Accounting Principles Volume 2 Enhanced (Canadian) 9th Edition 9th edition Weygandt Solutions Manual

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CHAPTER 12

Accounting for Partnerships

Learning Objectives

1. Describe the characteristics of the partnership form of business organization.
2. Account for the formation of a partnership.
3. Allocate and record profit or loss to partners.
4. Prepare partnership financial statements.
5. Account for the admission of a partner.
6. Account for the withdrawal of a partner.
7. Account for the liquidation of a partnership.

Summary of Questions by Learning Objectives and Bloom's Taxonomy

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
Questions														
1.	1	K	5.	2	K	9.	4	C	13.	5	C	17.	7	K
2.	1	C	6.	2	K	10.	4	C	14.	5	C	18.	7	C
3.	1	K	7.	3	C	11.	4	C	15.	6	C			
4.	2	K	8.	3	C	12.	5	AP	16.	6	C			
Brief Exercises														
1.	1	K	5.	3	AP	9.	3	AP	13.	5	AP	17.	7	AP
2.	2	AP	6.	3	AP	10.	3	AP	14.	6	AP	18.	7	AP
3.	2	AP	7.	3	AP	11.	4	AP	15.	6	AP	19.	7	AP
4.	3	AP	8.	3	AP	12.	5	AP	16.	7	AP			
Exercises														
1.	1	AN	5.	3	AP	9.	5	AP	13.	5,6	AP	17.	7	AP
2.	2	AP	6.	3	AP	10.	5	AP	14.	7	AP	18.	7	AP
3.	2	AP	7.	4	AP	11.	6	AP	15.	7	AP	19.	7	AP
4.	3	AP	8.	3,4	AP	12.	6	AP	16.	7	AP			
Problems														
1.	1,2	AP	4.	3,4	AP	7.	5	AP	10.	3,5,6	AP	13.	2,3,4,5,6	AP
2.	3	AP	5.	3,4	AP	8.	5	AP	11.	7	AP			
3.	3,4	AP	6.	3,4	AP	9.	6	AP	12.	7	AP			

Legend**:** The following abbreviations will appear throughout the solutions manual file.

LO	Learning objective	
BT	Bloom's Taxonomy	
	K	Knowledge
	C	Comprehension
	AP	Application
	AN	Analysis
	S	Synthesis
	E	Evaluation
Difficulty:	Level of difficulty	
	S	Simple
	M	Moderate
	C	Complex
Time:	Estimated time to complete in minutes	
AACSB	Association to Advance Collegiate Schools of Business	
	Communication	Communication
	Ethics	Ethics
	Analytic	Analytic
	Tech.	Technology
	Diversity	Diversity
	Reflec. Thinking	Reflective Thinking
CPA CM	CPA Canada Competency Map	
	Ethics	Professional and Ethical Behaviour
	PS and DM	Problem-Solving and Decision-Making
	Comm.	Communication
	Self-Mgt.	Self-Management
	Team & Lead	Teamwork and Leadership
	Reporting	Financial Reporting
	Stat. & Gov.	Strategy and Governance
	Mgt. Accounting	Management Accounting
	Audit	Audit and Assurance
	Finance	Finance
	Tax	Taxation

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Describe the characteristics of the partnership form of business organization.	1, 2, 3	1	1	1, 6	1, 6
2. Account for the formation of a partnership.	4, 5, 6	2, 3	2, 3	1, 6, 12	1, 6, 12
3. Allocate and record profit or loss to partners.	7, 8	4, 5, 6, 7, 8, 9,10	4, 5, 6, 8	2, 3, 4, 5, 6, 9, 12	2, 3, 4, 5, 6, 9, 12
4. Prepare partnership financial statements.	9, 10, 11	11	7, 8	2, 3, 4, 5, 6, 12	2, 3, 4, 5, 6, 12
5. Account for the admission of a partner.	12, 13,14	12, 13	9, 10, 13	7, 9, 12	7, 9, 12
6. Account for the withdrawal of a partner.	15, 16	14, 15,	11, 12, 13	8, 9, 12	8, 9, 12
7. Account for the liquidation of a partnership.	17, 18	16, 17, 18, 19	14, 15, 16, 17, 18, 19	10, 11	10, 11

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Discuss advantages and disadvantages of partnerships and record formation of partnership, prepare a balance sheet.	Moderate	35-40
2A	Calculate and record division of profit. Prepare closing entries.	Moderate	25-35
3A	Calculate and record division of profit or loss. Prepare statement of partners' equity.	Moderate	25-30
4A	Calculate division of profit. Prepare an income statement and a statement of partners' equity, and closing entries.	Moderate	25-30
5A	Prepare financial statements and closing entries.	Moderate	30-40
6A	Prepare entries to correct errors, allocate profit, and prepare financial statements.	Moderate	25-30
7A	Record admission of partner.	Moderate	20-25
8A	Record admission of partner.	Moderate	20-25
9A	Record withdrawal of partner.	Moderate	15-20
10A	Record withdrawal and admission of partner; allocate profit.	Complex	25-35
11A	Prepare and post entries for partnership liquidation.	Moderate	45-50
12A	Record liquidation of partnership.	Moderate	45-50
13A	Account for formation of a partnership, allocation of profits, and withdrawal and admission of partners; prepare partial balance sheet.	Complex	50-60
1B	Discuss advantages and disadvantages of partnerships and record formation of partnership, prepare a balance sheet.	Moderate	35-40
2B	Calculate and record division of profit. Prepare closing entries.	Moderate	25-35
3B	Calculate and record division of profit. Prepare statement of partners' equity.	Moderate	25-35
4B	Calculate division of profit or loss. Prepare statement of partners' equity and closing entries.	Moderate	25-35

ASSIGNMENT CHARACTERISTICS TABLE (Continued)

Problem Number	Description	Difficulty Level	Time Allotted (min.)
5B	Prepare financial statements and closing entries.	Moderate	30-40
6B	Prepare entries to correct errors, allocate profit, and prepare financial statements.	Moderate	25-30
7B	Record admission of partner.	Moderate	20-25
8B	Record admission of partner.	Moderate	20-25
9B	Record withdrawal of partner.	Moderate	15-20
10B	Record withdrawal and admission of partner; allocate profit.	Moderate	25-35
11B	Prepare and post entries for partnership liquidation.	Moderate	45-50
12B	Record liquidation of partnership.	Moderate	45-50
13B	Account for formation of a partnership, allocation of profits, and admission and withdrawal of partners; prepare statement of partners' equity.	Complex	50-60

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Material.

Learning Objective	Knowledge	Comprehension	Application		Analysis	Synthesis	Evaluation
1. Describe the characteristics of the partnership form of business organization.	Q12.1 Q12.3 BE12.1	Q12.2	P12.1A P12.1B		E12.1		
2. Account for the formation of a partnership.	Q12.4 Q12.5 Q12.6		BE12.2 BE12.3 E12.2 E12.3 P12.1A P12.6A	P12.12A P12.13A P12.1B P12.6B P12.12B P12.13B			
3. Allocate and record profit or loss to partners.		Q12.7 Q12.8	BE12.4 BE12.5 BE12.6 BE12.7 BE12.8 BE12.9 BE12.10 E12.4 E12.5 E12.6 E12.8	P12.2A P12.3A P12.4A P12.5A P12.6A P12.9A P12.10A P12.13A P12.2B P12.3B P12.4B P12.5B P12.6B P12.9B P12.10B P12.13B			
4. Prepare partnership financial statements.		Q12.9 Q12.10 Q12.11	BE12.11 E12.7 E12.8 P12.3A P12.4A P12.5A	P12.6A P12.12A P12.13A P12.3B P12.4B P12.5B P12.6B P12.12B P12.13B			
5. Account for the admission of a partner.		Q12.13 Q12.14	Q12.12 BE12.12 BE12.13 E12.9 E12.10 E12.13 P12.7A P12.8A	P12.9A P12.10A P12.13A P12.7B P12.8B P12.9B P12.10B P12.13B			
6. Account for the withdrawal of a partner.		Q12.15 Q12.16	BE12.14 BE12.15 E12.11 E12.12 E12.13 P12.9A	P12.10A P12.12A P12.13A P12.9B P12.10B P12.12B P12.13B			

BLOOM'S TAXONOMY TABLE (Continued)

Learning Objective	*Knowledge*	*Comprehension*	*Application*		*Analysis*	*Synthesis*	*Evaluation*
7. Account for the liquidation of a partnership.	Q12.17	Q12.18	BE12.16 BE12.17 BE12.18 BE12.19 E12.14 E12.15 E12.16 E12.17	E12.18 E12.19 P12.11A P12.12A P12.13A P12.11B P12.12B P12.13B			
Broadening Your Perspective	BPY12.2	BYP12.1	BYP12.3 BYP12.6 Santé Saga			BYP12.4	BYP12.5

ANSWERS TO QUESTIONS

1. (a) Association of individuals: A partnership is a voluntary association of two or more individuals that can be based on an act as simple as a handshake. It is far more common and preferable to have a legal, written agreement that outlines the rights and obligations of the partners.

