	-	\$192,000
Remaining income.....	<u>83,200</u>	<u>83,200</u>	<u>20,800</u>	<u>20,800</u>	<u>208,000</u>
Total.....	\$179,200	\$179,200	\$20,800	\$20,800	\$400,000

b.

2015

Mar. 31	Income Summary.....	400,000	
	Elena Oprescu, Capital .....		179,200
	Xiru Wang, Capital .....		179,200
	Reg Miller, Capital .....		20,800
	Kendra Batty, Capital .....		20,800
	 Elena Oprescu, Capital .....	96,000	
	Xiru Wang, Capital .....	96,000	
	Elena Oprescu, Withdrawals .....		96,000
	Xiru Wang, Withdrawals.....		96,000

c. Xiru Wang’s account balance, March 31, 2015:

Beginning balance	\$ 30,000	
Add net income	179,200	
Less withdrawals	<u>(96,000)</u>	
Balance .....		\$113,200

**Ex. 11–22 Concluded**

d. Mar. 31	Xiru Wang, Capital .....	113,200	
	Elena Oprescu, Capital .....	4,534	
	Reg Miller, Capital .....	1,133	
	Kendra Batty, Capital .....	1,133	
	Cash.....		120,000

**Ex. 11–23**

- a. The income-sharing ratio is determined by dividing the net income for each partner by the total net income. Thus, in 2015, the income-sharing ratio is as follows:

$$\text{Pat Peters: } \frac{\$90,000}{\$300,000} = 30\%$$

$$\text{Jessie Quan: } \frac{\$210,000}{\$300,000} = 70\%$$

Or a 3:7 ratio

- b. Following the same procedure as in (a):

$$\text{Pat Peters: } \frac{\$100,000}{\$400,000} = 25\%$$

$$\text{Jessie Quan: } \frac{\$220,000}{\$400,000} = 55\%$$

$$\text{Randy Reed: } \frac{\$80,000}{\$400,000} = 20\%$$

- c. Randy Reed provided a \$290,000 cash contribution to the business. The amount credited to his capital account is this amount less a \$20,000 bonus paid to the other two partners, or \$270,000.
- d. The positive entries to Pat Peters and Jessie Quan are the result of a bonus paid by Randy Reed.
- e. Randy Reed acquired a 20% interest in the business, computed as follows:

Randy Reed's contribution .....	\$ 290,000
Pat Peters, Capital .....	540,000
Jessie Quan, Capital.....	520,000
Total .....	<u>\$1,350,000</u>

**Ex. 11–23 Concluded**

Reed's ownership interest after admission  
 (\$270,000 ÷ \$1,350,000)..... 20%

Randy Reed's ownership interest of 20% can also be verified by the percentage of net income allocated to his capital account: \$80,000 ÷ \$400,000 = 20%.

**Ex. 11–24**

a.

Cash balance.....	\$ 16,000
Sum of capital accounts.....	<u>20,000</u>
Loss from sale of noncash assets .....	<u>\$ 4,000</u>

	<u>Pryor</u>	<u>Lester</u>
Capital balances before sale of assets .....	\$ 12,000	\$8,000
b. Division of loss on sale of noncash assets	<u>2,000*</u>	<u>2,000*</u>
Balances .....	10,000	6,000
c. Cash distributed to partners .....	<u>10,000</u>	<u>6,000</u>
Final balances .....	<u>\$ 0</u>	<u>\$ 0</u>

\*\$4,000/2

**Ex. 11–25**

	<u>Bradley</u>	<u>Barak</u>	<u>Total</u>
Capital balances before sale of assets .....	\$ 26,000	\$35,000	\$61,000
Division of gain on sale of noncash assets [(\$76,000 – \$61,000)/2].....	<u>7,500</u>	<u>7,500</u>	<u>15,000</u>
Capital balances after sale of assets .....	33,500	42,500	76,000
Cash distributed to partners.....	<u>33,500</u>	<u>42,500</u>	<u>76,000</u>
Final balances .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

## Ex. 11–26

a. Deficiency

b. \$72,500 (\$28,000 + \$62,500 – \$18,000)

c. Cash..... 18,000  
     Shen, Capital..... 18,000

	<u>Matthews</u>	<u>Williams</u>	<u>Shen</u>
Capital balances after sale of assets	\$ 28,000	\$ 62,500	\$(18,000) Dr.
Receipt of partner deficiency.....	_____	_____	<u>18,000</u>
Capital balances after eliminating deficiency.....	<u>\$ 28,000</u>	<u>\$ 62,500</u>	<u>\$ 0</u>

## Ex. 11–27

a. Cash should be distributed as indicated in the following tabulation:

	<u>Houston</u>	<u>Alsup</u>	<u>Cross</u>	<u>Total</u>
Capital invested .....	\$ 250	\$ 380	\$ —	\$ 630
Net income .....	<u>+ 130</u>	<u>+ 130</u>	<u>+ 130</u>	<u>+ 390</u>
Capital balances and cash distribution .....	<u>\$ 380</u>	<u>\$ 510</u>	<u>\$ 130</u>	<u>\$1,020</u>

b. Cross has a capital deficiency of \$30, as indicated in the following tabulation:

	<u>Houston</u>	<u>Alsup</u>	<u>Cross</u>	<u>Total</u>
Capital invested .....	\$ 250	\$ 380	\$ —	\$ 630
Net loss.....	<u>- 30</u>	<u>- 30</u>	<u>- 30</u>	<u>- 90</u>
Capital balances .....	<u>\$ 220</u>	<u>\$ 350</u>	<u>\$ 30 Dr.</u>	<u>\$ 540</u>

## Ex. 11–28

	<u>Hilliard</u>	<u>Downey</u>	<u>Petrov</u>
Capital balances after sale of assets .....	\$(24,000)	\$ 90,000	\$ 64,000
Distribution of partner deficiency .....	<u>24,000</u>	<u>(16,000)<sup>1</sup></u>	<u>(8,000)<sup>2</sup></u>
Capital balances after deficiency distribution .....	<u>\$ 0</u>	<u>\$ 74,000</u>	<u>\$ 56,000</u>

<sup>1</sup>\$24,000 × 2/3<sup>2</sup>\$24,000 × 1/3

## Ex. 11-29

**DOVER, GOLL, AND CHAMBERLAND**  
**Statement of Partnership Liquidation**  
**For the Period July 1-29, 2015**

	Cash	+ Inventory	= Liabilities	Capital		
				Dover (3/6)	+ Goll (2/6)	+ Chamberland (1/6)
Balances before sale of assets .....	\$ 55,000	\$ 92,000	\$ 40,000	\$ 35,000	\$ 50,000	\$ 22,000
Sale of assets and division of loss.....	<u>+ 74,000</u>	<u>- 92,000</u>	<u>—</u>	<u>- 9,000</u>	<u>- 6,000</u>	<u>- 3,000</u>
Balances after sale of assets .....	129,000	0	40,000	26,000	44,000	19,000
Payment of liabilities.....	<u>- 40,000</u>	<u>—</u>	<u>- 40,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balances after payment of liabilities.....	89,000	0	0	26,000	44,000	19,000
Cash distributed to partners .....	<u>- 89,000</u>	<u>—</u>	<u>—</u>	<u>- 26,000</u>	<u>- 44,000</u>	<u>- 19,000</u>
Final balances .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Ex. 11–30

a.

