Solution Manual for Accounting Volume 2 Canadian 9th Edition Horngren Harrison Johnston 013269008X 9780132690089
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Solution Manual:

Chapter 12 – Partnerships

Questions

1. Nine items that the partnership agreement should specify are (only eight are required):
    1. Name, location, and nature of the business.
    2. Names, capital investments, and duties of each partner.
    3. Method of sharing profits and losses by the partners.
    4. Withdrawals allowed to the partners.
    5. Procedures for settling disputes among the partners.
    6. Procedures for admitting new partners.
    7. Procedures for settling up with a partner who withdraws from the business.
    8. Procedures for liquidating the partnership.
    9. Procedures for removing a partner who will not withdraw or retire from the partnership voluntarily.
2. *Mutual agency* describes a partner's ability to obligate the business to a contract.
3. If the partnership cannot pay a debt, the partners must. *Unlimited liability* describes this personal obligation of the partners.
4. A partnership pays no income tax on its business income. Partners pay income tax as individuals on their shares of partnership income.
5. The great *advantage* of a partnership is that it combines the capital, talents, and experience of two or more persons. Also, a partnership pays no business income tax.

    A disadvantage is that as partners enter and leave the business, the partnership must be dissolved and reformed. Drawing up a new partnership agreement for each new partnership may be expensive and time consuming. However, the principal disadvantages of a partnership are mutual agency and the unlimited personal liability of partners for business debts. A dishonest or unwise partner can cause trouble—even the financial ruin of the other partners.

6. Partners share losses in the same ratio that they share profits if the partnership agreement does not discuss sharing the losses. If the agreement specifies no profit-and-loss ratio, the partners share profits and losses equally.
7. The current market value of the assets contributed to a partnership determines the amount of the credit to the partner's capital account.
8. Partner withdrawals of cash for personal use do *not* affect the sharing of profits and losses by the partners. Their shares of profits and losses are based on the profit-and-loss ratio, which is determined separately from their cash withdrawals.
9. Four events dissolve a partnership: withdrawal of a partner, death of a partner, admission of a new partner, and liquidation of a partnership. *Note:* Students need name only two of these events.
10. The partnership debits the withdrawing partner's capital account and credits the new partner's capital account. The dollar amount of this entry is the withdrawing partner's capital balance, not the amount of cash paid. This is basically a name change on the capital account.
11. Malcolm obtains the right to share in the profits and losses of the partnership. Malcolm must gain Conners' approval before becoming a partner.
12. Partnership capital before Kaur is admitted

($150,000 + $150,000)	$300,0
Kaur's investment in the partnership	100,000
Partnership capital after Kaur is admitted	$400,000
Kaur's capital in the partnership ($400,000 × 1/5)	$ 80,000
Kaur, Capital	$ 80,000
Assissi, Capital [$150,000 + 0.55 × ($100,000 – $80,000)]	161,000
Zahari, Capital [$150,000 + 0.45 × ($100,000 – $80,000)]	
Total partnership capital	$400,000

13. When a partner resigns from the partnership and receives assets greater than her or his capital balance, the difference is shared by the other partners based on their profit-and-loss ratio, and their capital balances are reduced (debited).
14. *Dissolution* is the termination of a partnership. Dissolution may occur because of the admission of a new partner, the withdrawal or death of an existing partner, or the liquidation of the business. *Liquidation* is the process of going out of business by selling the assets, paying all business debts, and paying any remaining cash to the owners.
15. The three steps in liquidating a partnership are (1) selling the assets of the entity, (2) paying its liabilities, and (3) paying any remaining cash to the partners.

16. Ralls and Sauls share (a) gains and losses on the sale of noncash assets based on their profit-and-loss ratio and (b) the final cash distribution based on their capital balances.

17. A partnership *balance sheet* reports partner capital for each partner. A partnership *statement of owners' equity* shows the changes in partner capital for each of the partners. A partnership *income statement* includes a section showing the division of net income to the partners. Otherwise, partnership financial statements are much like those of a proprietorship.
18. All net income or net loss and all gains and losses on the sale of assets are allocated based on the profit-and-loss ratio. This includes bonuses to partners when new partners are admitted, capital adjustments arising from asset revaluations when partners withdraw from the business, and capital deficiencies in liquidation. The only allocation that is based on the partners' capital balances is the disbursement of assets to partners, such as in Step 3 in a liquidation.

Starters

(5 min.) **S 12-1**

1. Yes I would recommend a partnership structure for this situation. Since SAC Bookeeping is likely not making a profit yet, there is no tax advantage to spending the money to incorporate. This form of organization will give Sarah, Alisha, and Connie a chance to see if they can work together and make this business a success.They can incorporate later if necessary.

2. Yes, the partnership form of business organization is appropriate in this situation because a law practice or professional association is not entitled to incorporate and limit liability to the public. Lawyers must use the partnership form of organization. However each partner could form a personal corporation and have their salary paid to that individual company. The corporation may be able to pay tax at a lower rate than an individual depending on the type of corporation created.
3. Yes, I would recommend starting out as a partnership to determine if this will be a synergistic arrangement. The partnership is not profitable yet, so there is no tax advantage to incur the cost of incorporating, which can be done later if necessary.

(10 min.) **S 12-2**

A & Q Partnership

Statement of Owners' Equity

For the Year Ended December 31, 2014

	Asanti	**Quall**
Capital, January 1, 2014	$45,000	$60,000
+ Investments	10,000	10,000
+ Net income for the year	33,900	22,100
Subtotal	88,900	92,100
- Withdrawals	12,000	12,000
Capital, December 31, 2014	$76,900	$80,100

(5-10 min.) **S 12-3**

1. Abel: $4,000 × ½ = $2,000
   Baker: $4,000 × ½ = $2,000

2. Abel $40,000 + $15,000+ $10,000 - $20,000 = $45,000
   Baker $ 10,000 + $50,000 = 60,000

Abel, Capital

Loss	2,000		45,000
		Bal.	43,000

Baker, Capital

Loss	2,000		60,000
		Bal.	58,000

(10 min.) **S 12-4**

	Friesen	Walters	Onley	Total
Total net income				$94,000
a. Sharing of first $40,000 of net income based on capital investments:				
Friesen ([$12,000 / $24,000] × $40,000)	$ 20,000			
Walters ([$6,000 / $24,000] × $40,000)		$10,000		
Onley ([$6,000 / $24,000] × $40,000)			$10,000	
				40,000
Total				
Net income remaining for allocation				$54,000
b. Sharing of next $30,000 based on service:				
Friesen .... ($30,000 × ½)	15,000			
Onley ($30,000 × ½)			15,000	
				30,000
Total				
Net income remaining for allocation				24,000
c. Remainder shared equally:				
Friesen .... ($24,000 × ⅓)	8,000			
Walters .... ($24,000 × ⅓)		8,000		
Onley ($24,000 × ⅓)			8,000	
Total				24,000
Net income remaining for allocation				$ 0
Net income allocated to the partners...................................	~~$43,000~~	~~$18,000~~	$33,000	$94,000

(5-10 min.) **S 12-5**

Bosch and Cutler			
Income Statement			
For the Year Ended September 30, 2014			
Service revenue			$ 145,000
Total expenses			85,000
Net income			$ 60,000
Allocation of net income:			
To Bosch	($60,000 × 0.60)	$ 36,000	
To Cutler	($60,000 × 0.40)	24,000	$ 60,000

Bosch, Capital

		Balance	30,000
Withdrawals	0	Net income	36,000
		Ending balance	66,000

Cutler, Capital

		Balance	10,000
Withdrawals	0	Net income	24,000
		Ending balance	34,000

(5-10 min.) **S 12-6**

Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Carlson, Capital		50,000	
		Reynaldo, Capital			50,000
		To admit Reynaldo as a partner.			

Carlson keeps the $150,000 difference between Reynaldo's payment ($200,000) and Carlson's capital balance ($50,000). This is a personal gain to Carlson.

Req. 1

There is no bonus to any partner, as shown here:
Partnership capital before Gray is admitted

($60,000 + $80,000)	$140,000
Gray’s investment in the partnership	70,000
Partnership capital after Gray is admitted	$210,000
Gray’s capital in the partnership—same as her investment; no bonus $210,000 × ⅓)	$ 70,000

Req. 2

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Cash		70,000	
		Joan Gray, Capital			70,000
		To admit Gray as a partner with a ⅓ interest			
		in the business.			

(10 min.) **S 12-8**

Partnership capital before Mo is admitted ($115,000 + $75,000)	$190,000
Mo's investment in the partnership	70,000
Partnership capital after Mo is admitted	$260,000
Mo's capital in the partnership ($260,000 × 0.25)	$65,000
Bonus to Bo and Go ($70,000 - $65,000)	$ 5,000

Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Cash		70,000	
		Bo, Capital ($5,000 × 60%)			3,000
		Go, Capital ($5,000 × 40%)			2,000
		Mo, Capital			65,000
		To admit Mo as a partner with a 25% interest			
		in the business.			