   (b) Limited life: A partnership does not have unlimited life. A partnership may be ended voluntarily or involuntarily. Thus, the life of a partnership is definite. In a partnership, a change in ownership ends the existing partnership. Consequently, whenever a partner withdraws from the partnership or a new partner is admitted, the partnership faces dissolution and so it is said to have a limited life. The end of the partnership can be avoided by provisions in the partnership agreement.

   (c) Co-ownership of property: In a partnership, assets are owned jointly by the partners. In the case of a dissolution, the asset originally invested into the partnership does not get returned to the partner who invested the asset.

LO 1 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

2. The advantages of a partnership are: (1) combining skills and resources of two or more individuals, (2) ease of formation, (3) relatively free from governmental regulations and restrictions, and (4) ease of decision-making. Disadvantages are: (1) mutual agency, (2) limited life, and (3) unlimited liability.

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

3. (a) The partnership agreement should contain basic information such as the name and location of the firm, the purpose of the business, and the date of inception. In addition, the agreement should specify the names and capital contributions of the partners, the rights and duties of the partners, the basis for sharing profit or loss, provisions for withdrawal of assets, procedures for settling disputes, procedures for withdrawal or admission of a partner, the rights and duties of a surviving partner if a partner dies, and procedures for liquidating a partnership.

QUESTIONS (Continued)

3. (continued)

(b) If a partnership agreement is not written, the provisions of the Partnership Act will apply to the partnership. This could include equal sharing of profit and loss, among other provisions, which may not meet the requirements of the partners.

LO 1 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

4. (a) The value of the partners' investment would equal the fair value of the contributed assets at the date of their transfer to the partnership.

(b) This is consistent with the cost principle because fair value represents the cost, or amount given up by the partnership, to acquire these assets.

LO 2 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

5. When a partner contributes equipment as his initial investment, any depreciation that has accumulated on the equipment and recorded in a previous business is not part of the investment transaction. Since the equipment is invested into a new business at its fair value, the investment is treated the same way as the purchase of a used asset. The equipment has not yet been used by the partnership so there is no accumulated depreciation.

LO 2 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

6. When the accounts receivable are transferred into the partnership, they should be recorded at their realizable value. In the case of Naheed's accounts receivable, although they total $8,000 their realizable value is only $6,000. Consequently, the amount recorded as accounts receivable will be the full $8,000 but that amount will be reduced by an allowance for doubtful accounts of $2,000 in Naheed's investment entry. Similarly, Franca's accounts receivable should be recorded at $8,000 but reduced by the allowance for doubtful accounts amount of $1,000 for a net realizable value of $7,000.

LO 2 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

7. There is no direct relationship between a salary allowance for allocating profit among partners and partners' cash withdrawals. While withdrawals reduce the capital balance of a partner, they are not used in profit allocation formulas, the way a salary allowance can be used. A salary allowance is used when allocating profit to the partners and is intended to reward a partner for efforts put forth for the business.

LO 3 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

8. Salary expense and interest expense are elements of the income statement and represent reductions of profit before it is allocated to the partners. Salary allowance and interest allowance are part of the process of allocating the profit to each partner and are not elements of the income statement. Salary allowance is a means of recognizing levels of effort put forth by the partners in earning profit. Interest allowance rewards partners for their levels of investment in the partnership, based on the capital account balances.

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

9. The statement of partners' equity has the same content as the statement of owner's equity except that it contains the details of all the changes in each partner's capital as well as the changes in total for the partnership. These changes include investments, profits, losses, and drawings.

LO 4 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

10. The income statement of a partnership does not include the details of how the profit or loss is divided among the partners. That information is contained in the statement of partners' equity.

LO 4 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

11. I disagree. Only the ending balance of each partner's capital account is shown on the balance sheet. Changes in the capital account for the current year are shown in the statement of partners' equity. Only the ending balance of the capital account of each partner carries forward to the next fiscal year.

LO 4 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

12. When an admission of a new partner into a partnership occurs as a result of a purchase of an existing partner's interest, the net assets and corresponding total partners' equity of the partnership will remain unaffected. However, if the interest is purchased with an investment of assets in the partnership, net assets and corresponding total partners' equity will increase by the amount of the investment.

LO 5 BT: AP Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

13. Partnership net assets increase by $25,000. R. Minoa's capital balance will be 1/6th of the total partners' equity and it may not be $25,000. No, R. Minoa does not necessarily acquire a 1/6 profit and loss ratio. Profit and loss will be divided according to what is stated in the partnership agreement. If no division is specified, profit or loss is divided evenly.

LO 5 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

14. Existing partners may be willing to pay a bonus to a new partner because the new partner may bring in a strong potential to increase profit in the future. For example, the new partner may bring goodwill he has generated in the past from a strong relationship with clients he is bringing to the business.

LO 5 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

15. (a) There is no impact on the net assets or total capital on the partnership balance sheet if a withdrawing partner is paid from personal assets of remaining partners. In the equity section, the withdrawing partner's capital account will be removed, and its balance added to one or more of the remaining partners' capital accounts.

    (b) If the withdrawing partner is paid from partnership assets, the net assets and the total capital of the partnership will decrease.

LO 6 BT: C Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

16. A bonus to the remaining partners occurs when the cash paid to the departing partner is less than the balance in their capital account. The departing partner may grant such a bonus to the remaining partners if the partners feel that the recorded assets are overvalued, if the partnership has a poor earnings record, or if the partner is anxious to leave the partnership.

LO 6 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

QUESTIONS (Continued)

17. The steps to liquidate a partnership are:

    (1) Sell noncash assets for cash and recognize any gain or loss on realization.
    (2) Allocate any gain or loss on realization to the partners, based on their profit and loss ratios.
    (3) Pay partnership liabilities in cash.
    (4) Distribute the remaining cash to partners based on their capital balances.

LO 6 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

18. If the partner with the capital deficiency pays the amount owed to the partnership, the deficiency is eliminated. The remaining cash is then distributed to the partners, based on their capital balances. If the partner with the deficiency is unable to pay the amount owed, the other partners must absorb the loss. This loss is allocated to the remaining partners in the ratio of their profit allocation formula. The remaining cash is then distributed to the partners, based on their reduced capital balances.

LO 7 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 12.1

(a) 8 Limited liability partnership
(b) 9 General partnership
(c) 1 Profit and loss ratio
(d) 2 Admission by investment
(e) 6 Withdrawal by payment from partners' personal assets
(f) 4 Mutual agency
(g) 5 Salary allowance
(h) 10 Partnership dissolution
(i) 7 Capital deficiency
(j) 3 Partnership liquidation

LO 1 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.2

Cash	**15,000**	
B. Ripley, Capital		**15,000**
Invested cash in business.		
Cash	**10,000**	
Equipment	**3,000**	
F. Nichols, Capital		**13,000**
Invested cash and equipment in business,		

LO 2 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.3

July 1	Cash	10,000	
	R. Black, Capital		10,000
	Invested cash in business,		
1	Accounts Receivable	2,400	
	Cash[1]	8,000	
	Allowance for Doubtful Accounts		400
	B. Rivers, Capital		10,000
	Invested cash and accounts receivable in business.		
	[1]$10,000 – ($2,400 – $400) = $8,000		

LO 2 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.4

	Proportions	Fractions	Percentages
(a)	2:1	2/3 & 1/3	66.67% & 33.33%
(b)	6:4	3/5 & 2/5	60% & 40%
(c)	3:8	3/11 & 8/11	27.27% & 72.73%
(d)	4:3:2	4/9 & 3/9 & 2/9	44.45% & 33.33% & 22.22%
(e)	1:2:1	¼ & ½ & ¼	25% & 50% & 25%

LO 3 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.5

(a)	Income Summary	75,000	
	Rod, Capital		37,500
	Dall, Capital		37,500
	To close Income Summary.		
(b)	Rod, Capital	37,500	
	Dall, Capital	37,500	
	Income Summary		75,000
	To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.6

Daisy	$75,000 × 60% = $45,000
Rose	$75,000 × 40% = $30,000

Income Summary	75,000	
Daisy, Capital		45,000
Rose, Capital		30,000
To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.7

(a)	A. Singh	$84,000 × 3/8 = $31,500
	D. Woods	$84,000 × 5/8 = $52,500

(b)	Income Summary	84,000	
	A. Singh, Capital		31,500
	D. Woods, Capital		52,500
	To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.8

MET CO.
Division of Profit

	J. Miao	T. Qi	M. Cheung	Total
Profit				$70,000
Salary allowance				
J. Miao	$24,000			
T. Qi		$30,000		
M. Cheung			$5,000	
Total				59,000
Profit remaining for allocation				11,000
Fixed ratio				
J. Miao ($11,000 × 50%) ...	5,500			
T. Qi ($11,000 × 30%)		3,300		
M. Cheug ($11,000 × 20%)			2,200	
Total				11,000
Profit remaining for allocation				0
Profit allocated to partners..	$29,500	$33,300	$7,200	$70,000