**BRIGHT SALES, LLP**  
**Statement of Partnership Liquidation**  
**For the Period May 1–31, 2015**

	Cash	+	A/R	=	Liabilities	+	Capital				
							Brazier (2/5)	+	Moore (2/5)	+	Jonah (1/5)
Balances before sale of assets .....	\$ 8,000		\$ 94,000		\$ 30,000		\$ 15,000		\$ 35,000		\$ 22,000
Sale of assets and division of loss.....	+ 90,000		- 90,000		—		- 1,600		- 1,600		- 800
Balances after sale of assets .....	98,000		0		30,000		13,400		33,400		21,200
Payment of liabilities.....	- 30,000		—		- 30,000		—		—		—
Balances after payment of liabilities.....	68,000		0		0		13,400		33,400		21,200
Distribution of cash to partners.....	- 68,000		—		—		- 13,400		- 33,400		- 21,200
Final balances .....	<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>

b.

Brazier, Capital.....	13,400	
Moore, Capital .....	33,400	
Jonah, Capital .....	21,200	
Cash.....		68,000

**Ex. 11–31**

a.

(1) Income Summary .....	124,000	
Hossam Abdel-Raja, Capital.....		62,000
Aly Meyer, Capital .....		62,000
(2) Hossam Abdel-Raja, Capital.....	48,000	
Aly Meyer, Capital .....	39,000	
Hossam Abdel-Raja, Withdrawals .....		48,000
Aly Meyer, Withdrawals .....		39,000

b.

**ABDEL-RAJA AND MEYER**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>Hossam Abdel-Raja</u>	<u>Aly Meyer</u>	<u>Total</u>
Capital, January 1, 2015.....	\$ 90,000	\$ 65,000	\$155,000
Additional investment during the year .....	<u>10,000</u>	<u>—</u>	<u>10,000</u>
	100,000	65,000	165,000
Net income for the year .....	<u>62,000</u>	<u>62,000</u>	<u>124,000</u>
	162,000	127,000	289,000
Withdrawals during the year .....	<u>48,000</u>	<u>39,000</u>	<u>87,000</u>
Capital, December 31, 2015 .....	<u>\$114,000</u>	<u>\$ 88,000</u>	<u>\$202,000</u>

**PROBLEMS**

**Prob. 11–1A**

1.

Jan	1	Cash .....	12,000	
		Inventory .....	32,000	
		Kevin Schmidt, Capital .....		44,000
	1	Cash .....	13,000	
		Accounts Receivable .....	14,900	
		Inventory .....	28,600	
		Equipment.....	35,000	
		Allowance for Doubtful Accounts .....		1,000
		Accounts Payable .....		6,500
		Notes Payable .....		4,000
		David Cohen, Capital .....		80,000

2.

**SCHMIDT AND COHEN**  
**Balance Sheet**  
**January 1, 2015**

<u><b>Assets</b></u>			
<b>Current assets:</b>			
Cash .....		\$ 25,000	
Accounts receivable .....	\$ 14,900		
Less allowance for doubtful accounts ....	<u>1,000</u>	13,900	
Inventory.....		<u>60,600</u>	
<b>Total current assets .....</b>			<b>\$ 99,500</b>
<b>Property, plant, and equipment:</b>			
Equipment .....		<u>35,000</u>	
<b>Total assets .....</b>			<b><u>\$134,500</u></b>
<u><b>Liabilities</b></u>			
<b>Current liabilities:</b>			
Accounts payable .....		\$ 6,500	
Notes payable.....		<u>4,000</u>	
<b>Total liabilities .....</b>			<b>\$ 10,500</b>
<u><b>Partners' Equity</b></u>			
Kevin Schmidt, capital .....		44,000	
David Cohen, capital .....		<u>80,000</u>	
<b>Total partners' equity.....</b>			<b><u>124,000</u></b>
<b>Total liabilities and partners' equity .....</b>			<b><u>\$134,500</u></b>

**Prob. 11–1A Concluded**

3.

Dec 31	Income Summary .....	84,000	
	Kevin Schmidt, Capital .....		47,200*
	David Cohen, Capital .....		36,800*
31	Kevin Schmidt, Capital .....	30,000	
	David Cohen, Capital .....	25,000	
	Kevin Schmidt, Withdrawals .....		30,000
	David Cohen, Withdrawals .....		25,000

\*Computations:

	<u>Schmidt</u>	<u>Cohen</u>	<u>Total</u>
Interest allowance .....	\$ 4,400 <sup>1</sup>	\$ 8,000 <sup>2</sup>	\$ 12,400
Salary allowance .....	36,000	22,000	58,000
Remaining income (1:1) .....	<u>6,800</u>	<u>6,800</u>	<u>13,600</u>
Net income .....	<u>\$47,200</u>	<u>\$36,800</u>	<u>\$84,000</u>

<sup>1</sup>10% × \$44,000

<sup>2</sup>10% × \$80,000

Prob. 11-2A

Plan	(1) \$150,000		(2) \$66,000	
	Drury	Wilkins	Drury	Wilkins
a. ....	\$ 75,000	\$ 75,000	\$ 33,000	\$ 33,000
b. ....	60,000	90,000	26,400	39,600
c. ....	100,000	50,000	44,000	22,000
d. ....	89,000	61,000	38,600	27,400
e. ....	83,000	67,000	41,000	25,000
f. ....	92,900	57,100	42,500	23,500

	Details \$150,000		\$66,000	
	Drury	Wilkins	Drury	Wilkins
a. Net income (1:1) .....	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 33,000</u>	<u>\$ 33,000</u>
b. Net income (2:3) .....	<u>\$ 60,000</u>	<u>\$ 90,000</u>	<u>\$ 26,400</u>	<u>\$ 39,600</u>
c. Net income (2:1) .....	<u>\$100,000</u>	<u>\$ 50,000</u>	<u>\$ 44,000</u>	<u>\$ 22,000</u>
d. Interest allowance .....	\$ 2,000	\$ 3,000	\$ 2,000	\$ 3,000
Remaining income (3:2).....	<u>87,000</u>	<u>58,000</u>	<u>36,600</u>	<u>24,400</u>
Net income .....	<u>\$ 89,000</u>	<u>\$ 61,000</u>	<u>\$ 38,600</u>	<u>\$ 27,400</u>
e. Interest allowance .....	\$ 2,000	\$ 3,000	\$ 2,000	\$ 3,000
Salary allowance .....	34,000	17,000	34,000	17,000
Remaining income (1:1).....	<u>47,000</u>	<u>47,000</u>	<u>5,000</u>	<u>5,000</u>
Net income .....	<u>\$ 83,000</u>	<u>\$ 67,000</u>	<u>\$ 41,000</u>	<u>\$ 25,000</u>
f. Interest allowance .....	\$ 2,000	\$ 3,000	\$ 2,000	\$ 3,000
Salary allowance .....	34,000	17,000	34,000	17,000
Bonus allowance .....	19,800 <sup>1</sup>		3,000 <sup>2</sup>	
Remaining income (1:1).....	<u>37,100</u>	<u>37,100</u>	<u>3,500</u>	<u>3,500</u>
Net income .....	<u>\$ 92,900</u>	<u>\$ 57,100</u>	<u>\$ 42,500</u>	<u>\$ 23,500</u>

<sup>1</sup>20% × (\$150,000 – \$51,000)

<sup>2</sup>20% × (\$66,000 – \$51,000)

Prob. 11–3A

1.