(5-10 min.) **S 12-9**

Chapman can take assets of $50,000, which is the amount of Chapman's capital balance in the assets of the business. The profit-and-loss ratio is not used because the business is distributing assets to an owner. The business is not dividing profits or losses among the partners.

(10-15 min.) **S 12-10**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	July 31	Land ($70,000 – $50,000)		20,000	
		Simpson, Capital ($20,000 ×¼)			5,000
		Locke, Capital ($20,000 ×½)			10,000
		Job, Capital ($20,000 ×¼)			5,000
		To revalue the land and allocate the gain to			
		the partners.			
b.	July 31	Simpson, Capital ($25,000 + $5,000)		30,000	
		Cash			30,000
		To record withdrawal of Simpson from the			
		partnership.			

(10 min.) **S 12-11**

	Cash	+	Noncash assets	=	Liabilities	Capital Lauren +(60%)	Capital Andrews +(20%)	+	Capital Benroudi(20%)
Balance before sale of assets	$10,000		$90,000		$30,000	$40,000	$20,000		$10,000
Sale of assets and sharing of loss*	80,000		(90,000)			(6,000)	(2,000)		(2,000)
Balances	90,000		0		30,000	34,000	18,000		8,000
Payment of liabilities	(30,000)				(30,000)				
Balances	60,000		0		0	34,000	18,000		8,000
Disbursement of cash to partners	(60,000)					(34,000)	(18,000)		(8,000)
Balances	$ 0		$ 0		$ 0	$ 0	$ 0		$ 0

*Loss = $90,000 – $80,000 = $10,000

Lauren: $10,000 × 0.60 = $6,000

Andrews: $10,000 × 0.20 = $2,000

Benroudi: $10,000 × 0.20 = $2,000

(10 min.) **S 12-12**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Cash		80,000	
		Lauren, Capital		6,000	
		Andrews, Capital		2,000	
		Benroudi, Capital		2,000	
		Noncash Assets			90,000
		To sell assets at a loss.			
		Liabilities		30,000	
		Cash			30,000
		To pay liabilities.			
		Lauren, Capital		34,000	
		Andrews, Capital		18,000	
		Benroudi, Capital		8,000	
		Cash			60,000
		To pay the partners in final liquidation of the			
		business.			

(5-10 min.) **S 12-13**

The partners have two options to deal with a negative capital balance in a liquidation:

1. If the partner has personal assets, then that partner would pay in the balance, is released from further obligation, and the other partners would receive their remaining amounts. In this case,Benroudi would pay in the $8,000 and then the other partners, Lauren and Andrews, would receive $34,000 and $18,000 respectively.
2. If the partner does not have personal assets, then that partner's balance would be absorbed using the profit-and-loss-sharing ratio. Benroudi would not be released from further obligation and could be sued personally by the other partners. The partners would then receive their remaining amounts. In this case,Benroudi's balance would be absorbed by Lauren ($6,000) and Andrews ($2,000) and then the other partners, Lauren and Andrews, would receive $28,000 ($34,000 – 6,000) and $16,000 ($18,000 - $2,000) respectively.

Exercises

(5-10 min.) **E 12-1**

Giltrow'serrors were:

1. A partner has *unlimited* personal liability for the obligations of the partnership. Therefore partnerships are very risky for a partner, especially because each partner can bind the business to a contract within the scope of the partnership's normal operations.
2. A partner cannot necessarily take from the business the same assets that he or she invested at the beginning. If the business fails, a partner may lose some or all of the assets he or she invested.
3. Partnerships pay no business income tax, so they are not subject to double taxation. Instead, all the profits of a partnership are divided among the partners, who then pay personal income tax on their share of the business's net income.

(10-15 min.) **E 12-2**

The main advantage of organizing a business as a partnership, rather than as a proprietorship, is the ability to bring together the capital, talents, and experiences of the partners. Two or more owners can provide more capital than can a single owner. Like a proprietorship, the partnership pays no business income tax. Instead, the partnership income is taxed as personal income to the partners.

The partnership form of business has some disadvantages. Partnerships are somewhat like marriages. Euphoria at the start of the venture can turn sour if the partners do not get along well. Each partner can bind the business to a contract that gives every partner unlimited personal liability for the debts of the business if it cannot pay. One partner making some mistakes or acting in an undesirable manner can create losses for the other partner(s). In the extreme case, a partner may grow disenchanted with participation in the business. If a partner leaves the business, the old partnership dies, and reorganization becomes necessary. Preparing a partnership agreement can consume a great deal of time and energy but is definitely worth it to protect the parties engaged in this business arrangement.

(10 min.) **E 12-3**

1.

General Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Cash		3.0	
		Land		30.0	
		Note Payable			6.0
		Jackson Cooke, Capital			27.0
		To record Cooke's investment in the			
		partnership.			
		Cash		15.0	
		Equipment		8.0	
		Julia Bamber, Capital			23.0
		To record Bamber's investment in the			
		partnership.			

2. (All amounts in millions)

Total assets	\$3 + \$30 + \$15 + \$14 – \$6 =	\$56
Total liabilities:	\$6	
Total owners' equity:	\$56 – \$6	= \$50

(10-15 min.) **E 12-4**

General Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	1	Cash		88,000	
		Accounts Receivable		50,000	
		Office Furniture ($14,000 – $4,000)		10,000	
		Building		310,000	
		Allowance for Uncollectible Accounts			12,000
		Accounts Payable			18,000
		Note Payable			44,000
		Accrued Expenses Payable			8,000
		Janice Partington, Capital			376,000
		To record Partington's investment in the			
		partnership.			

(15-20 min.) **E 12-5**

Partners' shares of net income and net loss:

	NET INCOME (NET LOSS)		
	DANOLO	GOLDMAN	TOTAL
a. Half to each partner	$(62,400)	$(62,400)	$(124,800)
b. Danolo ($96,000/$264,000 × $105,600)	$ 38,400		
Goldman ($168,000/$264,000 × $105,600)		$67,200	$ 105,600
c. Total net income			$264,000
Sharing of first $132,000 based on capital balances:			
Danolo ($96,000/$264,000 × $132,000)	$48,000		
Goldman ($168,000/$264,000 × $132,000)		$84,000	132,000
Net income left for allocation			132,000
Sharing based on service:			
Danolo ($100,000 × 0.40)	40,000		
Goldman ($100,000 × 0.60)		60,000	100,000
Net income left for allocation			32,000
Balance shared equally:			
Danolo ($32,000 × 0.5)	16,000		
Goldman ($32,000 × 0.5)		16,000	32,000
Net income left for allocation			$ 0
Net income allocated to the partners	$104,000	$160,000	$264,000

(5-10 min.) **E 12-6**

General Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Income Summary		264,000	
		Ken Danolo, Capital			104,000
		Jim Goldman, Capital			160,000
	b.	Ken Danolo, Capital		148,000	
		Ken Danolo, Withdrawals			148,000
		Jim Goldman, Capital		120,000	
		Jim Goldman, Withdrawals			120,000

Danolo'*s* capital balance decreased by $44,000 (withdrawals of $148,000 exceeded net income of $104,000).*Goldman*'s capital balance increased by $40,000 (net income of $160,000 exceeded withdrawals of $120,000). *Overall*, partnership capital decreased by $4,000 because net income of $264,000 fell short of partner withdrawals of $268,000 ($148,000 + $120,000).

(5-10 min.)**E 12–7**

Equity of Goertz	$30,000
Neilson's contribution	17,000
Total equity	$47,000
Neilson's equity interest	× 30%
Neilson's equity after admission	$14,100

Neilson's contribution = $17,000 - $14,100 = $2,900 bonus paid to Goertz.

(10-15 min.) **E 12-8**

Partners' equity in the partnership:

a. Wang's balance	$39,500
Wird's balance	79,000
Bales' balance	0
b. Partnership capital before Wang is admitted ($79,000 +	$118,500
$39,500) Wang's investment	39,500
Partnership capital after Wang is admitted	158,000
Wang's capital in the partnership ($158,000	$39,500
× 1/4) Wird's capital in the partnership	79,000
Bales' capital in the partnership	39,500
Total partnership capital	$158,000
c. Partnership capital before Wang is admitted ($79,000 +	$118,500
$39,500) Wang's investment	71,500
Partnership capital after Wang is admitted	$190,000
Wang's capital in the partnership ($190,000 × 1/4)	$47,500
Wird's capital in the partnership $79,000 + [($71,500 – $47,500) × 1/2]	91,000
Bales' capital in the partnership $39,500 + [($71,500 – $47,500) × 1/2]	51,500
Total partnership capital	$190,000

2.