LO 3 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.9

THE MILLSTONE PARTNERSHIP
Division of Profit
Year Ended February 29, 2024

	H. Mills	S. Stone	Total
Profit			$60,000
Salary allowance			
H. Mills	$45,000		
S. Stone		$25,000	
Total			70,000
Profit (deficiency) remaining for allocation			(10,000)
Interest allowance			
H. Mills ($72,000 × 5%)	3,600		
S. Stone ($47,000 × 5%)		2,350	
Total			5,950
Profit (deficiency) remaining for allocation			(15,950)
Fixed ratio			
H. Mills [$(15,950) × 50%]	(7,975)		
S. Stone [$(15,950) × 50%]		(7,975)	
Total			(15,950)
Profit (deficiency) remaining for allocation			0
Profit allocated to the partners	$40,625	$19,375	$60,000

LO 3 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.10

(a)

LAMBERT COMPANY
Division of Profit – Oct. 31, 2024

	Lambert		
	Lilia	Terry	Total
Loss			$(15,300)
Salary allowance			
L. Lambert	$24,900		
T. Lambert		$15,000	
Total			39,900
Deficiency remaining for allocation			(55,200)
Interest allowance			
L. Lambert	5,300		
T. Lambert		9,300	
Total			14,600
Deficiency remaining for allocation			(69,800)
Fixed ratio			
L. Lambert [$(69,800) × 75%]	(52,350)		
T. Lambert [$(69,800) × 25%]		(17,450)	
Total			(69,800)
Loss remaining for allocation			0
Loss allocated to the partners	$(22,150)	$6,850	$(15,300)

(b)	L. Lambert, Capital	22,150	
	T. Lambert, Capital		6,850
	Income Summary		15,300
	To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.11

(a)

DRS. JARRATT AND BAINS
Income Statement
Year Ended April 30, 2024

Service revenue	$377,000
Operating expenses	149,400
Profit for the year	$227,600

(b)

DRS. JARRATT AND BAINS
Statement of Partners' Equity
Year Ended April 30, 2024

	W. Jarratt	M. Bains	Total
Capital, May 1, 2023	$ 36,900	$ 50,400	$ 87,300
Add: Profit for the year	113,800	113,800	227,600
	150,700	164,200	314,900
Less: Drawings	127,000	121,000	248,000
Capital, April 30, 2024	$ 23,700	$ 43,200	$ 66,900

BRIEF EXERCISE 12.11 (Continued)

(b) (Continued)

DRS. JARRATT AND BAINS
Balance Sheet
April 30, 2024

Assets

Current assets		
Cash		$36,000
Property, plant, and equipment		
Equipment	$75,100	
Less: Accumulated depreciation	17,100	58,000
Total assets		$94,000

Liabilities and Partners' Equity

Current liabilities		
Accounts payable		$27,100
Partners' equity		
W. Jarratt, capital	$23,700	
M. Bains, capital	43,200	66,900
Total liabilities and partners' equity		$94,000

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.12

June 9	K. Carter, Capital	18,000	
	D. Dutton, Capital		18,000
	($36,000 × ½ = $18,000)		
	To record admission of partner.		

LO 5 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.13

Oct. 1	Cash	58,000	
	Irey, Capital (50% × $8,600[1])	4,300	
	Pedigo, Capital (50% × $8,600[1])	4,300	
	Vernon, Capital (45% × $148,000)		66,600
	To record purchase of interest.		

[1] [($40,000 + $50,000 + $58,000) × 45%] – $58,000 = $8,600

LO 5 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.14

(a)

Dec. 31	T. Morden, Capital	25,000	
	R. Buttar, Capital		12,500
	S. Gosal, Capital		12,500
	To record withdrawal of partner.		

(b) Same journal entry as part (a). Since the remaining partners are paying from their personal assets, the entry to record T. Morden's withdrawal from the partnership would remain the same, regardless of the amount paid for T. Morden's capital.

LO 6 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.15

(a) T. Shelby receives $35,000 cash

Dec. 31	**T. Shelby, Capital**	**25,000**	
	C. Murphy, Capital		
	(62.5%[1] × $10,000)	**6,250**	
	M. Knight, Capital		
	(37.5%[2] × $10,000)	**3,750**	
	Cash		**35,000**
	To record withdrawal of partner.		
	[1] (5/8 = 62.5%)		
	[2] (3/8 = 37.5%)		

(b) T. Shelby receives $20,000 cash

Dec. 31	**T. Shelby, Capital**	**25,000**	
	C. Murphy, Capital (62.5% × $5,000)		**3,125**
	M. Knight, Capital (37.5% × $5,000)		**1,875**
	Cash		**20,000**
	To record withdrawal of partner.		

LO 6 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.16

A, Capital	**8,000**	
B, Capital	**9,000**	
C, Capital	**4,000**	
Cash		**21,000**
To record final distribution to partners.		

LO 7 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.17

	Cash	+	Noncash Assets	=	Liabilities	+	Chan, Capital	+	Jung, Capital	+	Forren, Capital
Balances before liquidation	**$ 15,000**		**$ 90,000**		**40,000**		**$ 20,000**		**$ 32,000**		**$13,000**
Sale of noncash assets and allocation of gain	**125,000**		**(90,000)**				**13,125**	**(1)**	**8,750**	**(2)**	**13,125**
New balances	**140,000**		**-**		**40,000**		**33,125**		**40,750**		**26,125**
Pay liabilities	**(40,000)**				**(40,000)**						
New balances	**100,000**		**-**		**-**		**33,125**		**40,750**		**26,125**
Cash distribution to partners	**(100,000)**						**(33,125)**		**(40,750)**		**(26,125)**
Final balances	**0**		**0**		**0**		**0**		**0**		**0**

(1) ($125,000 - $90,000) X 3 ÷ 8 = $13,125
(2) ($125,000 - $90,000) X 2 ÷ 8 = $8,750

LO 7 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.18

(a)

Nov. 15	**Cash ....**	**20,000**	
	Land		**17,000**
	Gain on Realization........................		**3,000**
	To record realization of assets.		

(b)

Nov. 15	**Gain on Realization ....**	**3,000**	
	D. Dupuis, Capital (1/3 × $3,000) ...		**1,000**
	V. Dueck, Capital (1/3 × $3,000).....		**1,000**
	B. Veitch, Capital (1/3 × $3,000)		**1,000**
	To allocate gain on realization.		

(c)

Nov. 15	**D. Dupuis, Capital ($12,000 + $1,000)**	**13,000**	
	V. Dueck, Capital ($10,000 + $1,000) .	**11,000**	
	B. Veitch, Capital ($3,000 + $1,000) ...	**4,000**	
	Cash ($8,000 + $20,000).................		**28,000**
	To record final distribution to partners.		

LO 7 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BRIEF EXERCISE 12.19

(a)

Nov. 15	**Cash ....**	**14,000**	
	Loss on Realization............................	**6,000**	
	Land		**20,000**
	To record realization of assets.		

(b)

Nov. 15	**D. Black, Capital (1/3 × $6,000) ....**	**2,000**	
	V. Green, Capital (1/3 × $6,000)	**2,000**	
	B. Brown, Capital (1/3 × $6,000).........	**2,000**	
	Loss on Realization		**6,000**
	To allocate loss on realization.		

(c)

Nov. 15	**D. Black, Capital ($15,000 – $2,000) ..**	**13,000**	
	V. Green, Capital ($12,000 – $2,000)..	**10,000**	
	B. Brown, Capital ($4,000 – $2,000)...	**2,000**	
	Cash ($11,000 + $14,000)...............		**25,000**
	To record final distribution to partners.		

LO 7 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

SOLUTIONS TO EXERCISES

EXERCISE 12.1

1. **Since Angelique and David are only planning on operating the business for the summer, a partnership would probably be the best form of business organization. A partnership is easy to form and relatively free from government regulation and restriction, which would make it easy to operate during their summer break.**

2. **Since Joe and Cathy will need to raise funds in the next year, it would probably be advisable for them to operate their business as a corporation. While a new private corporation may have the same difficulty as a partnership in raising capital, as shareholders of the corporation, Joe and Cathy will be personally liable for only the amounts they have invested in the business and the amount of loans they personally guarantee. If the business were to find itself in financial difficulty, Joe and Cathy would be held personally liable for all the debt of the business if they were to operate it as a partnership.**

3. **A partnership would work for these professors but to avoid liability resulting from the negligence of the other partners, a limited liability partnership may be the best form of organization for this business.**

4. **A limited partnership may be appropriate, particularly if the venture is set up as a real estate investment trust. Myles would be a general partner, and the large amount of capital could be raised from the other investors who would be limited partners. Another option would be a corporation.**

LO 1 BT: AN Difficulty: M Time: 15 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

EXERCISE 12.2

a.	Cash	50,000	
	K. Decker, Capital		50,000
	Invest cash in business.		
	Land	15,000	
	Building	80,000	
	S. Rosen, Capital		95,000
	Invest land and building in business.		
	Cash	9,000	
	Accounts Receivable	32,000	
	Equipment	39,000	
	Allowance for Doubtful Accounts		3,000
	E. Toso, Capital		77,000
	Invest assets in business.		

b.

Partners' Equity

K. Decker, capital	$50,000
S. Rosen, capital	95,000
E. Toso, capital	77,000
Total partners' equity	$222,000

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.3

Jan. 1	Cash	12,000	
	Accounts Receivable	14,000	
	Equipment	23,500	
	Allowance for Doubtful Accounts		3,000
	S. Vopat, Capital		46,500
	Invest assets in business.		