	<u>Sam Frances</u>	<u>Lynn Madson</u>	<u>Mike Wang</u>	<u>Deirdre Manis</u>	<u>Total</u>
Salary allowance	\$ —	\$115,600	\$ —	\$ —	\$115,600
Interest allowance	5,790	6,025	4,435	3,750	20,000
Remaining income	<u>210,976</u>	<u>158,232</u>	<u>105,488</u>	<u>52,744</u>	<u>527,440</u>
Net income	<u>\$216,766</u>	<u>\$279,857</u>	<u>\$109,923</u>	<u>\$ 56,494</u>	<u>\$663,040</u>

2.

2015

Dec. 31	Income Summary.....	663,040	
	Sam Frances, Capital.....		216,766
	Lynn Madson, Capital.....		279,857
	Mike Wang, Capital.....		109,923
	Deirdre Manis, Capital.....		56,494
	 Sam Frances, Capital.....	 5,790	
	Lynn Madson, Capital.....	121,625	
	Mike Wang, Capital.....	4,435	
	Deirdre Manis, Capital.....	3,750	
	Sam Frances, Withdrawals.....		5,790
	Lynn Madson, Withdrawals.....		121,625
	Mike Wang, Withdrawals.....		4,435
	Deirdre Manis, Withdrawals.....		3,750

## Prob. 11–3A Concluded

3.

**ARTEMIS LLP**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>Sam Frances, Capital</u>	<u>Lynn Madson, Capital</u>	<u>Mike Wang, Capital</u>	<u>Deirdre Manis, Capital</u>
Partnership capital, January 1, 2015 .....	\$115,800	\$120,500	\$ 88,700	\$75,000
Additional investment.....	100,000	—	—	—
Salary allowance .....	—	115,600	—	—
Interest allowance .....	5,790	6,025	4,435	3,750
Remaining income .....	210,976	158,232	105,488	52,744
Less: Partner withdrawals.....	<u>(5,790)</u>	<u>(121,625)</u>	<u>(4,435)</u>	<u>(3,750)</u>
Partnership capital, December 31, 2015...	<u>\$426,776</u>	<u>\$278,732</u>	<u>\$194,188</u>	<u>\$127,744</u>

4. \$279,857 (\$115,600 + \$6,025 + \$ 158,232). Each partner will be taxed on their portion of the net income, which may differ from the amount of their withdrawals.

## Prob. 11–4A

	<u>Sandra Louis</u>	<u>Amelia Alexis</u>	<u>Alex Donald</u>	<u>Total</u>
Salary allowance	\$40,000	\$40,000	\$ —	\$80,000
Interest allowance	6,402	3,504	2,772	12,678
Remaining loss	<u>-80,340</u>	<u>-40,170</u>	<u>-40,170</u>	<u>-160,680</u>
Net income	<u>-33,938</u>	<u>\$ 3,334</u>	<u>\$-37,398</u>	<u>\$-68,002</u>

**Prob. 11–4A Concluded**

**2.**  
**2015**

<b>Dec. 31</b>	<b>Sandra Louis, Capital.....</b>	<b>33,938</b>	
	<b>Alex Donald, Capital.....</b>	<b>37,398</b>	
	<b>Amelia Alexis, Capital.....</b>		<b>3,334</b>
	<b>Income Summary .....</b>		<b>68,002</b>
	<b>Sandra Louis, Capital.....</b>	<b>46,402</b>	
	<b>Amelia Alexis, Capital .....</b>	<b>43,504</b>	
	<b>Alex Donald, Capital.....</b>	<b>2,772</b>	
	<b>Sandra Louis, Withdrawals .....</b>		<b>46,402</b>
	<b>Amelia Alexis, Withdrawals.....</b>		<b>43,504</b>
	<b>Alex Donald, Withdrawals .....</b>		<b>2,772</b>

**3.**

**LOUIS, ALEXIS, AND DONALD, LLP**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

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	<u>Sandra Louis, Capital</u>	<u>Amelia Alexis, Capital</u>	<u>Alex Donald, Capital</u>
Partnership capital, January 1, 2015 .....	\$106,700	\$58,400	\$46,200
Salary allowance .....	40,000	40,000	
Interest allowance .....	6,402	3,504	2,772
Remaining loss.....	(80,340)	(40,170)	(40,170)
Less: Partner withdrawals.....	<u>(46,402)</u>	<u>(43,504)</u>	<u>(2,772)</u>
Partnership capital, December 31, 2015...	<u>\$26,360</u>	<u>\$18,230</u>	<u>\$6,030</u>

## Prob. 11-5A

1.

**WHITE AND WEEKLEY**  
**Income Statement**  
**For the Year Ended December 31, 2015**

Professional fees.....		\$562,200
Operating expenses:		
Salary expense.....	\$312,300	
Depreciation expense.....	81,700	
Administrative expenses.....	<u>20,200</u>	
Total operating expenses .....		<u>414,200</u>
Net income.....		<u>\$148,000</u>

	<u>Ken White</u>	<u>Alex Weekley</u>	<u>Total</u>
Division of net income:			
Salary allowance.....	\$ 60,000	\$ 75,000	\$ 135,000
Interest allowance.....	6,250*	7,000**	13,250
Remaining income.....	<u>(125)</u>	<u>(125)</u>	<u>(250)</u>
Net income.....	<u>\$ 66,125</u>	<u>\$ 81,875</u>	<u>\$ 148,000</u>

\* $\$125,000 \times 5\%$ \*\* $(\$160,000 - \$20,000) \times 5\%$ 

2.

**WHITE AND WEEKLEY**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>Ken White</u>	<u>Alex Weekley</u>	<u>Total</u>
Capital, January 1, 2015.....	\$ 125,000	\$ 140,000	\$ 265,000
Additional investment during the year .....	<u>—</u>	<u>20,000</u>	<u>20,000</u>
	125,000	160,000	285,000
Net income for the year .....	<u>66,125</u>	<u>81,875</u>	<u>148,000</u>
	191,125	241,875	433,000
Withdrawals during the year .....	<u>50,000</u>	<u>60,000</u>	<u>110,000</u>
Capital, December 31, 2015 .....	<u>\$ 141,125</u>	<u>\$ 181,875</u>	<u>\$ 323,000</u>

Prob. 11–5A Concluded  
3.

