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:

	McDonald	Ward	Total
Annual salary	$ 60,000	$ 50,000	$110,000
Remaining income	25,000	25,000	50,000
Total distributed	$85,000	$ 75,000	$160,000

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

	Smithson	Mooney	Total
Annual salary	$ —	$ 53,000	$ 53,000
Interest	2,500[1]	7,500[2]	10,000
Remaining income	132,750	44,250[3]	177,000
Total distributed	$135,250	$104,750	$240,000

[1]$50,000 × 5%
[2]$150,000 × 5%
[3]($240,000 – $53,000 – $10,000) × 25%

PE 11–4

	Smithson	Mooney	Total
Annual salary	$ —	$ 53,000	$ 53,000
Interest	2,500[1]	7,500[2]	10,000
Sub-total	2,500	60,500	63,000
Remaining income	(1,500)	(500)[3]	(2,000)
Total distributed	$ 1,000	$ 60,000	$61,000

[1]$50,000 × 5%
[2]$150,000 × 5%
[3]($61,000 – $53,000 – $10,000) × 25%

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

PE 11–5

	Smithson	Mooney	Total
Annual salary	$ —	$ 53,000	$ 53,000
Interest	2,500[1]	7,500[2]	10,000
Sub-total	2,500	60,500	63,000
Remaining income	(54,750)	(18,250)[3]	(73,000)
Total distributed	$(52,250)	$ 42,250	$(10,000)

[1]$50,000 × 5%
[2]$150,000 × 5%
[3]($-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		25,000
Total equity after admitting Baker		90,000
Baker's equity interest	×	30%
Baker's equity after admission	$	27,000
Baker's contribution		25,000
Bonus paid to Baker	$	2,000

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)	275,000	
Loss on liquidation	$ 25,000	
Penn's share of loss (50% × $25,000)		(12,500)
Penn's cash distribution		$147,500

PE 11–10

a.

Min's equity prior to liquidation		$ 120,000
Sale of assets	$ 60,000	
Book value of assets	320,000*	
Loss on liquidation	$260,000	
Min's share of loss (50% × $260,000)		(130,000)
Min's deficiency		$ (10,000)

*$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

	Haskett	Humphrys
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

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

Ex. 11–4

	Haskett	Humphrys
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

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

Ex. 11–5

	Haskett	Humphrys
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

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

Ex. 11–6

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

Ex. 11–7

a.

	McGillivray	Gillis	Newton	Total
Salary allowance			$40,000	$40,000
Interest allowance	$ 1,080[1]	920[2]	600[3]	2,600
Remaining income (3:2:1)	-4,500	-3,000	-1,500	-9,000
Net income	$-3,420	$-2,080	$39,100	$33,600

[1]4% × (10,000 + $12,000 + $5,000)
[2]4% × ($5,000 + $13,000 + $5,000)
[3]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

	Bowman	Mapes	Total
Salary allowance	$ 75,000	$60,000	$135,000
Remaining income	31,800	21,200	53,000
Net income	$106,800	$81,200	$188,000

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

	Bowman	Mapes	Total
Salary allowance	**$ 75,000**	**$60,000**	**$135,000**
Remaining income	**(21,000)**	**(14,000)**	**(35,000)**
Net income	**$54,000**	**$46,000**	**$100,000**

Bowman remaining income: ($100,000 – $135,000) × 3/5
Mapes remaining income: ($100,000 – $135,000) × 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[1]	6,000[2]	$ 14,400[3]	44,400
Remaining income (4:3:3)	196,000	147,000	147,000	490,000
Net income	$220,000	$268,600	$161,400	$650,000

[1]12% × $200,000
[2]12% × $50,000
[3]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

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

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 Courcey, Capital	8,750	
	Leah Kalleen, Capital	8,750	
	Gary Daniel, Capital		97,500
	($62,500 + $150,000 + $80,000) ÷ 3 = $97,500		
	$97,500 – $80,000 = $17,500 bonus to Gary		
b.	Cash	120,500	
	Diana de Courcey, Capital		4,750
	Leah Kalleen, Capital		4,750
	Gary Daniel, Capital		111,000
	($62,500 + $150,000 + $120,500) ÷ 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[1]
	Finn, Capital		15,000[2]