LO 2 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.4

a.

Income Summary	80,000	
K. Ison, Capital ($80,000 × 45%)		36,000
I. McCoy, Capital ($80,000 × 55%)		44,000
To close Income Summary.		

b.

Division of Profit

	K. Ison	I. McCoy	Total
Profit			$80,000
Salary allowance			
K. Ison	$30,000		
I. McCoy		$25,000	
Total			55,000
Profit remaining for allocation			25,000
Fixed ratio			
K. Ison ($25,000 × 45%)	11,250		
I. McCoy ($25,000 × 55%)		13,750	
Total			30,000
Profit remaining for allocation			0
Profit allocated to the partners	$41,250	$38,750	$60,000

Income Summary	80,000	
K. Ison, Capital		41,250
I. McCoy, Capital		38,750
To close Income Summary.		

EXERCISE 12.4 (Continued)

c.

Division of Profit

	K. Ison	I. McCoy	Total
Profit			$80,000
Salary allowance			
K. Ison	$40,000		
I. McCoy		$30,000	
Total			70,000
Profit remaining for allocation			10,000
Interest allowance			
K. Ison ($50,000 × 10%)	5,000		
I. McCoy ($80,000 × 10%)		8,000	
Total			13,000
Profit (deficiency) remaining for allocation			(3,000)
Fixed ratio			
K. Ison ($3,000 × 50%)	(1,500)		
I. McCoy ($3,000 × 50%)		(1,500)	
Total			3,000
Profit remaining for allocation			0
Profit allocated to the partners	$43,500	$36,500	$80,000

Income Summary	80,000	
K. Ison, Capital		43,500
I. McCoy, Capital		36,500
To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.5

a. (1)

HUMA AND HOW
Division of Profit
Year Ended June 30, 2024

	R. Huma	W. How	Total
Profit			$70,000
Salary allowance			
R. Huma	$32,000		
W. How		$20,000	
Total			52,000
Profit remaining for allocation			18,000
Interest allowance			
R. Huma ($65,000 × 5%)	3,250		
W. How ($50,000 × 5%)		2,500	
Total			5,750
Profit remaining for allocation			12,250
Fixed ratio			
R. Huma ($12,250 × 60%)	7,350		
W. How ($12,250 × 40%)		4,900	
Total			12,250
Profit remaining for allocation			0
Profit allocated to the partners	$42,600	$27,400	$70,000

EXERCISE 12.5 (Continued)

a. (2)

HUMA AND HOW
Division of Profit
Year Ended June 30, 2024

	R. Huma	W. How	Total
Profit			$55,000
Salary allowance			
R. Huma	$32,000		
W. How		$20,000	
Total			52,000
Profit remaining for allocation			3,000
Interest allowance			
R. Huma ($65,000 × 5%)	3,250		
W. How ($50,000 × 5%)		2,500	
Total			5,750
Profit (deficiency) remaining for allocation			(2,750)
Fixed ratio			
R. Huma ($2,750 × 60%)	(1,650)		
W. How ($2,750 × 40%)		(1,100)	
Total			(2,750)
Profit remaining for allocation			0
Profit allocated to the partners	$33,600	$21,400	$55,000

b.

			Debit	Credit
(1)	June 30	Income Summary	70,000	
		R. Huma, Capital		42,600
		W. How, Capital		27,400
		To close Income Summary.		
(2)	June 30	Income Summary	55,000	
		R. Huma, Capital		33,600
		W. How, Capital		21,400
		To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.6

a.

SINCLAIR AND LEIGH
Division of Loss

	D. Sinclair	J. Leigh	Total
Loss			$(15,000)
Salary allowance			
D. Sinclair	$50,000		
J. Leigh		$25,000	
Total			75,000
Deficiency remaining for allocation			(90,000)
Interest allowance			
D. Sinclair ($70,000 × 10%)	7,000		
J. Leigh ($95,000 × 10%)		9,500	
Total			16,500
Deficiency remaining for allocation			(106,500)
Fixed ratio			
D. Sinclair ($106,500 × 60%)	(63,900)		
J. Leigh ($106,500 × 40%)		(42,600)	
Total			(106,500)
Loss remaining for allocation			0
Loss allocated to the partners	$(6,900)	$(8,100)	$(15,000)

b.

D. Sinclair, Capital	6,900	
J. Leigh, Capital	8,100	
Income Summary		15,000
To close Income Summary.		

LO 3 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.7

a.

COPPERFIELD DEVELOPMENTS
Statement of Partners' Equity
Year Ended December 31, 2024

	A. Rodriguez	E. O'Grady	Total
Capital, January 1	$67,140	$78,140	$145,280
Add: Investment		3,540	3,540
Profit	33,099 [1]	44,131 [2]	77,230
	100,239	125,811	226,050
Less: Drawings	36,010	58,940	94,950
Capital, December 31	$64,229	$66,871	$131,100

[1] $77,230 × 3/7 = $33,099
[2] $77,230 × 4/7 = $44,131

b.

COPPERFIELD DEVELOPMENTS
Balance Sheet (partial)
December 31, 2024

Partners' equity	
Alvaro Rodriguez, capital	$64,229
Elisabetta O'Grady, capital	66,871
Total partners' equity	$131,100

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.8

a.

DRS. KOVAK AND DONOVAN
Income Statement
Year Ended November 30, 2024

Service revenue		$425,000
Expenses		
Salaries expense	$ 80,100	
Office expense	83,600	
Interest expense	4,100	167,800
Profit for the year		$257,200

DRS. KOVACIK AND DONOVAN
Statement of Partners' Equity
Year Ended November 30, 2024

	J. Kovak	S. Donovan	Total
Capital, December 1, 2023	$ 59,000	$ 33,000	$ 92,000
Add: Profit for the year	154,320*	102,880	257,200
	213,320	135,880	349,200
Less: Drawings	142,000	94,000	236,000
Capital, November 30, 2024	$ 71,320	$ 41,880	$113,200

* $257,200 × 60% = $154,320
* $257,200 × 40% = $102,880

EXERCISE 12.8 (Continued)

a. (Continued)

DRS. KOVAK AND DONOVAN
Balance Sheet
November 30, 2024

Assets

Current assets		
Cash		$33,900
Supplies		16,150
Total current assets		50,050
Property, plant, and equipment		
Equipment	$176,300	
Less: Accumulated depreciation	41,450	134,850
Total assets		$184,900

Liabilities and Partners' Equity

Current liabilities		
Accounts payable		$15,700
Long-term liabilities		
Notes payable, due 2025		56,000
Total liabilities		71,700
Partners' equity		
J. Kovak, capital	$71,320	
S. Donovan, capital	41,880	113,200
Total liabilities and partners' equity		$184,900

EXERCISE 12.8 (Continued)

b. Closing entries dated November 30, 2024

Service Revenue	**425,000**	
Income Summary		**425,000**
To close revenue account.		
Income Summary	**167,800**	
Salaries Expense		**80,100**
Office Expense		**83,600**
Interest Expense		**4,100**
To close expense accounts.		
Income Summary	**257,200**	
J. Kovak, Capital		**154,320**
S. Donovan, Capital		**102,880**
To close Income Summary.		
J. Kovak, Capital	**142,000**	
J. Kovak, Drawings		**142,000**
To close drawings account.		
S. Donovan, Capital	**94,000**	
S. Donovan, Drawings		**94,000**
To close drawings account.		

LO 3,4 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.9

a.

(1)	**Sept. 1**	**A. Veveris, Capital ....**	**27,500**	
		S. Weiss, Capital		**27,500**
		($55,000 × 1/2) = $27,500		
		To record purchase of an interest.		
(2)	**Sept. 1**	**A. Veveris, Capital**		
		($55,000 × 25%).................	**13,750**	
		J. Rubin, Capital		
		($35,000 × 25%)....................	**8,750**	
		S. Weiss, Capital		**22,500**
		To record purchase of an interest.		

b.

Alternative 1	**A. Veveris Capital**	**J. Rubin Capital**	**S. Weiss Capital**	**Total Capital**
Beginning balance	**$ 55,000**	**$ 35,000**		**$ 90,000**
S. Weiss admission	**(27,500)**		**$ 27,500**	
Ending balance	**$ 27,500**	**$ 33,000**	**$ 27,500**	**$ 90,000**

Alternative 2	**A. Veveris Capital**	**J. Rubin Capital**	**S. Weiss Capital**	**Total Capital**
Beginning balance	**$ 55,000**	**$ 35,000**		**$ 90,000**
S. Weiss admission	**(13,750)**	**(8,750)**	**$ 22,500**	
Ending balance	**$ 41,250**	**$ 26,250**	**$ 22,500**	**$ 90,000**

LO 5 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.10

a.

(1) Jan. 1

Cash	50,000	
M. Stavros, Capital (3/5 × $13,000)	7,800	
G. Metaxas, Capital (2/5 × $13,000)	5,200	
I. Xanthos, Capital		63,000
To record purchase of an interest.		