**WHITE AND WEEKLEY**  
**Balance Sheet**  
**December 31, 2015**

---

<u>Assets</u>		
<b>Current assets:</b>		
Cash .....	\$ 24,200	
Accounts receivable .....	41,300	
Supplies .....	<u>6,700</u>	
Total current assets .....		\$ 72,200
<b>Property, plant, and equipment:</b>		
Equipment .....	500,000	
Less accumulated depreciation .....	<u>240,600</u>	
Total property, plant, and equipment .....		<u>259,400</u>
<b>Total assets .....</b>		<b><u>\$331,600</u></b>

<u>Liabilities</u>		
<b>Current liabilities:</b>		
Accounts payable .....	\$ 3,400	
Salaries payable .....	<u>5,200</u>	
<b>Total liabilities .....</b>		<b>\$ 8,600</b>

<u>Partners' Equity</u>		
Ken White, capital .....	141,125	
Alex Weekley, capital .....	<u>181,875</u>	
<b>Total partners' equity .....</b>		<b><u>323,000</u></b>
<b>Total liabilities and partners' equity .....</b>		<b><u>\$331,600</u></b>

Prob. 11–6A

1.	May 31	Inventory .....	5,270	
		Accumulated Depreciation – Equipment....	25,700	
		Accounts Receivable .....		2,000
		Allowance for Doubtful Accounts.....		470*
		Equipment .....		5,000
		Jordan Cates, Capital .....		11,750
		LaToya Orr, Capital .....		11,750
		*[((\$21,400 – \$2,000) × 5%)] – \$500		

**Prob. 11–6A Concluded**

2.	June 1	LaToya Orr, Capital .....	30,000	
		Caleb Webster, Capital .....		30,000
	1	Cash.....	35,000	
		Caleb Webster, Capital .....		35,000

3.

**CATES, ORR, AND WEBSTER  
Balance Sheet  
June 1, 2015**

<u>Assets</u>				
<b>Current assets:</b>				
	Cash .....		\$44,400 <sup>1</sup>	
	Accounts receivable .....	\$19,400		
	Less allowance for doubtful accounts .....	<u>970</u>	18,430	
	Inventory.....		63,870	
	Prepaid insurance.....		<u>3,500</u>	
	<b>Total current assets .....</b>			<b>\$130,200</b>
<b>Property, plant, and equipment:</b>				
	Equipment .....			<u>90,000</u>
	<b>Total assets .....</b>			<b><u>\$220,200</u></b>
<u>Liabilities</u>				
<b>Current liabilities:</b>				
	Accounts payable .....		\$14,700	
	Notes payable.....		<u>12,000</u>	
	<b>Total liabilities .....</b>			<b>\$ 26,700</b>
<u>Partners' Equity</u>				
	Jordan Cates, capital .....		86,750 <sup>2</sup>	
	LaToya Orr, capital.....		41,750 <sup>3</sup>	
	Caleb Webster, capital .....		<u>65,000</u>	
	<b>Total partners' equity.....</b>			<b><u>193,500</u></b>
	<b>Total liabilities and partners' equity .....</b>			<b><u>\$220,200</u></b>

<sup>1</sup>\$9,400 + \$35,000

<sup>2</sup>\$75,000 + \$11,750

<sup>3</sup>\$60,000 + \$11,750 – \$30,000

**Prob. 11–7A**

<b>1. Inventory .....</b>	<b>24,000</b>	
<b>Allowance for Doubtful Accounts .....</b>		<b>5,800</b>
<b>Noni Fidler, Capital .....</b>		<b>7,800<sup>1</sup></b>
<b>Margot Hess, Capital .....</b>		<b>5,200<sup>2</sup></b>
<b>Susan Culver, Capital .....</b>		<b>5,200<sup>2</sup></b>
<sup>1</sup> <b>(\$24,000 – \$5,800) × 3/7</b>		
<sup>2</sup> <b>(\$24,000 – \$5,800) × 2/7</b>		

**2.**

**a.**

**2015**

<b>Dec. 31 Noni Fidler, Capital .....</b>	<b>252,800<sup>1</sup></b>	
<b>Cash.....</b>		<b>52,800</b>
<b>Notes Payable .....</b>		<b>200,000</b>
<sup>1</sup> <b>\$245,000 + \$7,800</b>		

**b.**

**2015**

<b>Dec. 31 Noni Fidler, Capital .....</b>	<b>252,800</b>	
<b>Cash.....</b>		<b>45,000</b>
<b>Notes Payable .....</b>		<b>200,000</b>
<b>Margot Hess, Capital .....</b>		<b>3,900<sup>2</sup></b>
<b>Susan Culver, Capital.....</b>		<b>3,900<sup>2</sup></b>

<sup>2</sup>**[\$252,800 – (\$45,000 + \$200,000)] × 1/2**

**c.**

**2015**

<b>Dec. 31 Noni Fidler, Capital .....</b>	<b>252,800</b>	
<b>Margot Hess, Capital .....</b>	<b>1,600<sup>3</sup></b>	
<b>Susan Culver, Capital .....</b>	<b>1,600<sup>3</sup></b>	
<b>Cash.....</b>		<b>56,000</b>
<b>Notes Payable .....</b>		<b>200,000</b>

<sup>3</sup>**[\$252,800 – (\$56,000 + \$200,000)] × 1/2**

## Prob. 11-7A Concluded

3.

2016

Dec. 31	Income Summary .....	320,000	
	Margot Hess, Capital .....		160,000
	Susan Culver, Capital .....		160,000
	 Margot Hess, Capital .....	120,000	
	Susan Culver, Capital .....	96,000	
	Margot Hess, Withdrawals .....		120,000
	Susan Culver, Withdrawals .....		96,000

## Prob. 11–8A

1. **HARKEN, SEDLACEK, AND ELDRIDGE**  
**Statement of Partnership Liquidation**  
**For the Period September 10–30, 2015**

	Cash	+ Inventory	= Liabilities	Capital		
				Harken (25%)	+ Sedlacek (25%)	+ Eldridge (50%)
Balances before sale of assets .....	\$ 7,800	\$ 61,400	\$ 8,000	\$ 31,000	\$ 5,700	\$ 24,500
Sale of assets and division of loss ...	+ 32,600	- 61,400	—	- 7,200	- 7,200	- 14,400
Balances after sale of assets .....	40,400	0	8,000	23,800	(1,500)	10,100
Payment of liabilities.....	- 8,000	—	- 8,000	—	—	—
Balances after payment of liabilities	32,400	0	0	23,800	(1,500)	10,100
Receipt of deficiency .....	+ 1,500	—	—	—	+ 1,500	—
Balances .....	33,900	0	0	23,800	0	10,100
Cash distributed to partners .....	- 33,900	—	—	- 23,800	—	- 10,100
Final balances .....	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

2. a.	Kris Harken, Capital .....	500	
	Amy Eldridge, Capital .....	1,000	
	Brett Sedlacek, Capital .....		1,500

The \$1,500 deficiency of Sedlacek would be divided between the other partners, Harken and Eldridge, in their income-sharing ratio (1:2 respectively). Therefore, Harken would absorb 1/3 of the \$1,500 deficiency, or \$500, and Eldridge would absorb 2/3 of the \$1,500 deficiency, or \$1,000.

b.	Kris Harken, Capital .....	23,300*	
	Amy Eldridge, Capital .....	9,100**	
	Cash .....		32,400
	*\$23,800 – \$500		
	**\$10,100 – \$1,000		

## Prob. 11-9A

1. a.