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Alan Bales, Capital		39,500	
		Joanna Wang, Capital			39,500
	b.	Cash		39,500	
		Joanna Wang, Capital			39,500
	c.	Cash		71,500	
		Joanna Wang, Capital			47,500
		Tanya Wird, Capital ($24,000× 1/2)			12,000
		Alan Bales, Capital ($24,000× 1/2)			12,000

(10-15 min.) **E 12-9**

1. The profit-and-loss-sharing ratio is Harry 40 percent($20,000 ÷ $50,000), Sunny 60 percent ($30,000 ÷ $50,000).

2. $50,000

3. Amin received a 20 percent interest. ($175,000 + $50,000 = $225,000; $45,000 ÷ $225,000 = 20 percent.)

4. Harry and Sunny received bonuses. The bonus was $5,000 ($50,000 - $45,000 = $5,000). Harry’s share of the bonus was $2,000 (40% of $5,000) and Sunny’s share was $3,000 (60% of $5,000).

5. Harry 10 percent ($8,000 ÷ $80,000), Sunny 70 percent ($56,000 ÷ $80,000), and Amin 20 percent ($16,000 ÷ $80,000).

(5-10 min.) **E 12-10**

1. Stihl's owner's equity before asset write-down	$40,500
Stihl's share of asset write-down ($18,000 × 1/3)	6,000
Stihl receives assets of	$34,500
2. Laksa's owner's equity before asset write-down	$54,000
Laksa's share of asset write-down ($18,000 × 2/3)	(12,000)
Laksa's owner's equity after asset write-down	$ 42,000

(10-15 min.) **E 12-11**

General Journal

	DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	May	31	Bruno, Capital ($24,000 ×2/10)		4,800	
			Teale, Capital ($24,000 ×4/10)		9,600	
			White, Capital ($24,000 ×4/10)		9,600	
			Inventory			24,000
			To revalue the inventory and allocate the			
			loss in value to the partners.			
		31	Land		96,000	
			Bruno, Capital ($96,000 ×2/10)			19,200
			Teale, Capital ($96,000 ×4/10)			38,400
			White, Capital ($96,000 ×4/10)			38,400
			To revalue the land and allocate the			
			gain in value to the partners.			
b.	May	31	Bruno, Capital		122,400	
			($108,000 – $4,800 + $19,200)			
			Teale, Capital ($27,600* × 1/2)		13,800	
			White, Capital ($27,600* × 1/2)		13,800	
			Cash			150,000
			To record withdrawal of Bruno from the			
			partnership.			

* Bruno received partnership cash $150,000	$ 150,000
Bruno's capital balance at time of withdrawal	(122,400)
Loss to be shared by the other partners	$ 27,600

(5-10 min.) **E 12-12**

1. Each partner receives cash equal to his or her capital balance because cash ($115,000) equals total partnership capital:

Jonas	$ 57,500
Teese	34,500
Moyer	23,000
..................................Total	$115,000

2. This company splits losses equally among the three owners. There is a $12,000 loss, so each owner loses $4,000. Therefore,

   Jonas receives cash of $53,500 ($57,500 – [($115,000 – $103,000) × 1/3]). Teese received cash of $30,500 ($34,500 – [($115,000 – $103,000) × 1/3]). Moyer receives cash of $19,000 ($23,000 – [($115,000 – $103,000) × 1/3]).

Summary of liquidation transactions: *(15-20 min.)* **E 12-13**

				CAPITAL		
		NONCASH		Garcia	Woods	Mickelson
	CASH +	ASSETS =	LIABILITIES	+ (40%)	+ (30%)	+ (30%)
Balances before sale of assets	$ 10,000	$62,500	$26,500	$ 20,000	$ 15,000	$ 11,000
Sale of assets and sharing of gain	78,500	(62,500)		6,400*	4,800*	4,800*
Balances	88,500	0	26,500	26,400	19,800	15,800
Payment of liabilities	(26,500)		(26,500)			
Balances	62,000	0	0	26,400	19,800	15,800
Disbursement of cash to partners	(62,000)			(26,400)	(19,800)	(15,800)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of gain to partners:

Gain:	$78,500 – $62,500	=	$ 16,000
Garcia:	$16,000 × 0.40	=	$ 6,400
Woods:	$16,000 × 0.30	=	$ 4,800
Mickelson:	$16,000 × 0.30	=	$ 4,800

(15-20 min.) **E 12-14**

	A	B	C	D	E	F
1	Linus, Lebrun, and Beale					
2	Sale of Noncash Assets					
3	(For $280,000)					
4						
5		Noncash		Shelly Linus	Peter Lebrun	Cathy Beale
6	Cash	Assets	Liabilities	Capital	Capital	Capital
7						
8	$ 12,000	$252,000	$154,000	$24,000	$74,000	$ 12,000
9	280,000	(252,000)		5,600	8,400	14,000
10						
11	$ 292,000	$ 0	$154,000	$29,600	$82,400	$26,000
12						

(15-20 min.) **E 12-15**

Kerr and Monroe Consulting	
Balance Sheet	
January 31, 2014	
ASSETS	
Cash	$132,350
Accounts receivable	54,900
Inventory	7,713
Supplies	1,100
Prepaid rent	2,000
Equipment	12,000
Accumulated amortization—equipment	(66)
Furniture	10,000
Accumulated amortization—furniture	(200)
Total assets	$219,797
LIABILITIES	
Accounts payable	$ 30,700
Salary payable	1,400
Unearned service revenue	1,333
Notes payable	50,000
Total liabilities	$ 83,433
CAPITAL	
Alex Kerr, capital	$ 36,364
Jill Monroe, capital	100,000
Total liabilities and capital	$219,797

1.

Austin and Mundy	
Balance Sheet	
December 31, 2014	
ASSETS	
Cash	$ 55,000
Accounts receivable (net)	135,000
Inventory	410,000
Capital assets (net)	825,000
Total assets	$1,425,000
LIABILITIES	
Accounts payable	$ 170,000
Accrued expenses payable	20,000
Notes payable	275,000
Total liabilities	465,000
CAPITAL	
Jim Austin, capital	480,000*
Mike Mundy, capital	480,000*
Total liabilities and capital	$1,425,000

Note: All amounts are the sum of the current *market* values of the assets, liabilities, and capital of the two proprietorships. For example, Cash of $55,000 = $30,000 + $25,000 and accounts receivable (net) of $135,000 = $100,000 + $35,000.

* Total assets		–	Total liabilities	=	Partner capital
Austin:	$885,000	–	($120,000 + $10,000 + $275,000)	=	$480,000
Mundy:	$540,000	–	($50,000 + $10,000)	=	$480,000

2.

Austin…………	$480,000
Mundy…………	480,000
Allen……………	212,000
Total……………	1,172,000

¼ of $1,172,000 $293,000

Therefore, bonus to new partner = $293,000 - $212,000 = $81,000

General Journal					
DATE 2015		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan	1	Cash		212,000	
		Jim Austin (0.60× $293,000 – $212,000)		48,600	
		Mike Mundy (0.40× $293,000 – $212,000)		32,400	
		John Allen, Capital			293,000

3. The old partnership agreement with Jim and Mike will have to be dissolved and a new agreement formed to include John. During the formation of the new agreement, a new profit-and-loss-sharing formula will be agreed upon.

Beyond the Numbers

(20-30 min.) **BN 12-1**

Req. 1

Areas of dispute that might be resolved by a partnership agreement (only five are required)

a. Method of sharing profits and losses by the partners
b. Withdrawals of assets by the partners
c. Procedures for settling disputes between the partners
d. Procedures for admitting new partners
e. Procedures for settling up with a partner who withdraws from the business or dies
f. Procedures for liquidating the partnership.
g. Procedures for removing a partner who will not withdraw or retire from the partnership voluntarily.

Req. 2

The unlimited personal liability of a partner for all the liabilities of the business makes it wise to select a partner with more wealth than you. That way, if the partnership falls into debt, your partner can help meet these obligations. If you are richer than your partner, most of the business's debts could be your responsibility to pay.

Req. 3

To convert her share of partnership assets to cash, Clamath can:

a. Sell her share to existing partners (same as withdrawing from the partnership)
b. Sell her share to an outsider if the remaining partners agree to admit the person. That person will obtain Clamath's share of the business's net assets, profits, and losses.

Ethical Issue

Req. 1

Correct entry:	Feng Li, Withdrawals	3,000	
	Inventory		3,000

Req. 2

Li' action appears *unethical* because she took merchandise costing $3,000 and did not record it properly. Her entry labels the cost of the inventory as expense. Instead, it was a personal withdrawal. Liappears to be stealing from her partner. She is also reducing the taxes payable to the government illegally.