Total capital of existing partnership	$160,000
Investment by new partner, I. Xanthos	50,000
Total capital of new partnership	$210,000
I. Xanthos' capital credit (30% × $210,000)	$63,000
Investment by new partner, I. Xanthos	$50,000
I. Xanthos' capital credit	63,000
Bonus to new partner	$13,000

(2) Jan. 1

Cash	90,000	
M. Stavros, Capital (3/5 × $15,000)		9,000
G. Metaxas, Capital (2/5 × $15,000)		6,000
I. Xanthos, Capital		75,000
To record purchase of an interest.		

Total capital of existing partnership	$160,000
Investment by new partner, I. Xanthos	90,000
Total capital of new partnership	$250,000
I. Xanthos' capital credit (30% × $250,000)	$75,000
Investment by new partner, I. Xanthos	$90,000
I. Xanthos' capital credit	75,000
Bonus to old partners	$15,000

EXERCISE 12.10 (Continued)

b.

Alternative 1	M. Stavros Capital	G. Metaxas Capital	I. Xanthos Capital	Total Capital
Beginning balance	$100,000	$ 60,000		$160,000
I. Xanthos admission	(7,800)	(5,200)	$63,000	50,000
Ending balance	$ 92,200	$ 54,800	$63,000	$210,000

Alternative 2	M. Stavros Capital	G. Metaxas Capital	I. Xanthos Capital	Total Capital
Beginning balance	$100,000	$ 60,000		$160,000
I. Xanthos admission	9,000	6,000	$75,000	90,000
Ending balance	$109,000	$ 66,000	$75,000	$250,000

LO 5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.11

a.

1.	Dec. 31	A. Noll, Capital	30,000	
		J. Lane, Capital		15,000
		S. Miles, Capital		15,000
		To record withdrawal of a partner.		
2.	Dec. 31	A. Noll, Capital	30,000	
		S. Miles, Capital		30,000
		To record withdrawal of a partner.		
3.	Dec. 31	A. Noll, Capital	30,000	
		J. Lane, Capital		30,000
		To record withdrawal of a partner.		

b.

Condition 1	J. Lane Capital	S. Miles Capital	A. Noll Capital	Total Capital
Beginning balance	$ 50,000	$ 40,000	$ 30,000	$120,000
A. Noll withdrawal	15,000	15,000	(30,000)	
Ending balance	$ 65,000	$ 55,000	0	$120,000

Condition 2	J. Lane Capital	S. Miles Capital	A. Noll Capital	Total Capital
Beginning balance	$ 50,000	$ 40,000	$ 30,000	$120,000
A. Noll withdrawal		30,000	(30,000)	
Ending balance	$ 50,000	$ 70,000	0	$120,000

Condition 3	J. Lane Capital	S. Miles Capital	A. Noll Capital	Total Capital
Beginning balance	$ 50,000	$ 40,000	$ 30,000	$120,000
A. Noll withdrawal	30,000		(30,000)	
Ending balance	$ 80,000	$ 40,000	0	$120,000

LO 6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.12

a.

1.	**Sept. 30**	**K. White, Capital**	**74,000**	
		D. Nagel, Capital	**6,429**	
		I. Mbango, Capital	**2,571**	
		Cash		**83,000**
		To record withdrawal of a partner.		

Capital balance of withdrawing partner	**$74,000**
Payment to withdrawing partner	**83,000**
Bonus to retiring partner	**$9,000**

Allocation of bonus:

D. Nagel, Capital ($9,000 × 5/7)	**$6,429**	
I. Mbango, Capital ($9,000 × 2/7)	**2,571**	**$9,000**

2.	**Sept. 30**	**K. White, Capital**	**74,000**	
		D. Nagel, Capital		**10,714**
		I. Mbango, Capital		**4,286**
		Cash		**59,000**
		To record withdrawal of a partner.		

Capital balance of withdrawing partner	**$74,000**
Payment to withdrawing partner	**59,000**
Bonus to remaining partners	**$15,000**

Allocation of bonus:

D. Nagel, Capital ($15,000 × 5/7)	**$10,714**	
I. Mbango, Capital ($15,000 × 2/7)	**4,286**	**$15,000**

EXERCISE 12.12 (Continued)

b.

Condition 2	D. Nagel Capital	K. White Capital	I. Mbango Capital	Total Capital
Beginning balance	$92,000	$74,000	$6,000	$172,000
K. White withdrawal	10,714	(74,000)	4,286	(59,000)
Ending balance	$102,714	-	$10,286	$113,000

LO 6 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.13

a.

Cash	88,000	
Fung, Capital (50% × $13,500)		6,750
Amlani, Capital (30% × $13,500)		4,050
Ironside, Capital (20% × $13,500)		2,700
Garcha, Capital		74,500
To record purchase of an interest.		

Total capital of existing partnership	$210,000
Investment by new partner, Garcha	88,000
Total capital of new partnership	$298,000
Garcha's capital credit (25% × $298,000)	$74,500
Investment by new partner, Garcha	$88,000
Garcha's capital credit	74,500
Bonus to old partners	$13,500

b.

Fung, Capital	100,000	
Amlani, Capital	6,000	
Ironside, Capital	4,000	
Cash		110,000
To record withdrawal of a partner.		

Capital balance of withdrawing partner	$100,000
Payment to withdrawing partner	110,000
Bonus to withdrawing partner	$10,000

Allocation of bonus:

Amlani, Capital ($10,000 × 3/5)	$6,000	
Ironside, Capital ($10,000 × 2/5)	4,000	$10,000

LO 5,6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.14

a.

		Partners' Capital			
	Cash	**Wong Capital**	**Hong Capital**	**Pai Capital**	**Total Capital**
Balance before liquidation	**$172,700**	**$ 87,400**	**$ 34,500**	**$ 50,800**	**$ 172,700**
Final liquidation	**(172,700)**	**(87,400)**	**(34,500)**	**(50,800)**	**(172,700)**
Final balances	**0**	**0**	**0**	**0**	**0**

EXERCISE 12.14 (Continued)

b.

	Cash	Non-Cash Assets	Partners' Capital Windl Capital	Houghton Capital	Pahli Capital	Total Capital
Balance before liquidation	$142,700	$30,000	$ 87,400	$ 34,500	$ 50,800	$ 172,700
Sale of non-cash assets share of losses		(30,000)	(10,000)	(10,000)	(10,000)	(30,000)
Balance	142,700	-	77,400	24,500	40,800	142,700
Final liquidation	(142,700)	-	(77,400)	(24,500)	(40,800)	(142,700)
Final balances	-	-	-	-	-	-

LO 7 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.15

THE BRAUN COMPANY
Liquidation Schedule
December 31

a.

	Assets		= Liabilities	+ Partners' Capital		
	Cash	Noncash Assets		Ho Capital	Li Capital	Total Capital
Account balances prior to liquidation	$15,000	$110,000	$60,000	$40,000	$25,000	$65,000
Sale of noncash assets	110,000	(110,000)				
Balances	125,000	-	60,000	40,000	25,000	65,000
Payment of liabilities	(60,000)		(60,000)			
Balances	65,000	-	-	40,000	25,000	65,000
Distribution of cash to partners	(65,000)			(40,000)	(25,000)	(65,000)
Final balances	-	-	-	-	-	-

EXERCISE 12.15 (Continued)

THE BRAUN COMPANY
Liquidation Schedule
December 31

b.

	Assets		= Liabilities	+ Partners' Capital		
	Cash	Noncash Assets		Ho Capital	Li Capital	Total Capital
Account balances prior to liquidation	$15,000	$110,000	$ 60,000	$40,000	$25,000	$65,000
Sale of noncash assets	60,000	(110,000)		(30,000)	(20,000)	(50,000)
Balances	75,000	-	60,000	10,000	5,000	15,000
Payment of liabilities	(60,000)		(60,000)			
Balances	15,000	-	-	10,000	5,000	15,000
Distribution of cash to partners	(15,000)			(10,000)	(5,000)	(15,000)
Final balances	-	-	-	-	-	-

LO 7 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.16

Summary a., b., and c.

BAYLEE COMPANY
Liquidation Schedule
December 31

	Assets			= Liabilities +	Partners' Capital		
	Cash	Equipment	Acc. Depr. Equipment	Accounts Payable	H. Bayer Capital	J. Leech Capital	Total Capital
Account balances prior to liquidation	$40,000	$ 130,000	$ 40,000	$ 55,000	$ 45,000	$30,000	$75,000
Sale of assets and share of gain	100,000	(130,000)	(40,000)		5,000	5,000	10,000
Balances	140,000	0	0	55,000	50,000	35,000	85,000
Payment of liabilities	(55,000)			(55,000)			
Balances	85,000	0	0	0	50,000	35,000	85,000
Distribution of cash to partners	(85,000)				(50,000)	(35,000)	(85,000)
Final balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

a. Gain of $10,000 ($100,000 - $90,000) is b. allocated equally between the partners $5,000 each.
c. Balance of cash paid Dec. 31: H. Bayer $50,000 and J. Leech $35,000.