**ADAMS, WATKIS, AND COOPER**  
**Statement of Partnership Liquidation**  
**For Period June 3-29, 2015**

	<u>Cash</u>	+	<u>A/R</u>	=	<u>Liabilities</u>	+	<u>Capital</u>				
							<u>Adams (1/5)</u>	+	<u>Watkis (2/5)</u>	+	<u>Cooper (2/5)</u>
Balances before sale of assets .....	\$ 29,000		\$ 242,000		\$ 55,000		\$ 14,000		\$ 84,000		\$ 118,000
Sale of assets and division of gain .....	<u>+ 220,000</u>		<u>- 242,000</u>		<u>—</u>		<u>- 4,400</u>		<u>- 8,800</u>		<u>- 8,800</u>
Balances after sale of assets .....	249,000		0		55,000		9,600		75,200		109,200
Payment of liabilities.....	<u>- 55,000</u>		<u>—</u>		<u>- 55,000</u>		<u>—</u>		<u>—</u>		<u>—</u>
Balances after payment of liabilities .....	194,000		0		0		9,600		75,200		109,200
Cash distributed to partners .....	<u>- 194,000</u>		<u>—</u>		<u>—</u>		<u>- 9,600</u>		<u>- 75,200</u>		<u>- 109,200</u>
Final balances .....	<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>

Prob. 11-9A Concluded

1. b.

**ADAMS, WATKIS, AND COOPER**  
**Statement of Partnership Liquidation**  
**For Period June 3-29, 2015**

	Cash	+	A/R	=	Liabilities	+	Capital			
							Adams (1/5)	+	Watkis (2/5)	+
Balances before sale of assets .....	\$ 29,000		\$ 242,000		\$ 55,000		\$ 14,000		\$ 84,000	\$ 118,000
Sale of assets and division of loss ...	+ 132,000		- 242,000		—		- 22,000		- 44,000	- 44,000
Balances after sale of assets .....	161,000		0		55,000		(8,000)		40,000	74,000
Payment of liabilities.....	- 55,000		—		- 55,000		—		—	—
Balances after payment of liabilities	106,000		0		0		(8,000)		40,000	74,000
Receipt of deficiency .....	+ 8,000		—		—		+ 8,000		—	—
Balances .....	114,000		0		0		0		40,000	74,000
Cash distributed to partners .....	- 114,000		—		—		—		- 40,000	- 74,000
Final balances .....	<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 0</u>

2. a. Watkis, Capital.....	4,000	
Cooper, Capital.....	4,000	
Adams, Capital .....		8,000

The \$8,000 deficiency of Adams would be divided between the other partners, Watkis and Cooper, in their income-sharing ratio (1:1 respectively). Therefore, Watkis would absorb 1/2 of the \$8,000 deficiency, or \$4,000, and Cooper would absorb 1/2 of the \$8,000 deficiency, or \$4,000.

b. Watkis, Capital.....	36,000*	
Cooper, Capital.....	70,000**	
Cash .....		106,000
* \$40,000 - \$4,000		
** \$74,000 - \$4,000		

Prob. 11–1B

1.

Jan. 10	Cash .....	18,200	
	Inventory .....	48,800	
	Jarius Walker, Capital .....		67,000
10	Cash .....	22,600	
	Accounts Receivable .....	24,100	
	Equipment .....	55,100	
	Allowance for Doubtful Accounts .....		1,800
	Accounts Payable .....		15,000
	Notes Payable .....		25,000
	Rae King, Capital .....		60,000

2.

**WALKER AND KING**  
**Balance Sheet**  
**January 10, 2016**

Assets

Current assets:

Cash .....		\$ 40,800	
Accounts receivable .....	\$ 24,100		
Less allowance for doubtful accounts .....	<u>1,800</u>	22,300	
Inventory .....		<u>48,800</u>	
Total current assets .....			\$ 111,900

Property, plant, and equipment:

Equipment .....			<u>55,100</u>
Total assets .....			<u>\$ 167,000</u>

Liabilities

Current liabilities:

Accounts payable .....		\$ 15,000	
Notes payable .....		<u>25,000</u>	
Total liabilities .....			\$ 40,000

Partners' Equity

Jarius Walker, capital .....		67,000	
Rae King, capital .....		<u>60,000</u>	
Total partners' equity .....			<u>127,000</u>
Total liabilities and partners' equity .....			<u>\$ 167,000</u>

**Prob. 11–1B Concluded**

3.

Dec	31	Income Summary.....	80,000	
		Jarius Walker, Capital .....		36,400*
		Rae King, Capital .....		43,600*
	31	Jarius Walker, Capital.....	22,500	
		Rae King, Capital .....	30,400	
		Jarius Walker, Withdrawals .....		22,500
		Rae King, Withdrawals.....		30,400

**\*Computations:**

	<u>Walker</u>	<u>King</u>	<u>Total</u>
Interest allowance.....	\$ 6,700 <sup>1</sup>	\$ 6,000 <sup>2</sup>	\$ 12,700
Salary allowance.....	22,500	30,400	52,900
Remaining income (1:1) .....	<u>7,200</u>	<u>7,200</u>	<u>14,400</u>
Net income .....	<u>\$ 36,400</u>	<u>\$ 43,600</u>	<u>\$ 80,000</u>

<sup>1</sup>10% × \$67,000

<sup>2</sup>10% × \$60,000

Prob. 11-2B

Plan	(1) \$105,000		(2) \$180,000	
	Larson	Amos	Larson	Amos
a. ....	\$52,500	\$52,500	\$90,000	\$90,000
b. ....	78,750	26,250	135,000	45,000
c. ....	35,000	70,000	60,000	120,000
d. ....	58,500	46,500	96,000	84,000
e. ....	42,500	62,500	80,000	100,000
f. ....	41,600	63,400	71,600	108,400