[1]$25,000 × 2/5 = $10,000
[2]$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	**310,000**
Total equity after admitting Koster	**$850,000**
Koster's equity interest after admission	**× 30%**
Koster's equity after admission	**$255,000**
Contribution by Koster	**$310,000**
Koster's equity after admission	**255,000**
Bonus paid to Douglass and Finn	**$ 55,000**

Douglass: $55,000 × 2/5 = $22,000
Finn: $55,000 × 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	**160,000**
Total equity after admitting Koster	**$700,000**
Koster's equity interest after admission	**× 25%**
Koster's equity after admission	**$175,000**
Contribution by Koster	**160,000**
Bonus paid to Koster	**$ 15,000**

Douglass: $15,000 × 2/5 = $6,000
Finn: $15,000 × 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	50,000
Total equity after admitting Harris	$273,000
Harris's equity interest after admission	× 20%
Harris's equity after admission	$ 54,600
Contribution by Harris	50,000
Bonus paid to Harris	$ 4,600

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	125,000
Total equity after admitting Harris	$348,000
Harris's equity interest after admission	× 30%
Harris's equity after admission	$104,400
Contribution by Harris	$125,000
Harris's equity after admission	104,400
Bonus paid to Whyte and Cunningham	$ 20,600

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

	Jen Wilson, Capital	Teresa McDonald, Capital	Jaime Holden, Capital	Total Partnership Capital
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	(38,400)	(28,600)	(13,000)	(80,000)
Partnership capital, December 31, 2015	$ 83,400	$ 83,600	$ 38,000	$205,000

Admission of Jaime Holden:

Equity of initial partners prior to admission	$100,000
Contribution by Holden	25,000
Total	$125,000
Holden's equity interest after admission	× 20%
Holden's equity after admission	$ 25,000
Contribution by Holden	25,000
No bonus	$ 0

Net income distribution:

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

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

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

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 x 4/5)**

c.

Joe Collins, Capital	26,000	
Heather Catte, Capital	1,600*	
Chris Gilgan, Capital	400	
Cash		28,000

***($2,000 x 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 x 4/6)

b.

Income Summary	100,500	
Terry Constantino, Capital		67,000*
Andrew Morris, Capital		33,500

*($100,500 x 4/6)

Ex. 11–22

a.

	Elena Oprescu	Xiru Wang	Reg Miller	Kendra Batty	Total
Salary allowance	$96,000	$96,000	-	-	$192,000
Remaining income	83,200	83,200	20,800	20,800	208,000
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	(96,000)	
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:

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

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

Or a 3:7 ratio

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

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

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

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	$1,350,000

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	20,000
Loss from sale of noncash assets	$ 4,000

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

*$4,000/2

Ex. 11–25

	Bradley	Barak	Total
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]	7,500	7,500	15,000
Capital balances after sale of assets	33,500	42,500	76,000
Cash distributed to partners	33,500	42,500	76,000
Final balances	$ 0	$ 0	$ 0

Ex. 11–26

a. Deficiency

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

c.

Cash	18,000	
Shen, Capital		18,000

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

Ex. 11–27

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

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

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

	Houston	Alsup	Cross	Total
Capital invested	$ 250	$ 380	$ —	$ 630
Net loss	– 30	– 30	– 30	– 90
Capital balances	$ 220	$ 350	$ 30 Dr.	$ 540

Ex. 11–28

	Hilliard	Downey	Petrov
Capital balances after sale of assets	$(24,000)	$90,000	$64,000
Distribution of partner deficiency	24,000	(16,000)[1]	(8,000)[2]
Capital balances after deficiency distribution	$ 0	$74,000	$56,000