The owners seem to keep their work, earnings, and withdrawals relatively even. Small, roughly equal withdrawals of inventory for personal use maintain fairness to both owners. However, $3,000 appears significant and should be recorded as a withdrawal. The partners should agree on the value of inventory that could be taken without charge.

Problems

Group A

Req. 1 (partner investments) *(15-20 min.)* **P 12-1A**

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	1	Accounts Receivable		20,000	
		Inventory		62,000	
		Prepaid Expenses		12,000	
		Store Equipment		52,000	
		Accounts Payable			40,000
		Vince Sharma, Capital			106,000
		To record Sharma's investment in the			
		partnership.			
	1	Cash		106,000	
		KlausWarsteiner, Capital			106,000
		To record Warsteiner's investment in the			
		partnership.			

Req. 2 (initial balance sheet)

Sharma and Warsteiner
Balance Sheet
January 1, 2014

ASSETS		LIABILITIES	
Cash	$ 106,000	Accounts payable	$ 40,000
Accounts receivable	20,000		
Inventory	62,000	CAPITAL	
Prepaid expenses	12,000	Vince Sharma, capital	106,000
Store equipment	52,000	Klaus Warsteiner, capital	106,000
Total assets	$ 252,000	Total liabilities and capital	$ 252,000

Req. 3

Sharma and Warsteiner				
Partnership Capital Balances				
December 31, 2014				
	SHARMA	WARSTEINER		TOTAL
a. Beginning capital balance	$106,000	$106,000		$212,000
Allocate income to partners:				
Sharma ($432,000 × 0.70)	302,400			
Warsteiner($432,000×0.30)		129,600		432,000
Withdrawals	(172,800)	(128,000)		(300,800)
Ending capital balance	$235,600	$107,600		$343,200

Req. 1 *(20-25 min.)* **P**

12-2A

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	31	Brian Harmon, Capital		40,000	
		Ben Peller, Capital			40,000
		To transfer Harmon's equity to Peller.			

Req. 2

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	31	Cash		30,000	
		Ben Peller, Capital			30,000
		To admit Peller as a partner with a one-quarter interest in the business.			
		Partnership capital before Peller is			
		admitted ($20,000 + $30,000 + $40,000)			~~$90,000~~
		Peller's investment in the partnership			~~30,000~~
		Partnership capital after Peller is admitted			$120,000
		Peller's capital in the partnership			
		($120,000 × 1/4)			$ 30,000

P 12-2A General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	31	Cash		30,000	
		Ben Peller, Capital			20,000
		Eleanor Craven, Capital ($10,000 × 20%)			2,000
		Amy Osler, Capital ($10,000 ×30%)			3,000
		Brian Harmon, Capital ($10,000 ×50%)			5,000
		To admit Peller as a partner with a			
		one-sixth interest in the business.			
		Partnership capital before Peller is			
		admitted ($20,000 + $30,000 + $40,000)			$90,000
		Peller’s investment in the partnership			30,000
		Partnership capital after Peller is admitted			$120,000
		Peller’s capital in the partnership			
		($120,000 × 1/6)			$ 20,000

Bonus to other partners:

$30,000 – $20,000 = $10,000

Req. 1 *(profit and loss allocations)* *(25-30 min.)* **P 12-3A**

Sasso, Schwimmer, and Perry				
Allocation of Profits and Losses				
	SASSO	SCHWIMMER	PERRY	TOTAL
a. Total (net loss)				
$(70,500) Allocation to the partners:				
Sasso ($70,500 × 0.45)	$(31,725)			
Schwimmer ($70,500 × 0.35)		$(24,675)		
Perry ($70,500 × 0.20)			$(14,100)	
Total				
$(70,500) Net loss left for allocation				
$ 0				
Net loss allocated to partners	$(31,725)	$(24,675)	$(14,100)	$(70,500)

(Continued on next page)

Sasso, Schwimmer, and Perry
Allocation of Profits and Losses

	SASSO	SCHWIMMER	PERRY	TOTAL
b. Total net income				$136,500
Allocation to the partners:				
Sharing of first $45,000				
profit based on capital				
investments:				
Sasso ($60,000/				
$360,000 × $45,000)	$7,500			
Schwimmer ($120,000/				
$360,000 × $45,000)		$15,000		
Perry ($180,000/				
$360,000 × $45,000)			$22,500	
Total				45,000
Net income left for allocation				91,500
Sharing of next $75,000				
of profit based on service:				
Sasso	45,000			
Schwimmer		30,000		
Total				75,000
Net income left for				
allocation				16,500
Remainder shared equally:				
Sasso ($16,500 × 1/3)	5,500			
Schwimmer ($16,500 × 1/3)		5,500		
Perry ($16,500 × 1/3)			5,500	
Total				16,500
Net income left for allocation				0
Net income allocated to				
partners	$58,000	$50,500	$28,000	$136,500

Sasso, Schwimmer, and Perry				
Allocation of Profits and Losses				
	SASSO	SCHWIMMER	PERRY	TOTAL
c. Total net income (loss)				$(136,500)
Allocation to the partners:				
Sharing of first $45,000				
profit based on capital				
investments:				
Sasso ($60,000/				
$360,000 × $45,000)	$7,500			
Schwimmer ($120,000/				
$360,000 × $45,000)		$15,000		
Perry ($180,000/				
$360,000 × $45,000)			$22,500	
Total				(45,000)
Net income left for allocation				(181,500)
Sharing of next $75,000				
of profit based on service:				
Sasso	45,000			
Schwimmer		30,000		
Total				(75,000)
Net income left for				
allocation				(256,500)
Remainder shared equally:				
Sasso ($256,500 × 1/3)	(85,500)			
Schwimmer ($256,500 × 1/3)		(85,500)		
Perry ($256,500 × 1/3)			(85,500)	
Total				256,500
Net income left for allocation				0
Net income allocated to				
partners	$(33,000)	$(40,500)	$(63,000)	$(136,500)

Req. 2 (partnership income statement)

Sasso, Schwimmer, and Perry	
Income Statement	
For the Year Ended September 30, 2014	
Sales revenue	$ 858,000
Expenses	721,500
Net income	$ 136,500
Allocation of earnings:	
Sheila Sasso	$ 58,000
Karen Schwimmer	50,500
Jim Perry	28,000
Total	$ 136,500

Req. 3

This problem will help students learn to allocate partnership profits and losses to the partners. This allocation is important because one of the main points of contention among partners is the sharing of profits and losses. Learning this material should help partners design an agreement that is understandable. In turn, that may help the partners avoid disagreements.

Req. 1 (20-25 min.) **P**

12-4A

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Karen Tenne, Capital		248,000	
		Michael Adams, Capital			248,000
		To record transfer of Tenne's equity in			
		the partnership to Adams.			

Req. 2

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Karen Tenne, Capital		248,000	
		Cash			72,000
		Note Payable to Karen Tenne			176,000
		To record withdrawal of Tenne from the			
		partnership.			

12-4A

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Karen Tenne, Capital		248,000	
		Frank Durn, Capital ($12,000 × 4/7)		6,857	
		Erin Hana, Capital ($12,000 × 3/7)		5,143	
		Cash			260,000
		To record withdrawal of Tenne from			
		the partnership.			

Req. 4

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Equipment ($548,000 – $328,000)		220,000	
		Karen Tenne, Capital ($220,000 × 0.30)			66,000
		Frank Durn, Capital ($220,000 × 0.40)			88,000
		Erin Hana, Capital ($220,000 × 0.30)			66,000
		To revalue the equipment and allocate the			
		gain in value to the partners.			
Dec.	31	Karen Tenne, Capital ($248,000 + $66,000)		314,000	
		Cash			44,000
		Inventory			270,000
		To record withdrawal of Tenne from the			
		partnership.			