	Details \$105,000		\$180,000	
	Larson	Amos	Larson	Amos
a. Net income (1:1) .....	<u>\$ 52,500</u>	<u>\$ 52,500</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>
b. Net income (3:1) .....	<u>\$ 78,750</u>	<u>\$ 26,250</u>	<u>\$ 135,000</u>	<u>\$ 45,000</u>
c. Net income (1:2) .....	<u>\$ 35,000</u>	<u>\$ 70,000</u>	<u>\$ 60,000</u>	<u>\$ 120,000</u>
d. Interest allowance .....	\$ 18,000	\$ 6,000	\$ 18,000	\$ 6,000
Remaining Income (1:1).....	<u>40,500</u>	<u>40,500</u>	<u>78,000</u>	<u>78,000</u>
Net income .....	<u>\$ 58,500</u>	<u>\$ 46,500</u>	<u>\$ 96,000</u>	<u>\$ 84,000</u>
e. Interest allowance .....	\$ 18,000	\$ 6,000	\$ 18,000	\$ 6,000
Salary allowance .....	32,000	64,000	32,000	64,000
Excess of allowances over income (1:1) .....	(7,500)	(7,500)		
Remaining income (1:1).....			<u>30,000</u>	<u>30,000</u>
Net income .....	<u>\$ 42,500</u>	<u>\$ 62,500</u>	<u>\$ 80,000</u>	<u>\$ 100,000</u>
f. Interest allowance .....	\$ 18,000	\$ 6,000	\$ 18,000	\$ 6,000
Salary allowance .....	32,000	64,000	32,000	64,000
Bonus allowance.....		1,800 <sup>1</sup>		16,800 <sup>2</sup>
Excess of allowances over income (1:1) .....	(8,400)	(8,400)		
Remaining income (1:1).....			<u>21,600</u>	<u>21,600</u>
Net income .....	<u>\$ 41,600</u>	<u>\$ 63,400</u>	<u>\$ 71,600</u>	<u>\$ 108,400</u>

<sup>1</sup>20% × (\$105,000 – \$96,000)

<sup>2</sup>20% × (\$180,000 – \$96,000)

Prob. 11–3B

	Von Porter	Elisse Rand	Ming Foo	David Estevan	Total
Salary allowance	\$ 85,600	\$ -	\$ -	\$ -	\$85,600
Interest allowance	3,425	3,750	2,495	1,773	11,443
Remaining income	<u>178,956</u>	<u>134,217</u>	<u>89,478</u>	<u>44,739</u>	<u>447,390</u>
Net income	<u>\$267,981</u>	<u>\$137,967</u>	<u>\$91,973</u>	<u>\$46,512</u>	<u>\$544,433</u>

1.

2015

Dec. 31	Income Summary.....	544,433	
	Von Porter, Capital.....		267,981
	Elisse Rand, Capital.....		137,967
	Ming Foo, Capital.....		91,973
	David Estevan, Capital.....		46,512
	Von Porter, Capital.....	89,025	
	Elisse Rand, Capital.....	3,750	
	Ming Foo, Capital.....	2,495	
	David Estevan, Capital.....	1,773	
	Von Porter, Withdrawals.....		89,025
	Elisse Rand, Withdrawals.....		3,750
	Ming Foo, Withdrawals.....		2,495
	David Estevan, Withdrawals.....		1,773

3.

**AMBIGUITY, LLP**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	Von Porter, Capital	Elisse Rand, Capital	Ming Foo, Capital	David Estevan, Capital
Partnership capital, January 1, 2015 .....	\$ 68,500	\$ 75,000	\$ 49,900	\$35,460
Additional investment.....		50,000		
Salary allowance .....	85,600			
Interest allowance .....	3,425	3,750	2,495	1,773
Remaining income .....	178,956	134,217	89,478	44,739
Less: Partner withdrawals.....	<u>(89,025)</u>	<u>(3,750)</u>	<u>(2,495)</u>	<u>(1,773)</u>
Partnership capital, December 31, 2015...	<u>\$247,456</u>	<u>\$259,217</u>	<u>\$139,378</u>	<u>\$80,199</u>

**Prob. 11–3B (Concluded)**

4. \$267,981 (\$85,600 + \$3,425 + 178,956). Each partner will be taxed on their portion of the net income, which may differ from the amount of their withdrawals.

**Prob. 11–4B**

1.

	<u>David Funk</u>	<u>Nathan George</u>	<u>Princess Lafayette</u>	<u>Total</u>
Salary allowance	\$ -	\$50,000	\$ 50,000	\$100,000
Interest allowance	12,804	7,008	5,544	25,356
Remaining loss	<u>-113,678</u>	<u>-56,839</u>	<u>-56,839</u>	<u>-227,356</u>
Net income	<u>-100,874</u>	<u>\$ 169</u>	<u>\$-1,295</u>	<u>\$-102,000</u>

2.

**2015**

Dec. 31	David Funk, Capital .....	100,874	
	Princess Lafayette, Capital.....	1,295	
	Nathan George, Capital .....		169
	Income Summary .....		102,000
	 David Funk, Capital .....	 12,804	
	Nathan George, Capital.....	57,008	
	Princess Lafayette, Capital.....	55,544	
	David Funk, Withdrawals.....		12,804
	Nathan George, Withdrawals .....		57,008
	Princess Lafayette, Withdrawals .....		55,544

## Prob. 11-4B (Concluded)

2.

**FUNK, GEORGE, AND LAFAYETTE LLP**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>David Funk</u>	<u>Nathan George</u>	<u>Princess Lafayette</u>
Partnership capital, January 1, 2015 .....	\$160,050	\$ 87,600	\$ 69,300
Salary allowance .....		50,000	50,000
Interest allowance .....	12,804	7,008	5,544
Remaining loss.....	(113,678)	(56,839)	(56,839)
Less: Partner withdrawals.....	<u>(12,804)</u>	<u>(57,008)</u>	<u>(55,544)</u>
Partnership capital, December 31, 2015...	<u>\$ 46,372</u>	<u>\$ 30,761</u>	<u>\$ 12,461</u>

## Prob. 11-5B

1.

**KIKUCHI AND JONES**  
**Income Statement**  
**For the Year Ended December 31, 2015**

Professional fees.....		\$340,300
Operating expenses:		
Salary expense .....	\$146,800	
Depreciation expense .....	19,000	
Administrative expenses .....	<u>24,500</u>	
Total operating expenses .....		<u>190,300</u>
Net income.....		<u>\$150,000</u>

	<u>Shizuka Kikuchi</u>	<u>Kilmeny Jones</u>	<u>Total</u>
Division of net income:			
Salary allowance .....	\$ 40,000	\$ 50,000	\$ 90,000
Interest allowance.....	12,000*	6,500**	18,500
Remaining income .....	<u>20,750</u>	<u>20,750</u>	<u>41,500</u>
Net income.....	<u>\$ 72,750</u>	<u>\$ 77,250</u>	<u>\$ 150,000</u>

\* $\$120,000 \times 10\%$ \*\* $(\$75,000 - \$10,000) \times 10\%$

Prob. 11–5B (Concluded)

2.

**KIKUCHI AND JONES**  
**Statement of Changes in Partners' Equity**  
**For the Year Ended December 31, 2015**

	<u>Shizuka Kikuchi</u>	<u>Kilmeny Jones</u>	<u>Total</u>
Capital, January 1, 2015.....	\$ 120,000	\$ 65,000	\$ 185,000
Additional investment during the year .....	—	10,000	10,000
	120,000	75,000	195,000
Net income for the year .....	72,750	77,250	150,000
	192,750	152,250	345,000
Withdrawals during the year .....	45,000	65,000	110,000
Capital, December 31, 2015.....	<u>\$ 147,750</u>	<u>\$ 87,250</u>	<u>\$ 235,000</u>

3.