[1]$24,000 × 2/3
[2]$24,000 × 1/3

Ex. 11–29

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

				Capital		
	Cash	+ Inventory	= Liabilities +	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	+ 74,000	– 92,000	—	– 9,000	– 6,000	– 3,000
Balances after sale of assets	129,000	0	40,000	26,000	44,000	19,000
Payment of liabilities	– 40,000	—	– 40,000	—	—	—
Balances after payment of liabilities	89,000	0	0	26,000	44,000	19,000
Cash distributed to partners	– 89,000	—	—	– 26,000	– 44,000	– 19,000
Final balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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)	+	Capital Moore (2/5)	+	Capital 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	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

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

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

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

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

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:**

	Schmidt	Cohen	Total
Interest allowance	$ 4,400[1]	$ 8,000[2]	$12,400
Salary allowance	36,000	22,000	58,000
Remaining income (1:1)	6,800	6,800	13,600
Net income	$47,200	$36,800	$84,000

[1] 10% × $44,000
[2] 10% × $80,000

Prob. 11–2A

	(1) $150,000		(2) $66,000	
Plan	**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)	$ 75,000	$ 75,000	$ 33,000	$ 33,000
b.	Net income (2:3)	$ 60,000	$ 90,000	$ 26,400	$ 39,600
c.	Net income (2:1)	$100,000	$ 50,000	$ 44,000	$ 22,000
d.	Interest allowance	$ 2,000	$ 3,000	$ 2,000	$ 3,000
	Remaining income (3:2)............	87,000	58,000	36,600	24,400
	Net income................................	$ 89,000	$ 61,000	$ 38,600	$ 27,400
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)............	47,000	47,000	5,000	5,000
	Net income................................	$ 83,000	$ 67,000	$ 41,000	$ 25,000
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[1]		3,000[2]	
	Remaining income (1:1)............	37,100	37,100	3,500	3,500
	Net income................................	$ 92,900	$ 57,100	$ 42,500	$ 23,500

[1]20% × ($150,000 – $51,000)
[2]20% × ($66,000 – $51,000)

Prob. 11–3A

1.

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

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

	Sam Frances, Capital	Lynn Madson, Capital	Mike Wang, Capital	Deirdre Manis, Capital
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	(5,790)	(121,625)	(4,435)	(3,750)
Partnership capital, December 31, 2015	$426,776	$278,732	$194,188	$127,744

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

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

Prob. 11–4A Concluded

2.
2015

Dec. 31	Sandra Louis, Capital	33,938	
	Alex Donald, Capital	37,398	
	Amelia Alexis, Capital		3,334
	Income Summary		68,002
	Sandra Louis, Capital	46,402	
	Amelia Alexis, Capital	43,504	
	Alex Donald, Capital	2,772	
	Sandra Louis, Withdrawals		46.402
	Amelia Alexis, Withdrawals		43,504
	Alex Donald, Withdrawals		2,772

3.

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

	Sandra Louis, Capital	Amelia Alexis, Capital	Alex Donald, Capital
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	(46,402)	(43,504)	(2,772)
Partnership capital, December 31, 2015	$ 26,360	$ 18,230	$ 6,030

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	20,200	
Total operating expenses		414,200
Net income		$148,000

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

*$125,000 × 5%
**($160,000 – $20,000) × 5%

2.

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

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

Prob. 11–5A Concluded

3.

WHITE AND WEEKLEY
Balance Sheet
December 31, 2015

Assets		
Current assets:		
Cash	$ 24,200	
Accounts receivable	41,300	
Supplies	6,700	
Total current assets		$ 72,200
Property, plant, and equipment:		
Equipment	500,000	
Less accumulated depreciation	240,600	
Total property, plant, and equipment		259,400
Total assets		$331,600
Liabilities		
Current liabilities:		
Accounts payable	$ 3,400	
Salaries payable	5,200	
Total liabilities		$ 8,600
Partners' Equity		
Ken White, capital	141,125	
Alex Weekley, capital	181,875	
Total partners' equity		323,000
Total liabilities and partners' equity		$331,600

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

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

[1]$9,400 + $35,000
[2]$75,000 + $11,750
[3]$60,000 + $11,750 – $30,000

Prob. 11–7A

1.