Req. 1a *(35-45 min.)* **P 12-5A**

Malkin, Neale, and Staal
Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	MALKIN + (20%)	NEALE + (40%)	STAAL + (40%)
				CAPITAL		
Balances before sale of assets	$ 41,000	$367,000	$151,000	$57,500	$158,500	$ 41,000
Sale of assets and sharing of gain	420,000	(367,000)		10,600*	21,200*	21,200*
Balances	461,000	0	151,000	68,100	179,700	62,200
Payment of liabilities	(151,000)		(151,000)			
Balances	310,000	0	0	68,100	179,700	62,200
Disbursement of cash to partners	(310,000)			(68,100)	(179,700)	(62,200)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of gain to partners:

Gain:	\$420,000 – \$367,000	=	\$53,000
Malkin:	$53,000 × 0.20	=	$10,600
Neale:	$53,000 × 0.40	=	$21,200
Staal:	$53,000 × 0.40	=	$21,200

Req. 1b *(continued)* **P 12-5A**

Malkin, Neale, and Staal
Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	CAPITAL MALKIN + (20%)	NEALE + (40%)	STAAL + (40%)
Balances before sale of assets	$ 41,000	$367,000	$151,000	$ 57,500	$158,500	$ 41,000
Sale of assets and sharing of loss	338,000	(367,000)		(5,800)*	(11,600)*	(11,600)*
Balances	379,000	0	151,000	51,700	146,900	29,400
Payment of liabilities	(151,000)		(151,000)			
Balances	228,000	0	0	51,700	146,900	29,400
Disbursement of cash to partners	(228,000)			(51,700)	(146,900)	(29,400)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$338,000 – $367,000	= $ 29,000
Malkin:	$29,000 × 0.20	= $ 5,800
Neale:	$29,000 × 0.40	= $11,600
Staal:	$29,000 × 0.40	= $11,600

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Cash		338,000	
		Loss on Disposal		29,000	
		Noncash Assets			367,000
		To record net loss on disposal of			
		noncash assets.			
	31	Lisa Malkin, Capital		5,800	
		John Neale, Capital		11,600	
		Brian Staal, Capital		11,600	
		Loss on Disposal			29,000
		To transfer net losses to partners' capital			
		accounts.			
	31	Liabilities		151,000	
		Cash			151,000
		To pay liabilities in liquidation.			
	31	Lisa Malkin, Capital		51,700	
		John Neale, Capital		146,900	
		Brian Staal, Capital		29,400	
		Cash			228,000
		To distribute cash to partners in liquidation.			

Req. 1a *(30-40 min.)* **P 12-6A**

Telliher, Bachra, and Lang

Summary of Liquidation Transactions

				CAPITAL		
	CASH +	NONCASH ASSETS =	LIABILITIES	TELLIHER + (60%)	BACHRA + (20%)	LANG + (20%)
Balances before sale of assets	$ 6,750	$118,800	$28,350	$ 46,600	$30,000	$ 20,600
Sale of assets and sharing of loss	36,300	(118,800)		(49,500)*	(16,500)*	(16,500)*
Balances	43,050	0	28,350	(2,900)	13,500	4,100
Payment of liabilities	(28,350)		(28,350)			
Balances	14,700	0	0	(2,900)	13,500	4,100
Allocation of Telliher deficiency—no assets to contribute	0			2,900	(1,450)**	(1,450)**
Balances	14,700			0	12,050	2,650
Disbursement of cash to partners	(14,700)			0	(12,050)	(2,650)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$118,800 – $36,300	= $(82,500)
Telliher:	$82,500 × 0.60	= $(49,500)
Bachra:	$82,500 × 0.20	= $(16,500)
Lang:	$82,500 × 0.20	= $(16,500)

** Allocation of Telliher deficiency to remaining partners:

Bachra:	$2,900 × 0.20/0.40 =	$(1,450)
Lang:	$2,900× 0.20/0.40 =	$(1,450)

Req. 1b (continued) **P 12-6A**

Telliher, Bachra, and Lang
Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	CAPITAL TELLIHER + (60%)	CAPITAL BACHRA + (20%)	CAPITAL LANG + (20%)
Balances before sale of assets	$ 6,750	$118,800	$28,350	$ 46,600	$30,000	$ 20,600
Sale of assets and sharing of loss	27,600	(118,800)		(54,720)*	(18,240)*	(18,240)*
Balances	34,350	0	28,350	(8,120)	11,760	2,360
Payment of liabilities	(28,350)		(28,350)			
Balances	6,000	0	0	(8,120)	11,760	2,360
Allocation of Telliher deficiency—no assets to contribute	0			8,120	(4,060)**	(4,060)**
Balances	6,000			0	7,700	(1,700)
Allocation of Lang deficiency—no assets to contribute	0				(1,700)	1,700
Balances	6,000			0	6,000	0
Disbursement of cash to partner	(6,000)			0	(6,000)	0
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$118,800 – $27,600	= $(91,200)
Telliher:	$91,200 × 0.60	= $(54,720)
Bachra:	$91,200 × 0.20	= $(18,240)
Lang:	$91,200 × 0.20	= $(18,240)

** Allocation of Telliher deficiency to remaining partners:

Bachra:	$8,120 × 0.20/0.40	= $(4,060)
Lang:	$8,120 × 0.20/0.40	= $(4,060)

Req. 2

If no partners have personal assets, the other partners must absorb the deficit balance to liquidate the partnership. They can then personally sue the partner for the deficit.

Req. 3

The last partner,Bachra, would have to absorb Lang's deficit. It is stated in the question that none of the partners have personal assets, so Lang cannot pay the deficit amount into the partnership. Bachra could then personally sue the other partners for the deficit.

Req. 1 *(25-35 min.)* **P**

12-7A

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Closing Entries			
June	30	Revenues		748,000	
		Income Summary			748,000
		To close revenues.			
	30	Income Summary		624,000	
		Expenses			624,000
		To close expenses.			
	30	Income Summary ($748,000 – $624,000)		124,000	
		K. Santiago, Capital ($124,000 × 1/8)			15,500
		R. Astorga, Capital ($124,000 × 3/8)			46,500
		J. Camino, Capital ($124,000 × 4/8)			62,000
		To close income summary.			
	30	K. Santiago, Capital		126,000	
		K. Santiago, Withdrawals			126,000
	30	R. Astorga, Capital		272,000	
		R. Astorga, Withdrawals			272,000
	30	J. Camino, Capital		312,000	
		J. Camino, Withdrawals			312,000
		To close partner withdrawal accounts.			

K. Santiago, Capital

		Balance	152,000
Withdrawals	126,000	Net income	15,500
		Ending balance	41,500

R. Astorga, Capital

		Balance	282,000
Withdrawals	272,000	Net income	46,500
		Ending balance	56,500

J. Camino, Capital

		Balance	428,000
Withdrawals	312,000	Net income	62,000
		Ending balance	178,000

Req. 1 *(40-60 min.)* **P 12-8A**

Date	**Description**	**Buckner**	**Kwan**	**Nguen**	**Transaction Total**
2011					
Jun. 10	Start-up	$ 84,000	81,000		$ 165,000
Dec. 31	Net income	97,500	97,500		195,000
	Capital account balances	181,500	178,500		360,000
2012					
Jan. 1	New partner	9,000	9,000	162,000	180,000
	Capital account balances	190,500	187,500	162,000	540,000
Dec. 31	Net income, allocated as:				
	Salary	90,000	120,000	75,000	285,000
	Interest	9,525	9,375	8,100	27,000
	Balance	50,400	33,600	84,000	168,000
	Total income allocated	149,925	162,975	167,100	480,000
2013					
Oct. 10	Withdrawals	(84,000)	(57,000)		(141,000)
	Capital account balances	256,425	293,475	329,100	879,000
Dec. 31	Net income allocated as:				
	Salary	90,000	120,000	75,000	285,000
	Interest	12,821	14,674	16,455	43,950
	Balance	(22,185)	(14,790)	(36,975)	(73,950)
	Total income allocated	80,636	119,884	54,480	255,000
	Capital account balances	337,061	413,359	383,580	1,134,000
2014					
Jan. 2	Partner withdrawal	50,148	33,432	(383,580)	(300,000)
	Capital account balances	$387,209	$446,791	$ 0	$834,000

Req. 1 *(continued)* **P 12-8A**

General Journal

DATE 2011		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
June	10	Cash		45,000	
		Accounts Receivable		60,000	
		Office Furniture		60,000	
		Adam Buckner, Capital			84,000
		Amber Kwan, Capital			81,000
Dec.	31	Income Summary		195,000	
		Adam Buckner, Capital			97,500
		Amber Kwan, Capital			97,500
2012					
Jan.	1	Cash		180,000	
		Adam Buckner, Capital			9,000
		Amber Kwan, Capital			9,000
		Heidi Nguen, Capital			162,000
Dec.	31	Income Summary		480,000	
		Adam Buckner, Capital			149,925
		Amber Kwan, Capital			162,975
		Heidi Nguen, Capital			167,100
2013					
Oct.	10	Adam Buckner, Withdrawals		84,000	
		Amber Kwan, Withdrawals		57,000	
		Cash			141,000
Dec.	31	Adam Buckner, Capital		84,000	
		Amber Kwan, Capital		57,000	
		Adam Buckner, Withdrawals			84,000
		Amber Kwan, Withdrawals			57,000
		Income Summary		255,000	
		Adam Buckner, Capital			80,636
		Amber Kwan, Capital			119,884
		Heidi Nguen, Capital			54,480
2014					
Jan.	02	Heidi Nguen, Capital		383,580	
		Adam Buckner, Capital			50,148
		Amber Kwan, Capital			33,432
		Cash			300,000