LO 7 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.17

a.	Dec. 31	Cash	100,000	
		Accumulated Depreciation	40,000	
		Equipment		130,000
		Gain on Realization		10,000
		To record realization of assets.		
b.	Dec. 31	Gain on Realization	10,000	
		H. Bayer, Capital ($10,000 × 50%)		5,000
		J. Leech, Capital ($10,000 × 50%)		5,000
		To allocate gain on realization.		
c.	Dec. 31	Accounts Payable	55,000	
		Cash		55,000
		Payment on account.		
d.	Dec. 31	H. Bayer, Capital	50,000	
		J. Leech, Capital	35,000	
		Cash		85,000
		To record final distribution to partners.		

LO 7 BT: AP Difficulty: S Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.18

a. (1)

Cash	8,000	
Pena, Capital		8,000

(2)

Vogel, Capital	17,000	
Cheema, Capital	15,000	
Cash		32,000

		Partners' Capital			
	Cash	Vogel Capital	Cheema Capital	Pena Capital	Total Capital
Balance before liquidation	$24,000	$ 17,000	$ 15,000	$(8,000)	$ 24,000
Payment of capital deficiency	8,000			8,000	8,000
Final liquidation	(32,000)	(17,000)	(15,000)	0	(32,000)
Final balances	0	0	0	0	0

EXERCISE 12.18 (Continued)

b.	(1)	Vogel, Capital	5,000	
		Cheema, Capital	3,000	
		Pena, Capital		8,000
	(2)	Vogel, Capital	12,000	
		Cheema, Capital	12,000	
		Cash		24,000

		Partners' Capital			
	Cash	Vogel Capital	Cheema Capital	Pena Capital	Total Capital
Balance before liquidation	$24,000	$ 17,000	$ 15,000	$(8,000)	$ 24,000
Absorption of capital deficiency		(5,000)[1]	(3,000)[2]	8,000	
Final liquidation	(24,000)	(12,000)	(12,000)	0	(24,000)
Final balances	0	0	0	0	0

[1] $8,000 x 5/8 = $5,000
[2] $8,000 x 3/8 = $3,000

LO 7 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

EXERCISE 12.19

b.

LOL PARTNERSHIP
Liquidation Schedule
December 31

	Assets		= Liabilities	+ Partners' Capital			
	Cash	Noncash Assets		O. Low Capital	A. Olson Capital	S. Lokum Capital	Total Capital
Account balances prior to liquidation	$15,000	$ 121,000	$22,000	$ 45,100	$ 59,900	$9,000	$114,000
Sale of assets and share of loss	85,000	(121,000)		(12,000)	(12,000)	(12,000)	(36,000)
Balances	100,000	0	22,000	33,100	47,900	(3,000)	78,000
Payment of liabilities	(22,000)		(22,000)				
Balances a., b.	78,000	0	0	33,100	47,900	(3,000)	78,000
Payment of capital deficiency	3,000					3,000	3,000
Balances	81,000	0	0	33,100	47,900	0	81,000
Distribution of cash to partners	(81,000)			(33,100)	(47,900)		(81,000)
Final balances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

EXERCISE 12.19 (Continued)

a.

Proceeds from the sale of noncash assets	$85,000
Book value of noncash assets	121,000
Loss on sale of noncash assets	$36,000
Cash balance after paying the liabilities	$78,000
Refer to Liquidation Schedule above	

b. Refer to Liquidation Schedule above

c.

Dec. 31	Cash	3,000	
	S. Lokum, Capital		3,000
	To invest cash in business.		
31	O. Low, Capital	33,100	
	A. Olson, Capital	47,900	
	Cash		81,000
	To record final distribution to partners.		

d.

Dec. 31	O. Low, Capital ($3,000 × 50%)	1,500	
	A. Olson, Capital ($3,000 × 50%)	1,500	
	S. Lokum, Capital		3,000
	To reallocate capital deficiency.		
31	O. Low, Capital ($33,100 – $1,500)	31,600	
	A. Olson, Capital ($47,900 – $1,500)	46,400	
	Cash		78,000
	To record final distribution to partners.		

LO 7 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

SOLUTIONS TO PROBLEMS

PROBLEM 12.1A

a. Advantages of forming a partnership instead of a corporation include:

i. A partnership is more easily formed and less expensive to establish than a corporation.

ii. A partnership is controlled by fewer government regulations and restrictions than is a corporation.

iii. Decisions can be made quickly on important matters that affect the firm.

Disadvantages of forming a partnership instead of a corporation include:

i. Mutual agency provides for the risk of the actions taken by any of the partners that affects all partners. The action of any partner is binding on all other partners.

ii. Limited life since the ownership of the business is not easily transferred by the sale of shares as is the case for corporations.

iii. Unlimited liability in general partnerships. Each partner is jointly and severally (individually) liable for all partnership liabilities.

b.

Jan.	1	Cash	14,000	
		Accounts Receivable	17,500	
		Merchandise Inventory	28,000	
		Equipment	25,000	
		Allowance for Doubtful Accounts		4,500
		Accounts Payable		40,000
		I. Domic, Capital		40,000
		To invest assets in business.		

PROBLEM 12.1A (Continued)

b. (Continued)

				Debit	Credit
	Jan.	1	Cash	12,000	
			Accounts Receivable	26,000	
			Merchandise Inventory	20,000	
			Equipment	35,000	
			Allowance for Doubtful Accounts		5,000
			Accounts Payable		46,000
			P. Dasilva, Capital		42,000
			To invest assets in business.		
c.	Jan.	1	Cash ($42,000 – $40,000)	2,000	
			I. Domic, Capital		2,000
			To invest cash in business.		

PROBLEM 12.1A (Continued)

d.

DOMINIC AND DASILVA PARTNERSHIP
Balance Sheet
January 1, 2024

Assets

Current assets	
Cash ($14,000 + $12,000 + $2,000)	$ 28,000
Accounts receivable[1]	34,000
Merchandise inventory ($28,000 + $20,000)	48,000
Total current assets	110,000
Property, plant, and equipment	
Equipment ($25,000 + $35,000)	60,000
Total assets	$170,000

Liabilities and Partners' Equity

Current liabilities	
Accounts payable ($40,000 + $46,000)	$86,000
Partners' equity	
I. Domic, capital	42,000
P. Dasilva, capital	42,000
Total partners' equity	84,000
Total liabilities and partners' equity	$170,000

[1]($17,500 - $4,500 + $26,000 - $5,000) = $34,000

PROBLEM 12.1A (Continued)

Taking It Further:

Advantages of forming a partnership instead of operating as two proprietorships include:

i. **The skills of the two individuals forming the partnership may be complementary and so their ability to provide better services to their customers is enhanced.**
ii. **The partnership will provide an ability to share the tasks involved in running the business.**
iii. **A partnership will likely provide more security to the individual partners in case of illness or absence.**
iv. **The combined capital of the partners will help secure debt for operations.**
v. **The partnership structure might assist one of the partners in a succession plan.**

LO 1,2 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.2A

a.	Dec. 31	Income Summary	90,000	
		Z. Gable, Capital		45,000
		M. Smith, Capital		45,000
		To close Income Summary.		

Profit is shared equally.

b.

Division of Profit

	Z. Gable	M. Smith	Total
Profit			$60,000
Salary allowance			
Z. Gable	$42,000		
M. Smith		$30,000	
Total			72,000
Profit (deficiency) remaining for allocation			(12,000)
Fixed ratio			
Z. Gable ($12,000 × 50%)	(6,000)		
M. Smith ($12,000 × 50%)		(6,000)	
Total			12,000
Profit remaining for allocation			0
Profit allocated to the partners	$36,000	$24,000	$60,000

Dec. 31	Income Summary	60,000	
	Z. Gable, Capital		36,000
	M. Smith, Capital		24,000
	To close Income Summary.		

PROBLEM 12.2A (Continued)

c.

Division of Profit

	Z. Gable	M. Smith	Total
Profit			$60,000
Salary allowance			
Z. Gable	$40,000		
M. Smith		$30,000	
Total			70,000
Profit (deficiency) remaining for allocation			(10,000)
Interest allowance			
Z. Gable ($20,000 × 5%)	1,000		1,000
Profit (deficiency) remaining for allocation			(11,000)
Fixed ratio			
Z. Gable ($11,000 × 60%)	(6,600)		
M. Smith ($11,000 × 40%)		(4,400)	
Total			11, 000
Profit remaining for allocation			0
Profit allocated to the partners	$34,400	$25,600	$60,000

		Debit	Credit
Dec. 31	Income Summary	60,000	
	Z. Gable, Capital		34,400
	M. Smith, Capital		25,600
	To close Income Summary.		

Taking It Further:

Delaying arriving at an agreement on how to share income before starting the fiscal year has the advantage of adding fairness by applying hindsight to the salary allowance portion of the formula based on the amount of work performed. The disadvantage in delaying is allowing for disputes to occur after the fact, particularly if the results are not in line with expectations, or if unforeseen events cause one of the partners not being able to work as hard as was initially expected.

LO 3 BT: AP Difficulty: M Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.3A

a.

1. Dec. 31	Income Summary	30,000	
	J. Chapman, Capital[1]		18,000
	C. Roper, Capital[2]		9,000
	H. Weir, Capital[3]		3,000
	To close Income Summary.		