	Inventory	24,000	
	Allowance for Doubtful Accounts		5,800
	Noni Fidler, Capital		7,800[1]
	Margot Hess, Capital		5,200[2]
	Susan Culver, Capital		5,200[2]

[1]($24,000 – $5,800) × 3/7
[2]($24,000 – $5,800) × 2/7

2.

a.

2015			
Dec. 31	Noni Fidler, Capital	252,800[1]	
	Cash		52,800
	Notes Payable		200,000

[1]$245,000 + $7,800

b.

2015			
Dec. 31	Noni Fidler, Capital	252,800	
	Cash		45,000
	Notes Payable		200,000
	Margot Hess, Capital		3,900[2]
	Susan Culver, Capital		3,900[2]

[2][$252,800 – ($45,000 + $200,000)] x ½

c.

2015			
Dec. 31	Noni Fidler, Capital	252,800	
	Margot Hess, Capital	1,600[3]	
	Susan Culver, Capital	1,600[3]	
	Cash		56,000
	Notes Payable		200,000

[3][$252,800 – ($56,000 + $200,000)] x 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%)	+ Capital: Sedlacek (25%)	+ Capital: 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

	Cash	+	A/R	=	Liabilities	+	Capital Adams (1/5)	+	Capital Watkis (2/5)	+	Capital Cooper (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 gain	+ 220,000		– 242,000		—		– 4,400		– 8,800		– 8,800
Balances after sale of assets	249,000		0		55,000		9,600		75,200		109,200
Payment of liabilities	– 55,000		—		– 55,000		—		—		—
Balances after payment of liabilities	194,000		0		0		9,600		75,200		109,200
Cash distributed to partners	– 194,000		—		—		– 9,600		– 75,200		– 109,200
Final balances	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

Prob. 11–9A Concluded

1. b.

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

								Capital				
	Cash	+	A/R	=	Liabilities	+	Adams (1/5)	+	Watkis (2/5)	+	Cooper (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	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

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	**1,800**	**22,300**	
Inventory		**48,800**	
Total current assets			**$ 111,900**
Property, plant, and equipment:			
Equipment			**55,100**
Total assets			**$ 167,000**
Liabilities			
Current liabilities:			
Accounts payable		**$ 15,000**	
Notes payable		**25,000**	
Total liabilities			**$ 40,000**
Partners' Equity			
Jarius Walker, capital		**67,000**	
Rae King, capital		**60,000**	
Total partners' equity			**127,000**
Total liabilities and partners' equity			**$ 167,000**

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:**

	Walker	King	Total
Interest allowance	$ 6,700[1]	$ 6,000[2]	$ 12,700
Salary allowance	22,500	30,400	52,900
Remaining income (1:1)	7,200	7,200	14,400
Net income	$ 36,400	$ 43,600	$ 80,000

[1]10% × $67,000
[2]10% × $60,000

Prob. 11–2B

	(1) $105,000		(2) $180,000	
Plan	**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)	$ 52,500	$ 52,500	$ 90,000	$ 90,000
b.	Net income (3:1)	$ 78,750	$ 26,250	$ 135,000	$ 45,000
c.	Net income (1:2)	$ 35,000	$ 70,000	$ 60,000	$ 120,000
d.	Interest allowance	$ 18,000	$ 6,000	$ 18,000	$ 6,000
	Remaining Income (1:1)............	40,500	40,500	78,000	78,000
	Net income............	$ 58,500	$ 46,500	$ 96,000	$ 84,000
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)............			30,000	30,000
	Net income............	$ 42,500	$ 62,500	$ 80,000	$ 100,000
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[1]		16,800[2]
	Excess of allowances over income (1:1)	(8,400)	(8,400)		
	Remaining income (1:1)............			21,600	21,600
	Net income............	$ 41,600	$ 63,400	$ 71,600	$ 108,400

[1]20% × ($105,000 – $96,000)
[2]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	178,956	134,217	89,478	44,739	447,390
Net income	$267,981	$137,967	$91,973	$46,512	$544,433

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	(89,025)	(3,750)	(2,495)	(1,773)
Partnership capital, December 31, 2015	$247,456	$259,217	$139,378	$80,199

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.