B&K Consulting
Partial Balance Sheet
January 2, 2014

Partners' Equity:	
Adam Buckner, capital	$387,209
Amber Kwan, capital	446,791
Total partners' equity	$834,000

(40-60 min.) **P 12-9A**

General Journal

DATE 2012		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		204,000	
		Accounts Receivable		390,000	
		Office Furniture		66,000	
		Computer Equipment		210,000	
		DennisDevlin, Capital			264,000
		GaryFreemont, Capital			234,000
		Jean London, Capital			
Dec.	31	Income Summary		252,000	
		DennisDevlin, Capital			75,600
		GaryFreemont, Capital			50,400
		Jean London, Capital			
		Devlin = $252,000 × 3/10 = $75,600 Freemont = $252,000 × 2/10 = $50,400 London = $252,000 × 5/10 = $126,000			
2013					
June	7	GaryFreemont, Capital ($234,000 + $50,400)		284,400	
		André Hughes, Capital			284,400
Dec.	31	DennisDevlin, Capital		90,000	
		André Hughes, Capital		60,000	
		Jean London, Capital		150,000	
		Income Summary			300,000
		Devlin = $300,000 × 3/10 = $90,000 Hughes = $300,000 × 2/10 = $60,000 London = $300,000 × 5/10 = $150,000			
2014					
Jan.	3	Cash		720,000	
		Allowance for Uncollectible Accounts		72,000	
		Loss on Disposal		684,000	
		Accounts Receivable			1,476,000
		Loss on sale of accounts receivable.			
	3	Cash		750,000	
		Accumulated Amortization		180,000	
		Loss on Disposal		30,000	
		Office Furniture			360,000
		Computer Equipment			600,000
		Loss on sale of capital assets.			

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	3	DennisDevlin, Capital		214,200	
		André Hughes, Capital		142,800	
		Jean London, Capital		357,000	
		Loss on Disposal			714,000
		Loss on disposal of accounts receivable = $1,476,000 – $72,000 – $720,000 = $684,000 Total losses on disposal = $684,000 + $30,000 = $714,000. Distribution of losses to partners: Devlin = $714,000 × 3/10 = $214,200 Freemont = $714,000 × 2/10 = $142,800 London = $714,000 × 5/10 = $357,000			
	3	Accounts Payable		1,440,000	
		Cash			1,440,000
		To record payment of liabilities.			
	3	DennisDevlin, Capital		5,400	
		André Hughes, Capital		3,600	
		Jean London, Capital			9,000
		To apply London's capital deficiency to the other two partners' capital balances. Londondeficiency = $372,000 + $126,000 – $150,000 – $357,000 = ($9,000) Distribution of London deficiency to partners: Devlin = $9,000 × 3/5 = $5,400 Hughes = $9,000 × 2/5 = $3,600			
	3	DennisDevlin, Capital		30,000	
		André Hughes, Capital		78,000	
		Cash			108,000
		To record final distribution of cash to two remaining partners. Cash = $78,000 + $720,000 + $750,000 – $1,440,000 = $108,000 Distribution to partners: Devlin = $264,000 + $75,600 – $90,000 – $214,200 – $5,400 = $30,000 Hughes = $284,400 – $60,000 – $142,800 – $3,600 = $78,000			

Problems

Group B

Req. 1 (partner investments) *(15-20 min.)* **P 12-1B**

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	1	Accounts Receivable		20,000	
		Inventory		48,000	
		Prepaid Expenses		4,000	
		Office Equipment		56,000	
		Accounts Payable			48,000
		Val Havlac, Capital			80,000
		To record Havlac's investment in the			
		partnership.			
	1	Cash		80,000	
		SvitlanaYaeger, Capital			80,000
		To record Yaeger's investment in the			
		partnership.			

Req. 2 (initial balance sheet)

Yaeger and Havlac			
Balance Sheet			
January 1, 2014			
ASSETS		LIABILITIES	
Cash	$80,000	Accounts payable	$ 48,000
Accounts receivable	20,000		
Inventory	48,000	CAPITAL	
Prepaid expenses	4,000	Val Havlac, capital	80,000
Office equipment	56,000	SvitlanaYaeger, capital	80,000
		Total capital	160,000
Total assets	$208,000	Total liabilities and capital	$208,000

Req. 3

Havlac and Yaeger				
Partnership Balances				
December 31, 2014				
	Havlac	Yaeger		TOTAL
a. Beginning Balance	$80,000	$80,000		$160,000
Allocation of NI to partners:				
Havlac ($276,000 × 2/3)	184,000			
Yaeger ($276,000 × 1/3)		92,000		276,000
Withdrawals	(76,000)	(56,000)		(132,000)
Ending Capital Balance	$188,000	$116,000		$ 304,000

Req. 1 (20-25 min.) **P**

12-2B

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	31	Jennifer Lowe, Capital		150,000	
		Helen Fluery, Capital			150,000
		To transfer J. Lowe's equity in the			
		partnership to H. Fluery.			

Req. 2

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	31	Cash		100,000	
		Helen Fluery, Capital			100,000
		To admit H. Fluery as a partner with a			
		one-fourth interest in the business.			
		Partnership capital before Fluery is			
		admitted ($50,000 + $100,000 + $150,000)			$ 300,000
		Fluery's investment in the partnership			100,000
		Partnership capital after Fluery is admitted			$ 400,000
		Fluery's capital in the partnership			
		($400,000 × 1/4)			$ 100,000

12-2B General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	31	Cash		80,000	
		Jim Zook, Capital ($15,000 × 0.40)		6,000	
		Richard Land, Capital ($15,000 × 0.20)		3,000	
		Jennifer Lowe ($15,000 × 0.40)		6,000	
		Helen Fluery, Capital			95,000
		To admit Helen Fluery as a partner with a			
		one-fourth interest in the business.			
		Partnership capital before Fluery is			
		admitted ($50,000 + $100,000 + $150,000)			$ 300,000
		Fluery's investment in the partnership			80,000
		Partnership capital after Fluery is admitted			$ 380,000
		Fluery's capital in the partnership			
		($380,000 × 1/4)			$ 95,000

Reduction of other partners' capital balance:
$95,000 – $80,000 = $15,000

Req. 1 *(profit and loss allocations)* *(25-30 min.)* **P 12-3B**

Berlo, Felini, and Valente				
Allocation of Profits and Losses				
	BERLO	FELINI	VALENTE	TOTAL
a. Total net income (net loss)				$ (200,000)
Allocation to the partners:				
Berlo ($200,000 × 0.40)	$(80,000)			
Felini ($200,000 × 0.25)		$(50,000)		
Valente ($200,000 × 0.35)			$(70,000)	
Total				($200,000)
Net loss left for allocation				$ 0
Net loss allocated to partners	$(80,000)	$(50,000)	$(70,000)	$(200,000)

(Continued on next page)

Berlo, Felini, and Valente				
Allocation of Profits and Losses				
	BERLO	FELINI	VALENTE	TOTAL
b. Total net income				$354,000
Allocation to the partners:				
Sharing of first $150,000 of profit based on capital investments:				
Berlo ($30,000/ $120,000 × $150,000)	$37,500			
Felini ($40,000/ $120,000 × $150,000)		$50,000		
Valente ($50,000/ $120,000 × $150,000)			$62,500	
Total				150,000
Net income left for allocation				204,000
Sharing of next $72,000 of profit based on service:				
Berlo	56,000			
Felini		16,000		
Total				72,000
Net income left for allocation				132,000
Remainder shared equally:				
Berlo ($132,000 × 1/3)	44,000			
Felini ($132,000 × 1/3)		44,000		
Valente ($132,000 × 1/3)			44,000	
Total				132,000
Net income left for allocation				0
Net income allocated to partners	$137,500	$110,000	$106,500	$354,000

Req. 2 (partnership income statement) *(continued)* **P 12-3B**

Berlo, Felini, and Valente Income Statement For the Year Ended January 31, 2014	
Revenue	$1,014,000
Expenses	660,000
Net income	$354,000
Berlo	$ 137,500
Felini	110,000
Valente	106,500
Total	$354,000

Req. 3

This problem will help students learn to allocate partnership profits and losses to the partners. This allocation is important because one of the main points of contention among partners is the sharing of profits and losses. Learning this material should help partners design an agreement that is understandable. In turn, that may help the partners avoid disagreements.

Req. 1 *(20-25 min.)* **P**

12-4B

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Sam Seamus, Capital		105,000	
		Rea Pearlman, Capital			105,000
		To record transfer of one-half of Seamus's equity in the partnership to Pearlman.			

Req. 2

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Sam Seamus, Capital		210,000	
		Cash			163,000
		Note Payable to Seamus			47,000
		To record withdrawal of Seamus from the			
		partnership.			