**KIKUCHI AND JONES**  
**Balance Sheet**  
**December 31, 2015**

<u>Assets</u>		
<b>Current assets:</b>		
Cash.....	\$ 32,000	
Accounts receivable .....	42,300	
Supplies.....	<u>1,500</u>	
Total current assets .....		\$ 75,800
<b>Property, plant, and equipment:</b>		
Office equipment.....	249,100	
Less accumulated depreciation .....	<u>81,900</u>	
Total property, plant, and equipment .....		<u>167,200</u>
<b>Total assets .....</b>		<b><u>\$ 243,000</u></b>
<u>Liabilities</u>		
<b>Current liabilities:</b>		
Accounts payable .....	\$ 4,800	
Salaries payable.....	<u>3,200</u>	
<b>Total liabilities .....</b>		<b>\$ 8,000</b>
<u>Partners' Equity</u>		
Shizuka Kikuchi, capital .....	147,750	
Kilmeny Jones, capital.....	<u>87,250</u>	
<b>Total partners' equity.....</b>		<b><u>235,000</u></b>
<b>Total liabilities and partners' equity .....</b>		<b><u>\$ 243,000</u></b>

**Prob. 11–6B**

<b>1. Apr. 30</b>	<b>Inventory.....</b>	<b>6,480</b>	
	<b>Accumulated Depreciation – Equipment .....</b>	<b>51,700</b>	
	<b>Equipment .....</b>	<b>29,000*</b>	
	<b>Accounts Receivable .....</b>		<b>2,800</b>
	<b>Allowance for Doubtful Accounts .....</b>		<b>380**</b>
	<b>Sadhil Rao, Capital .....</b>		<b>42,000</b>
	<b>Lauren Sails, Capital .....</b>		<b>42,000</b>
	<b>*\$194,000 – \$165,000</b>		
	<b>**[((\$38,400 – \$2,800) × 5%) – \$1,400]</b>		
<b>2. May 1</b>	<b>Lauren Sails, Capital.....</b>	<b>55,000</b>	
	<b>Paige Hancock, Capital .....</b>		<b>55,000</b>
<b>1</b>	<b>Cash .....</b>	<b>30,000</b>	
	<b>Paige Hancock, Capital .....</b>		<b>30,000</b>

## Prob. 11–6B (Concluded)

3.

**RAO, SAILS, AND HANCOCK**  
**Balance Sheet**  
**May 1, 2015**

<u>Assets</u>			
<b>Current assets:</b>			
Cash .....		\$ 37,500 <sup>1</sup>	
Accounts receivable .....	\$ 35,600		
Less allowance for doubtful accounts .....	<u>1,780</u>	33,820	
Inventory .....		65,480	
Prepaid insurance .....		<u>2,200</u>	
Total current assets .....			\$139,000
<b>Property, plant, and equipment:</b>			
Equipment .....			<u>194,000</u>
<b>Total assets .....</b>			<b><u>\$333,000</u></b>
<u>Liabilities</u>			
<b>Current liabilities:</b>			
Accounts payable .....		\$ 9,000	
Notes payable .....		<u>10,000</u>	
<b>Total liabilities .....</b>			<b>\$ 19,000</b>
<u>Partners' Equity</u>			
Sadhil Rao, capital .....		152,000 <sup>2</sup>	
Lauren Sails, capital .....		77,000 <sup>3</sup>	
Paige Hancock, capital .....		<u>85,000</u>	
Total partners' equity .....			<u>314,000</u>
<b>Total liabilities and partners' equity .....</b>			<b><u>\$333,000</u></b>

<sup>1</sup>\$7,500 + \$30,000<sup>2</sup>\$110,000 + \$42,000<sup>3</sup>\$90,000 + \$42,000 – \$55,000

## Prob. 11-7B

2015

Dec. 31 Sandra Brox, Capital.....	2,600 <sup>1</sup>	
Amelia Donald, Capital .....	1,300 <sup>2</sup>	
Alex Caesar, Capital .....	650 <sup>3</sup>	
Inventory .....		1,550
Allowance for Doubtful Accounts .....		3,000

$$^1(\$1,550 + \$3,000) \times 4/7$$

$$^2(\$1,550 + \$3,000) \times 2/7$$

$$^3(\$1,550 + \$3,000) \times 1/7$$

1.

a.

2015

Dec. 31 Sandra Brox, Capital.....	142,000 <sup>1</sup>	
Cash.....		42,000
Notes Payable .....		100,000
<sup>1</sup> \$144,600 – \$2,600		

b.

2015

Dec. 31 Sandra Brox, Capital .....	142,000	
Amelia Donald, Capital .....	2,000 <sup>1</sup>	
Alex Caesar, Capital .....	1,000 <sup>2</sup>	
Cash.....		45,000
Notes Payable .....		100,000

$$^1(\$145,000 - \$142,000) \times 2/3$$

$$^2(\$145,000 - \$142,000) \times 1/3$$

c.

2015

Dec. 31 Sandra Brox, Capital .....	142,000	
Cash.....		36,000
Notes Payable .....		100,000
Amelia Donald, Capital.....		4,000 <sup>1</sup>
Alex Caesar, Capital .....		2,000 <sup>2</sup>

$$^1(\$142,000 - \$136,000) \times 2/3$$

$$^2(\$142,000 - \$136,000) \times 1/3$$

**Prob. 11–7B (Concluded)**

<b>3.</b>			
<b>2016</b>			
<b>Dec. 31</b>	<b>Income Summary .....</b>	<b>240,000</b>	
	<b>Amelia Donald, Capital .....</b>		<b>160,000</b>
	<b>Alex Caesar, Capital.....</b>		<b>80,000</b>
	<b>Amelia Donald, Capital .....</b>	<b>84,000</b>	
	<b>Alex Caesar, Capital.....</b>	<b>60,000</b>	
	<b>Amelia Donald, Withdrawals .....</b>		<b>84,000</b>
	<b>Alex Caesar, Withdrawals.....</b>		<b>60,000</b>

## Prob. 11–8B

1.

**LACY, OLIVER, AND DUSSAULT**  
**Statement of Partnership Liquidation**  
**For Period July 3–29, 2015**

				Capital		
	Cash	+ A/R	= Liabilities	+ Lacy (50%)	+ Oliver (25%)	+ Dussault (25%)
Balances before sale of assets .....	\$ 5,800	\$ 82,400	\$ 15,000	\$ 28,200	\$ 7,800	\$ 37,200
Sale of A/R and division of loss .....	+ 33,200	- 82,400	—	- 24,600	- 12,300	- 12,300
Balances after sale of assets .....	39,000	0	15,000	3,600	(4,500)	24,900
Payment of liabilities.....	- 15,000	—	- 15,000	—	—	—
Balances after payment of liabilities	24,000	0	0	3,600	(4,500)	24,900
Receipt of deficiency .....	+ 4,500	—	—	—	+ 4,500	—
Balances .....	28,500	0	0	3,600	0	24,900
Cash distributed to partners .....	- 28,500	—	—	- 3,600	—	- 24,900
Final balances .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

2. a. Whitney Lacy, Capital .....	3,000	
Marc Dussault, Capital.....	1,500	
Eli Oliver, Capital.....		4,500

The \$4,500 deficiency of Oliver would be divided between the other partners, Lacy and Dussault, in their income-sharing ratio (2:1, respectively). Therefore, Lacy would absorb 2/3 of the \$4,500 deficiency, or \$3,000, and Dussault would absorb 1/3 of the \$4,500 deficiency, or \$1,500.

b. Whitney Lacy, Capital .....	600*	
Marc Dussault, Capital.....	23,400**	
Cash .....		24,000
* \$3,600 – \$3,000		
** \$24,900 – \$1,500		

## Prob. 11-9B

1. a.