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

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

	David Funk	Nathan George	Princess Lafayette
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	(12,804)	(57,008)	(55,544)
Partnership capital, December 31, 2015	$ 46,372	$ 30,761	$ 12,461

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	24,500	
Total operating expenses		190,300
Net income		$150,000

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

*$120,000 × 10%
**($75,000 – $10,000) × 10%

Prob. 11–5B (Concluded)

2.

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

	Shizuka Kikuchi	Kilmeny Jones	Total
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	$ 147,750	$ 87,250	$ 235,000

3.

KIKUCHI AND JONES
Balance Sheet
December 31, 2015

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

Prob. 11–6B

1.	Apr. 30	Inventory	6,480	
		Accumulated Depreciation – Equipment	51,700	
		Equipment	29,000*	
		Accounts Receivable		2,800
		Allowance for Doubtful Accounts		380**
		Sadhil Rao, Capital		42,000
		Lauren Sails, Capital		42,000

*$194,000 – $165,000

**[($38,400 – $2,800) × 5%] – $1,400

2.	May 1	Lauren Sails, Capital	55,000	
		Paige Hancock, Capital		55,000
	1	Cash	30,000	
		Paige Hancock, Capital		30,000

Prob. 11–6B (Concluded)

3.

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

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

[1] $7,500 + $30,000
[2] $110,000 + $42,000
[3] $90,000 + $42,000 – $55,000

Prob. 11–7B

2015			
Dec. 31	**Sandra Brox, Capital**	**2,600[1]**	
	Amelia Donald, Capital	**1,300[2]**	
	Alex Caesar, Capital	**650[3]**	
	Inventory		**1,550**
	Allowance for Doubtful Accounts		**3,000**

[1]($1,550 + $3,000) × 4/7
[2]($1,550 + $3,000) × 2/7
[3]($1,550 + $3,000) × 1/7

1.
a.

2015			
Dec. 31	**Sandra Brox, Capital**	**142,000[1]**	
	Cash		**42,000**
	Notes Payable		**100,000**

[1]$144,600 – $2,600

b.

2015			
Dec. 31	**Sandra Brox, Capital**	**142,000**	
	Amelia Donald, Capital	**2,000[1]**	
	Alex Caesar, Capital	**1,000[2]**	
	Cash		**45,000**
	Notes Payable		**100,000**

[1]($145,000 – $142,000) x 2/3
[2]($145,000 – $142,000) x 1/3

c.

2015			
Dec. 31	**Sandra Brox, Capital**	**142,000**	
	Cash		**36,000**
	Notes Payable		**100,000**
	Amelia Donald, Capital		**4,000[1]**
	Alex Caesar, Capital		**2,000[2]**

[1]($142,000 – $136,000) x 2/3
[2]($142,000 – $136,000) x 1/3

Prob. 11–7B (Concluded)

3.

2016			
Dec. 31	**Income Summary**	**240,000**	
	Amelia Donald, Capital		**160,000**
	Alex Caesar, Capital		**80,000**
	Amelia Donald, Capital	**84,000**	
	Alex Caesar, Capital	**60,000**	
	Amelia Donald, Withdrawals		**84,000**
	Alex Caesar, Withdrawals		**60,000**

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	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

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

	Cash	+	Equip.	=	Liabilities	+	Capital Orson (2/5)	+	Capital Dorr (2/5)	+	Capital 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 gain	+ 195,000		– 155,000		—		+ 16,000		+ 16,000		+ 8,000
Balances after sale of assets	204,000		0		42,000		64,000		79,000		19,000
Payment of liabilities	– 42,000		—		– 42,000		—		—		—
Balances after payment of liabilities	162,000		0		0		64,000		79,000		19,000
Cash distributed to partners	– 162,000		—		—		– 64,000		– 79,000		– 19,000
Final balances	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

Prob. 11–9B Concluded

1. b.

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

							Capital				
	Cash	+	Equip.	=	Liabilities	+	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	$ 0		$ 0		$ 0		$ 0		$ 0		$ 0

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.**