12-4B

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Sam Seamus, Capital		210,000	
		Katherine Depatie, Capital			
		($126,000 × 0.20/0.60)		42,000	
		Emily Hudson, Capital ($126,000 × 0.40/0.60)		84,000	
		Cash			336,000
		To record withdrawal of Seamus from			
		the partnership.			

Req. 4

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Katherine Depatie, Capital ($126,000 × 0.20)		25,200	
		Sam Seamus, Capital ($126,000 × 0.40)		50,400	
		Emily Hudson, Capital ($126,000 × 0.40)		50,400	
		Building ($808,000 – $682,000)			126,000
		To revalue the building and allocate the loss			
		in value to the partners.			
Dec.	31	Sam Seamus, Capital ($210,000 – $50,400)		159,600	
		Cash			82,000
		Note Payable to Seamus			77,600
		To record withdrawal of Seamus from the			
		partnership.			

Req. 1a *(35-45 min.)* **P 12-5B**

Du, Chong, and Quing

Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	CAPITAL DU + (10%)	CAPITAL CHONG + (30%)	CAPITAL QUING + (60%)
Balances before sale of assets	$ 70,000	$526,000	$316,000	$ 80,000	$ 102,000	$ 98,000
Sale of assets and sharing of gain	552,000	(526,000)	—	2,600*	7,800*	15,600*
Balances	622,000	0	316,000	82,600	109,800	113,600
Payment of liabilities	(316,000)	—	(316,000)	—	—	—
Balances	306,000	0	0	82,600	109,800	113,600
Disbursement of cash to partners	(306,000)	—	—	(82,600)	(109,800)	(113,600)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of gain to partners:

Gain:	$552,000 – $526,000	= $ 26,000
Du:	$26,000 × 0.10	= $ 2,600
Chong:	$26,000 × 0.30	= $ 7,800
Quing:	$26,000 × 0.60	= $ 15,600

Req. 1b

(continued) **P 12-5B**

Du, Chong, and Quing

Summary of Liquidation Transactions

				CAPITAL		
	CASH +	NONCASH ASSETS =	LIABILITIES	DU + (10%)	CHONG + (30%)	QUING + (60%)
Balances before sale of assets	$ 70,000	$526,000	$316,000	$ 80,000	$ 102,000	$ 98,000
Sale of assets and sharing of loss	448,000	(526,000)		(7,800)*	(23,400)*	(46,800)*
Balances	518,000	0	316,000	72,200	78,600	51,200
Payment of liabilities	(316,000)		(316,000)			
Balances	202,000	0	0	72,200	78,600	51,200
Disbursement of cash to partners	(202,000)			(72,200)	(78,600)	(51,200)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$526,000 – $448,000	= $(78,000)
Du	$78,000 × 0.10	= $ (7,800)
Chong:	$78,000 × 0.30	= $(23,400)
Quing:	$78,000 × 0.60	= $(46,800)

12-5B General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	31	Cash		448,000	
		Loss on Disposal		78,000	
		Noncash Assets			526,000
		To record net loss on disposal of			
		noncash assets.			
	31	JiaDu, Capital		7,800	
		Denis Chong, Capital		23,400	
		Alan Quing, Capital		46,800	
		Loss on Disposal			78,000
		To transfer net losses to partners' capital			
		accounts.			
	31	Liabilities		316,000	
		Cash			316,000
		To pay liabilities in liquidation.			
	31	JiaDu, Capital		72,200	
		Denis Chong, Capital		78,600	
		Alan Quing, Capital		51,200	
		Cash			202,000
		To distribute cash to partners in liquidation.			

Req. 1a *(30-40 min.)* **P 12-6B**

Pavelski, Ovechin, and Oh

Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	CAPITAL PAVELSKI + (60%)	CAPITAL OVECHIN + (20%)	CAPITAL OH + (20%)
Balances before sale of assets	$ 27,000	$475,200	$113,400	$ 186,400	$120,000	$ 82,400
Sale of assets and sharing of loss	145,200	(475,200)		(198,000)*	(66,000)*	(66,000)*
Balances	172,200	0	113,400	(11,600)	54,000	16,400
Payment of liabilities	(113,400)		(113,400)			
Balances	58,800	0	0	(11,600)	54,000	16,400
Allocation of Pavelski deficiency—no assets to contribute	0			11,600**	(5,800)**	5,800**
Balances	58,800			0	48,200	10,600
Disbursement of cash to partners	(58,800)			0	(48,200)	(10,600)
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$475,200 – $145,200	= $(330,000)
Pavelski:	$330,000 × 0.60	= $(198,000)
Ovechin:	$330,000 × 0.20	= $(66,000)
Oh:	$330,000 × 0.20	= $(66,000)

** Allocation of Pavelski deficiency to remaining partners:

Ovechin:	$11,600 × 0.20/0.40	= $(5,800)
Oh:	$11,600 × 0.20/0.40	= $(5,800)

Req. 1b *(continued)* **P 12-6B**

Pavelski, Ovechin, and Oh

Summary of Liquidation Transactions

	CASH +	NONCASH ASSETS =	LIABILITIES	CAPITAL PAVELSKI + (60%)	CAPITAL OVECHIN + (20%)	CAPITAL OH + (20%)
Balances before sale of assets	$ 27,000	$475,200	$113,400	$ 186,400	$120,000	$ 82,400
Sale of assets and sharing of loss	110,400	(475,200)		(218,880)*	(72,960)*	(72,960)
Balances	137,400	0	113,400	(32,480)	47,040	9,440
Payment of liabilities	(113,400)		(113,400)			
Balances	24,000	0		(32,480)	47,040	9,440
Allocation of Pavelski deficiency—no assets to contribute	0	0	0	32,480**	(16,240)**	(16,240)**
Balances	24,000	0	0	0	30,800	(6,800)
Allocation of Oh deficiency—no assets to contribute	0	0	0	0	(6,800)	6,800
Balances	24,000	0	0	0	24,000	0
Disbursement of cash to partners	(24,000)	0	0	0	(24,000)	0
Balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

* Allocation of loss to partners:

Loss:	$475,200 – $110,400	= $(364,800)
Pavelski:	$364,800 × 0.60	= $(218,880)
Ovechin:	$364,800 × 0.20	= $(72,960)
Oh:	$364,800 × 0.20	= $(72,960)

** Allocation of Pavelski deficiency to remaining partners:

Ovechin:	$32,480 × 0.20/0.40	= $(16,240)
Oh:	$32,480 × 0.20/0.40	= $(16,240)

Req. 2

If one partner hasno capital and cannot personally cover the deficit, then the deficit must be covered by the other partners. They can then personally sue the partner for the deficit.

Req. 1 (25-35 min.) P

12-7B

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Closing Entries			
Sept.	30	Revenues		928,000	
		Income Summary			928,000
		To close revenues.			
	30	Income Summary		796,000	
		Expenses			796,000
		To close expenses.			
	30	Income Summary ($928,000 – $796,000)		132,000	
		T. Shitang, Capital ($132,000 × 2/10)			26,400
		D. Yamamoto, Capital ($132,000 × 3/10)			39,600
		J. Ishikawa, Capital ($132,000 × 5/10)			66,000
		To close income summary.			
	30	T. Shitang, Capital		99,000	
		T. Shitang, Withdrawals			99,000
	30	D. Yamamoto, Capital		81,000	
		D. Yamamoto, Withdrawals			81,000
	30	J. Ishikawa, Capital		40,000	
		J. Ishikawa, Withdrawals			40,000
		To close partner withdrawal accounts.			