**ORSON, DORR, AND KILLOUGH**  
**Statement of Partnership Liquidation**  
**For Period October 1-30, 2015**

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	<u>Cash</u>	+	<u>Equip.</u>	=	<u>Liabilities</u>	+	<u>Capital</u>		
							<u>Orson (2/5)</u>	+	<u>Dorr (2/5)</u>
Balances before sale of assets .....	\$ 9,000		\$ 155,000		\$ 42,000		\$ 48,000	\$ 63,000	\$ 11,000
Sale of assets and division of gain .....	+ 195,000		- 155,000		—		+ 16,000	+ 16,000	+ 8,000
Balances after sale of assets .....	<u>204,000</u>		<u>0</u>		<u>42,000</u>		<u>64,000</u>	<u>79,000</u>	<u>19,000</u>
Payment of liabilities.....	<u>- 42,000</u>		<u>—</u>		<u>- 42,000</u>		<u>—</u>	<u>—</u>	<u>—</u>
Balances after payment of liabilities .....	162,000		0		0		64,000	79,000	19,000
Cash distributed to partners .....	<u>- 162,000</u>		<u>—</u>		<u>—</u>		<u>- 64,000</u>	<u>- 79,000</u>	<u>- 19,000</u>
Final balances .....	<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Prob. 11-9B Concluded

1. b.

**ORSON, DORR, AND KILLOUGH**  
**Statement of Partnership Liquidation**  
**For Period October 1-30, 2015**

	Cash	+ Equip.	= Liabilities	Capital		
				+ Orson (2/5)	+ Dorr (2/5)	+ Killough (1/5)
Balances before sale of assets .....	\$ 9,000	\$ 155,000	\$ 42,000	\$ 48,000	\$ 63,000	\$ 11,000
Sale of assets and division of loss ...	+ 85,000	- 155,000	—	- 28,000	- 28,000	- 14,000
Balances after sale of assets .....	94,000	0	42,000	20,000	35,000	(3,000)
Payment of liabilities.....	- 42,000	—	- 42,000	—	—	—
Balances after payment of liabilities	52,000	0	0	20,000	35,000	(3,000)
Receipt of deficiency .....	+ 3,000	—	—	—	—	+ 3,000
Balances .....	55,000	0	0	20,000	35,000	0
Cash distributed to partners .....	- 55,000	—	—	- 20,000	- 35,000	—
Final balances .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

2. a. Orson, Capital.....	1,500	
Dorr, Capital.....	1,500	
Killough, Capital .....		3,000

The \$3,000 deficiency of Killough would be divided between the other partners, Orson and Dorr, in their income-sharing ratio (1:1, respectively). Therefore, Orson would absorb 1/2 of the \$3,000 deficiency, or \$1,500, and Dorr would absorb 1/2 of the \$3,000 deficiency, or \$1,500.

b. Orson, Capital.....	18,500*	
Dorr, Capital.....	33,500**	
Cash .....		52,000
*\$20,000 – \$1,500		
**\$35,000 – \$1,500		

## SPECIAL ACTIVITIES

### Activity 11–1

This scenario highlights one of the problems that arise in partnerships: attempting to align contribution with income division. Often, disagreements are based on honest differences of opinion. However, in this scenario, there is evidence that Hayes was acting unethically. Hayes apparently made no mention of his plans to “scale back” once the partnership was formed. As a result, Edwards agreed to an equal division of income based on the assumption that Hayes’s past efforts would project into the future, while in fact, Hayes had no intention of this. As a result, Edwards is now providing more effort, while receiving the same income as Hayes. This is clearly not sustainable in the long term. Hayes does not appear to be concerned about this inequity. Thus, the evidence points to some dishonesty on Hayes’s part. Essentially, he knows that he is riding on Edwards’s effort and had planned it that way.

Edwards could respond to this situation by either withdrawing from the partnership or changing the partnership agreement. One possible change would be to provide a partner salary based on the amount of client billings. This salary would be highly associated with the amount of revenue brought into the partnership, thus avoiding disputes associated with unequal contributions to the firm.

### Activity 11–2

A good solution to this problem would be to divide income in three steps:

1. Provide interest on each partner’s capital balance.
2. Provide a monthly salary for each partner.
3. Divide the remainder according to a partnership formula.

With this approach, the return on capital and effort will be separately calculated in the income division formula before applying the percentage formula. Thus, Becker will receive a large interest distribution based on the large capital balance, while Morrow should receive a large salary distribution based on the larger service contribution. The return on capital and salary allowances should be based on prevailing market rates. If both partners are pleased with their return on capital and effort, then the remaining income could be divided equally among them.

### Activity 11–3

When developing an LLP, the partnership agreement is a critical part of establishing a business. Each party must consider the various incentives of each individual in the LLP. For example, in this case, one party, Kelly Herron, is providing all of the funding, while the other two parties are providing expertise and talent. This type of arrangement can create some natural conflicts because the interests of an investor might not be exactly the same as those operating the LLP. Specifically, you would want to advise Herron that not all matters should be settled by majority vote. Such a provision would allow the two non-investing members to vote as a block to the disadvantage of Herron. For example, the salaries for the two working members could be set by their vote, so that little profit would be left to be distributed. This would essentially keep Herron's return limited to the 10% preferred return. Herron should insist that salary allowances require unanimous approval of all members.

A second issue is the division of partnership income. The suggested agreement is for all the partners to share the remaining income, after the 10% preferred return, equally. Herron should be counselled to consider all aspects of the LLP contribution to determine if this division is equitable. There are many considerations including the amount of investment, risk of the venture, degree of expertise of noninvesting partners, and degree of exclusivity of noninvesting partners' effort contribution (unique skills or business connections, for example). Often, the simple assumption of equal division is not appropriate.

In addition, it is sometimes best to require even working partners to have an investment in the LLP, even if it is small, so that they are sensitive to the perspective of financial loss.

### Activity 11–4

1. The partners can divide net income in any ratio that they wish. However, in the absence of an agreement, net income is divided equally between the partners. Therefore, Jasmine's conclusion was correct, but for the wrong reasons. In addition, note that the monthly withdrawals have no impact on the division of income.
2. When dividing income among partners, consideration should be given to skills and experience of the partners, amount of time spent in the operation, and investment of funds or assets.
3. There are many possible answers regarding a recommended division of income. Students should consider Jasmine's capital investment, additional years of experience, and Dawn's additional time devoted to the business.