[1] ($30,000 × 6/10) = $18,000

[2] ($30,000 × 3/10) = $9,000

[3] ($30,000 × 1/10) = $3,000

PROBLEM 12.3A (Continued)

a. (Continued)

2.	Dec. 31	Income Summary	40,000	
		J. Chapman, Capital		5,000
		C. Roper, Capital		20,000
		H. Weir, Capital		15,000
		To close Income Summary.		

CRW PARTNERS
Division of Profit
Year Ended December 31, 2024

	J. Chapman	C. Roper	H. Weir	Total
Profit				$40,000
Salary allowance				
C. Roper		$15,000		
H. Weir			$10,000	
Total				25,000
Profit remaining for allocation				15,000
Fixed ratio (remainder shared equally)				
J. Chapman ($15,000 × 1/3)	$5,000			
C. Roper ($15,000 × 1/3)		5,000		
H. Weir ($15,000 × 1/3)			5,000	
Total				15,000
Profit remaining for allocation				0
Profit allocated to the partners	$5,000	$20,000	$15,000	$40,000

PROBLEM 12.3A (Continued)

a. (Continued)

3.	Dec. 31	Income Summary	40,000	
		J. Chapman, Capital		16,150
		C. Roper Capital		10,810
		H. Weir, Capital		13,040
		To close Income Summary.		

CRW PARTNERS
Division of Profit
Year Ended December 31, 2024

	J. Chapman	C. Roper	H. Weir	Total
Profit				$40,000
Interest allowance				
J. Chapman ($48,000 × 10%)	$4,800			
C. Roper ($30,000 × 10%)		$3,000		
H. Weir ($25,000 × 10%)			$2,500	
Total				10,300
Profit remaining for allocation				29,700
Salary allowance				
J. Chapman	15,000			
C. Roper		10,000		
H. Weir			12,000	
Total				37,000
Profit (deficiency) remaining for allocation				(7,300)
Fixed ratio				
Chapman [$(7,300) × 5/10]	(3,650)			
Roper [$(7,300) × 3/10]		(2,190)		
H. Weir [$(7,300) × 2/10]			(1,460)	
Total				(7,300)
Profit remaining for allocation				0
Profit allocated to the partners	$16,150	$10,810	$13,040	$40,000

PROBLEM 12.3A (Continued)

b.

CRW PARTNERS
Statement of Partners' Equity
Year Ended December 31, 2024

	J. Chapman	C. Roper	H. Weir	Total
Capital, January 1	$48,000	$30,000	$25,000	$103,000
Add: Profit for the year	5,000	20,000	15,000	40,000
	53,000	50,000	40,000	143,000
Less: Drawings	23,000	14,000	10,000	47,000
Capital, December 31	$30,000	$36,000	$30,000	$96,000

Taking It Further:

The partnership would include an interest allowance in its profit- and loss-sharing arrangements to reward those partners that assist in the financing of the business by leaving their capital in the business. Were it not for this willingness, the partnership would have to incur additional interest costs in order borrow cash to finance operations.

LO 3,4 BT: AP Difficulty: M Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.4A

a.

STOREY ROGERS PARTNERSHIP
Income Statement
Year Ended December 31, 2024

Sales	$340,000
Cost of goods sold	250,000
Gross profit	90,000
Operating expenses	130,000
Loss for the year	$(40,000)

b.

STOREY ROGERS PARTNERSHIP
Division of Loss
Year Ended December 31, 2024

	V. Storey	G. Rogers	Total
Loss			$(40,000)
Salary allowance			
V. Storey	$30,900		
G. Rogers		$39,700	
Total			70,600
Deficiency remaining for allocation			(110,600)
Interest allowance			
V. Storey ($82,000 × 5%)	4,100		
G. Rogers ($101,000 × 5%)		5,050	
Total			9,150
Deficiency remaining for allocation			(119,750)
Fixed ratio			
V. Storey [$(119,750) × 2/5]	(47,900)		
G. Rogers [$(119,750) × 3/5]		(71,850)	
Total			(119,750)
Loss remaining for allocation			0
Loss allocated to the partners	$(12,900)	$(27,100)	$(40,000)

PROBLEM 12.4A (Continued)

c.

STOREY ROGERS PARTNERSHIP
Statement of Partners' Equity
Year Ended December 31, 2024

	V. Storey	G. Rogers	Total
Capital, January 1	$ 82,000	$101,000	$183,000
Less: Drawings	24,000	28,800	52,800
Loss for the year	12,900	27,100	40,000
	36,900	55,900	92,800
Capital, December 31	$ 45,100	$ 45,100	$ 90,200

d.

Date	Account Titles and Explanation	Debit	Credit
Dec. 31	Sales	340,000	
	Income Summary		340,000
	To close revenue account.		
31	Income Summary	380,000	
	Cost of Goods Sold		250,000
	Operating Expenses		130,000
	To close expense accounts.		
31	V. Storey, Capital	12,900	
	G. Rogers, Capital	27,100	
	Income Summary		40,000
	To close Income Summary.		
31	V. Storey, Capital	24,000	
	G. Rogers, Capital	28,800	
	V. Storey, Drawings		24,000
	G. Rogers, Drawings		28,800
	To close drawings accounts.		

PROBLEM 12.4A (Continued)

Taking It Further:

While it might be reasonable to revisit the agreement for sharing profit or loss in light of this information, Veda Storey cannot force a change in the agreement on her partner. Veda should appeal to fairness with her partner and either amend the agreement prior to the current year allocation of the loss, or devise another method, such as change the profit allocation formula for the next year.

LO 3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.5A

a.

KANT-ADDER PARTNERSHIP
Income Statement
Year Ended March 31, 2024

Service revenue		$255,000
Expenses		
Salaries expense	$80,000	
Rent expense	36,000	
Interest expense	5,000	
Depreciation expense	8,000	
Supplies expense	5,000	
Total expenses		134,000
Profit for the year		$121,000

KANT-ADDER PARTNERSHIP
Statement of Partners' Equity
Year Ended March 31, 2024

	I. Kant	U. Adder	Total
Capital, April 1	$25,000	$ 30,000	$ 55,000
Add: Investment	5,000	0	5,000
Profit for the year*	80,667	40,333	121,000
	110,667	70,333	181,000
Less: Drawings	90,000	60,000	150,000
Capital, March 31	$ 20,667	$ 10,333	$ 31,000

* I. Kant: $121,000 × 2/3 = $80,667
U. Adder: $121,000 × 1/3 = $40,333

PROBLEM 12.5A (Continued)

(a) (Continued)

KANT-ADDER PARTNERSHIP
Balance Sheet
March 31, 2024

Assets

Current assets		
Cash		$ 14,000
Accounts receivable		61,000
Supplies		1,500
Total current assets		76,500
Property, plant, and equipment		
Equipment	$42,000	
Less: Accumulated depreciation	12,000	30,000
Total assets		$106,500

Liabilities and Partners' Equity

Current liabilities	
Accounts payable	$ 12,500
Salaries payable	8,000
Unearned revenue	5,000
Current portion of note payable	1,500
Total current liabilities	27,000
Long-term liabilities	
Note payable, net of current portion	48,500
Total liabilities	75,500
Partners' equity	
I. Kant, capital	20,667
U. Adder, capital	10,333
Total partners' equity	31,000
Total liabilities and partners' equity	$106,500

PROBLEM 12.5A (Continued)

b.

Mar. 31	**Service Revenue**	**255,000**	
	Income Summary		**255,000**
	To close revenue account.		
31	**Income Summary**	**134,000**	
	Salaries Expense		**80,000**
	Rent Expense		**36,000**
	Interest Expense		**5,000**
	Depreciation Expense		**8,000**
	Supplies Expense		**5,000**
	To close expense accounts.		
31	**Income Summary**	**121,000**	
	I. Kant, Capital		**80,667**
	U. Adder, Capital		**40,333**
	To close Income Summary.		
31	**U. Adder, Capital**	**60,000**	
	I. Kant, Capital	**90,000**	
	U. Adder, Drawings		**60,000**
	I. Kant, Drawings		**90,000**
	To close drawings accounts.		

Taking It Further:

In this case, once the profit is added to the capital accounts, drawings were less than the capital balances. The amount of the drawings taken by individual partners can be any amount that the partners agree to. However, problems may arise in the future if insufficient capital is left in the business to fund operations.

LO 3,4 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.6A

a.

Dec. 31	T. Gilligan, Drawings	20,000	
	M. Melnyk, Drawings	10,000	
	Salaries Expense		30,000
	To correct error.		

b.

Profit as reported:	$11,600
Add back salaries expense	30,000
Revised profit	$41,600

The profit allocation is $20,800 ($41,600 ÷ 2) to each partner since no agreement as to the allocation of profit was made.

c.

TY & MATT SNOW REMOVAL SERVICES
Statement of Partners' Equity
Year Ended December 31, 2024

	T. Gilligan	M. Melnyk	Total
Capital, Jan. 1	0	0	0
Add: Investment	$ 4,000	$11,000	$15,000
Profit for the year	20,800	20,800	41,600
	24,800	31,800	56,600
Less: Drawings	20,000	10,000	30,000
Capital, December 31	$ 4,800	$21,800	$26,600

PROBLEM 12.6A (Continued)

d.