T. Shitang, Capital

		Balance	125,000
Withdrawals	99,000	Net income	26,400
		Ending balance	52,400

D. Yamamoto, Capital

		Balance	97,000
Withdrawals	81,000	Net income	39,600
		Ending balance	55,600

J. Ishikawa, Capital

		Balance	46,000
Withdrawals	40,000	Net income	66,000
		Ending balance	72,000

Date	Description	Hodgson	Asham	Sirroca	Transaction Total
2011					
June 10	Start-up	$111,000	$ 84,000		$195,000
Dec. 31	Net income	114,000	114,000		228,000
	Capital account balances	225,000	198,000		423,000
2012					
Jan. 01	New partner	(21,600)	(21,600)	253,200	210,000
	Capital account balances	203,400	176,400	253,200	633,000
Dec. 31	Net income, allocated as:				
	Salary	120,000	90,000	80,000	290,000
	Interest	20,340	17,640	25,320	63,300
	Balance	43,340	65,010	108,350	216,700
	Total income allocated	183,680	172,650	213,670	570,000
2013					
Oct. 10	Withdrawals	(90,000)	(60,000)		(150,000)
	Capital account balances	297,080	289,050	466,870	1,053,000
Dec. 31	Net income				
	Salary	120,000	90,000	80,000	290,000
	Interest	29,708	28,905	46,687	105,300
	Balance	(34,060)	(51,090)	(85,150)	(170,300)
	Total Income Allocated	115,648	67,815	41,537	225,000
	Capital account balances	412,728	356,865	508,407	1,278,000
2014					
Jan. 02	Partner withdrawal	(637)	(956)	(508,407)	(510,000)
	Capital account balances	$412,091	$ 355,909	$ 0	$768,000

General Journal

DATE 2011		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
June	10	Cash		57,000	
		Accounts Receivable		63,000	
		Office Furniture		75,000	
		Steven Hodgson, Capital			111,000
		Sarah Asham, Capital			84,000
Dec.	31	Income Summary		228,000	
		Steven Hodgson, Capital			114,000
		Sarah Asham, Capital			114,000
2012					
Jan.	1	Cash		210,000	
		Steven Hodgson, Capital		21,600	
		Sarah Asham, Capital		21,600	
		Myra Sirroca, Capital			253,200
Dec.	31	Income Summary		570,000	
		Steven Hodgson, Capital			183,680
		Sarah Asham, Capital			172,650
		Myra Sirroca, Capital			213,670
2013					
Oct.	10	Steven Hodgson, Withdrawals		90,000	
		Sarah Asham, Withdrawals		60,000	
		Cash			150,000
Dec.	31	Steven Hodgson, Capital		90,000	
		Sarah Asham, Capital		60,000	
		Steven Hodgson, Withdrawals			90,000
		Sarah Asham, Withdrawals			60,000
		Income Summary		225,000	
		Steven Hodgson, Capital			115,648
		Sarah Asham, Capital			67,815
		Myra Sirroca, Capital			41,537
2014					
Jan.	02	Myra Sirroca, Capital		508,407	
		Steven Hodgson, Capital		637	
		Sarah Asham, Capital		956	
		Cash			510,000

Req. 2

H&A Distributors
Partial Balance Sheet
January 2, 2014

Partners' Equity:

Steven Hodgson, Capital	$ 412,091
Sarah Asham, Capital	355,909
Total partners' equity	$768,000

(40-60 min.) **P 12-9B**

General Journal

DATE 2012		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		34,000	
		Accounts Receivable		94,500	
		Office Furniture		15,000	
		Vehicles		59,500	
		William Dione, Capital			53,000
		Julie Porter, Capital			61,000
		Regina Westlake, Capital			
Dec.	31	Income Summary		53,500	
		William Dione, Capital			10,700
		Julie Porter, Capital			16,050
		Regina Westlake, Capital			
		Dione = \$53,500 × 2/10 = \$10,700 Porter = \$53,500 × 3/10 = \$16,050 Westlake = \$53,500 × 5/10 = \$26,750			
2013					
June	7	Julie Porter, Capital (\$61,000 + \$16,050)		77,050	
		Ray Ewing, Capital			77,050
Dec.	31	William Dione, Capital		13,400	
		Ray Ewing, Capital		20,100	
		Regina Westlake, Capital		33,500	
		Income Summary			67,000
		Dione = \$67,000 × 2/10 = \$13,400 Ewing = \$67,000 × 3/10 = \$20,100 Westlake = \$67,000 × 5/10 = \$33,500			
2014					
Jan.	3	Cash		190,000	
		Allowance for Uncollectible Accounts		22,500	
		Loss on Disposal		103,500	
		Accounts Receivable			316,000
		Loss on sale of accounts receivable.			
	3	Cash		188,500	
		Accumulated Amortization		49,500	
		Loss on Disposal		76,500	
		Office Furniture			74,500
		Vehicles			240,000
		Loss on sale of capital assets.			

General Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	3	William Dione, Capital		36,000	
		Ray Ewing, Capital		54,000	
		Regina Westlake, Capital		90,000	
		Loss on Disposal			180,000
		To apply losses on disposal to the partners. Total losses: $103,500 + $76,500 = $180,000 Losses applied to partners: Dione = $180,000 × 2/10 = $36,000 Ewing = $180,000 × 3/10 = $54,000 Westlake = $180,000 × 5/10 = $90,000			
	3	Accounts Payable		386,500	
		Cash			386,500
		To record payment of liabilities.			
	3	William Dione, Capital		3,100	
		Ray Ewing, Capital		4,650	
		Regina Westlake, Capital			7,750
		To apply Westlake capital deficiency to remaining partners. Westlakecapital deficiency = $89,000 + $26,750 – $33,500– $90,000 = ($7,750) Deficiency applied to remaining partners: Dione = $7,750 × 2/5 = $3,100 Ewing = $7,750 × 3/5 = $4,650			
	3	Cash		1,700	
		Ray Ewing, Capital			1,700
		To record Ewing’s payment to Dione for his capital deficiency since Ewing has assets. Ewing = $77,050 – $20,100 – $54,000 – $4,650 = ($1,700)			
	3	William Dione, Capital		11,200	
		Cash			11,200
		To record payment of remaining cash to Dione. Cash = $17,500 + $190,000 + $188,500 – $386,500 + $1,700 = $11,200 Dione = $53,000 + $10,700 – $13,400 – $36,000 – $3,100 = $11,200			

Challenge Problems

P 12-1C

There are two issues:

- if they borrow, what is the cost of the additional funds that must be met—the cost is tax-deductible but they must service the debt. By taking on partners or by selling shares, they would not have to payout an annual cost—i.e., if there are no profits then there will be no distribution to partners or shareholders.

- there would be a loss of control if they take on more partners or if they incorporate and sell shares. But no annual charge for funds would be needed.

They need not lose control if they issued preference shares to the investors. They could also issue common shares and make their shares Class A shares with multiple votes and issue Class B shares with only one vote each.

I would recommend that they form a company with a structure so that they maintain the control but give the investors the inducement of sharing the profits.

P 12-2C

Profit distribution 2014 Net income $400,000

	PERRIER	SALTER	PATTEN	TOTAL
Capital @ 6%	$13,725 (a)	$65,475 (b)	$29,475 (c)	$ 108,675
Salary	75,000	9,375	75,000	159,375
				268,050
Distribution	52,780 (d)	26,390 (e)	52,780 (d)	131,950
	$141,505	$ 101,240	$157,255	$400,000

The student should suggest a new partnership agreement that will recognize the partner concerns. Calculations for allocation to partners:

(a) $228,750 × 0.06 = $13,725
(b) $1,091,250 × 0.06 = $65,475
(c) $491,250 × 0.06 = $29,475
(d) ($400,000 – $268,050) × 0.40 = $52,780
(e) ($400,000 – $268,050) × 0.20 = $26,390

Decision Problem

(10-15 min.) **Decision Problem**

Req. 1

The ratio of partner capital balance at December 31, 2013, is Barclay 59.2 percent (that is, $152,500/$257,500) and Resultan 40.8 percent (that is, $105,000/$257,500). This approximately 3:2 (60:40) ratio of capital balances differs from the 2:1 ratio of partner investments and profit sharing because of partner withdrawals. Barclay has withdrawn a higher proportion of her partnership profits than Resultan has. Thus, Barclay’ s capital balance is only approximately six tenths of the total partnership capital rather than two-thirds.

Req. 2

Resultan may be unhappy because Barclay withdraws proportionately more of her partnership profits than Resultan does. Barclay's withdrawals for personal use reduce the assets available for business use. Resultan, on the other hand, leaves a higher proportion of her profits in the business. Resultan may believe her contribution to revenues is not given enough weight in the profit sharing.

Req. 3

Barclay is correct in a strict legal sense. The omitted revenue is an element of profit, which the partners share in the 2:1 profit-and-loss ratio. From a practical standpoint, the sharing of the revenue may be debatable. If Resultan’s efforts clearly earned the revenue, she may be able to convince Barclay to alter the profit-and-loss ratio. If Barclay will not budge, she may lose Resultan as a partner.

Req. 4

An expense is like a loss, which the partners share based on their profit-and-loss ratio, not based on capital balances.

Financial Statement Case

Req. 1

	2014		2010	
REVENUES (thousands)	AMOUNT	PERCENTAGE	AMOUNT	
Assurance	$1,234	41%	$1,070	54%
Consulting	1,007	34	349	18
Tax	743	25	557	28
Total revenues	$2,984	100 %	$1,976	100 %

Consulting services grew the most from 2010 to 2014.

Req. 2

Total revenues	$2,984,000
Average number of partners	÷ 9
Average revenue per partner	331,556
Number of hours worked per year	÷ 1,900
Average amount charged by a partner for one hour of his/her time	$ 174.5

Req. 3

Income to partners	$1,057,000
Average number of partners	÷ 9
Averagenetincomeperpartner	$ 117,444