TY & MATT SNOW REMOVAL SERVICES
Balance Sheet
December 31, 2024

Assets			
Current assets			
Cash			$ 17,000
Property, plant, and equipment			
Equipment	$ 2,000		
Less: Accumulated depreciation	400	$1,600	
Vehicles	10,000		
Less: Accumulated depreciation	2,000	8,000	
Total property, plant, and equipment			9,600
Total assets			$26,600
Partners' Equity			
Partners' equity			
T. Gilligan, capital			$ 4,800
M. Melnyk, capital			21,800
Total partners' equity			$26,600

Taking It Further:

Due to inexperience, Tyler and Matt failed to come to an agreement on their allocation of profit before they began their business together. This failure caused the profit to be shared equally at the end of the first year of operations. While Tyler is correct that an equal allocation might not be fair if he worked twice as hard as Matt, Matt also has a good point in arguing that he should be rewarded for his larger investment into the business on January 1, 2024. Tyler and Matt should come to some agreement for a fair allocation of profit for the coming year and document the details in writing.

LO 3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.7A

a.	May 1	Cash	23,500	
		Watson, Capital		23,500
		To invest cash in business.		

Total capital of existing partnership	$94,000
Investment by Watson	23,500
Total capital of new partnership	$117,500
Watson's capital credit ($117,500 × 20%)	$23,500
Investment by Watson	$23,500
Watson's capital credit	23,500
Bonus	$ 0

b.	May 1	Cash	35,000	
		Dexter, Capital ($9,200 × 5/10)		4,600
		Emley, Capital ($9,200 × 3/10)		2,760
		Singh, Capital ($9,200 × 2/10)		1,840
		Watson, Capital		25,800
		To invest cash in business.		

Total capital of existing partnership	$94,000
Investment by Watson	35,000
Total capital of new partnership	$129,000
Watson's capital credit ($129,000 × 20%)	$25,800
Investment by Watson	$35,000
Watson's capital credit	25,800
Bonus to old partners	$ 9,200

PROBLEM 12.7A (Continued)

c.	**May 1**	**Cash**	**10,000**	
		Dexter, Capital ($10,800 × 5/10)	**5,400**	
		Emley, Capital ($10,800 × 3/10)	**3,240**	
		Singe, Capital ($10,800 × 2/10)	**2,160**	
		Watson, Capital		**20,800**
		To invest cash in business.		

Total capital of existing partnership	**$94,000**
Investment by Watson	**10,000**
Total capital of new partnership	**$104,000**
Watson's capital credit ($104,000 × 20%)	**$20,800**
Investment by Watson	**$10,000**
Watson's capital credit	**20,800**
Bonus to new partner	**$10,800**

Taking It Further:

Limited Liability Partnerships (LLPs) are designed to protect innocent partners from negligent actions of other partners. Partners remain fully liable for their own negligence as well as those they supervise and control but have limited liability for negligence of the other partners. Since all partners will be active in the DESW Partnership, this type of partnership might be the way to address Watson's concerns.

LO 5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.8A

a.

May 1	W. Sanga, Capital ($59,000 × 50%)	29,500	
	N. Osvald, Capital......................		29,500
	To record purchase of an interest.		

b.

May 1	Cash..	68,000	
	R. Short, Capital ($5,600 × 3/9)	1,867	
	K. Osborne, Capital ($5,600 × 2/9)	1,244	
	W. Sanga, Capital ($5,600 × 4/9)	2,489	
	N. Osvald, Capital......................		73,600
	To invest cash in business.		

Total capital of existing partnership..........	$116,000
Investment by N. Osvald	68,000
Total capital of new partnership	$184,000

N. Osvald's capital credit ($184,000 × 40%) $73,600

Investment by N. Osvald	$68,000
N. Osvald's capital credit	73,600
Bonus to new partner	$ 5,600

PROBLEM 12.8A (Continued)

c.	May 1	Cash	41,000	
		R. Short, Capital ($9,600 × 3/9)		3,200
		K. Osborne, Capital ($9,600 × 2/9)		2,133
		W. Sanga, Capital ($9,600 × 4/9)		4,267
		N. Osvald, Capital		31,400
		To invest cash in business.		

Total capital of existing partnership	$116,000
Investment by N. Osvald	41,000
Total capital of new partnership	$157,000

N. Osvald's capital credit ($157,000 × 20%)	$31,400

Investment by N. Osvald	$41,000
N. Osvald's capital credit	31,400
Bonus to old partners	$ 9,600

d.	May 1	Cash	29,000	
		N. Osvald, Capital		29,000
		To invest cash in business.		

Total capital of existing partnership	$116,000
Investment by N. Osvald	29,000
Total capital of new partnership	$145,000

N. Osvald's capital credit ($145,000 × 20%)	$29,000

No bonus to new or existing partners.

PROBLEM 12.8A (Continued)

Taking It Further:

A new partner would be willing to give a bonus to existing partners because he does not have any experience in the business and would like to be in a position to take over parts of the business from any retiring partners in the future. The admission of the new partner fits within the succession plan of the existing partners. This is often true in a dental practice.

LO 5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.9A

a.	Dec. 31	R. Antoni, Capital	48,000	
		P. Jiang, Capital		48,000
		To record purchase of an interest.		

b.	Dec. 31	R. Antoni, Capital	48,000	
		H. Fang, Capital ($10,000 × 6/9)	6,667	
		P. Jiang, Capital ($10,000 × 3/9)	3,333	
		Cash		58,000
		To record withdrawal of partner.		

R. Antoni's capital balance	$48,000
Payment to R. Antoni	58,000
Bonus to R. Antoni	$10,000

c.	Dec. 31	R. Antoni, Capital	48,000	
		H. Fang, Capital ($9,800 × 6/9)		6,533
		P. Jiang, Capital ($9,800 × 3/9)		3,267
		Cash		38,200
		To record withdrawal of partner.		

R. Antoni's capital balance	$48,000
Payment to R. Antoni	38,200
Bonus to remaining partners	$ 9,800

PROBLEM 12.9A (Continued)

Taking It Further:

The partnership agreement should contain a clause covering the options for payment to a withdrawing partner.

Assuming the partnership agreement provides for some flexibility or choice, the next factor would be to determine if the necessary cash is currently available from the partnership assets. On the other hand, if the remaining partners have sufficient personal cash, they might be willing to pay the withdrawing partner from personal cash. This would ensure that sufficient cash remains in the business and the business does not have to take on additional debt to pay off the withdrawing partner.

LO 6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.10A

a.

March 1	H. Deol, Capital	72,000	
	M. Kumar, Capital ($18,000 × 4/5)	14,400	
	A. Kassam, Capital ($18,000 × 1/5)	3,600	
	Cash		90,000
	To record withdrawal of partner.		

b. M. Kumar, Capital $85,000 – $14,400 = $70,600
A. Kassam, Capital $43,000 – $3,600 = $39,400

c.

Feb. 28	Income Summary	24,000	
	M. Kumar, Capital ($24,000 × 4/6)		16,000
	A. Kassam, Capital ($24,000 × 2/6)		8,000
	To close Income Summary.		

d.

M. Kumar, Capital ($70,600 + $16,000)	$86,600
A. Kassam, Capital ($39,400 + $8,000)	47,400
Total partnership capital	$134,000

PROBLEM 12.10A (Continued)

e.	March 1	Cash	75,000	
		M. Kumar, Capital ($19,050 × 4/6)...................	12,700	
		A. Kassam, Capital ($19,050 × 2/6)...................	6,350	
		C. Mawani, Capital............		94,050
		To record admission of partner.		

Total capital of existing partnership..........	$134,000
Investment by C. Mawani	75,000
Total capital of new partnership	$209,000

C. Mawani's capital credit ($209,000 × 45%) $94,050

Investment by C. Mawani	$75,000
C. Mawani's capital credit	94,050
Bonus to new partner	$19,050

f.	M. Kumar, Capital ($86,600 – $12,700)	$73,900
	A. Kassam, Capital ($47,400 – $6,350)	41,050
	C. Mawani, Capital	94,050
	Total partnership capital	$209,000

Taking It Further:

The remaining partners would be willing to pay a bonus to a withdrawing partner if, for example, the withdrawing partner leaves their clients with the continuing partners. Or, there might have been conflict between the withdrawing partner and the remaining partners that lead to the remaining partners asking the withdrawing partner to withdraw. In that situation, the remaining partners may pay a bonus to the withdrawing partner to ensure the person leaves. A bonus to a withdrawing partner may also be paid when the book value of the partnership's assets is less than their fair value.

LO 3,5,6 BT: AP Difficulty: C Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.11A

a.

Item	Cash	Accounts Receivable	Equipment	Accum. Depreciation	Accounts Payable	A. Hunt Capital	K. Lally Capital	D. Portman Capital
Balances before liquidation	$32,600	$28,000	$48,600	$16,800	$30,200	$42,100	$18,800	$1,300
Sale of noncash assets	59,800	(28,000)	(48,600)	(16,800)				
	92,400	-	-	-	30,200	42,100	18,800	1,300
Payment of liabilities	(30,200)				(30,200)			
	62,200				-	42,100	18,800	1,300
Allocation of cash	(62,200)					(42,100)	(18,800)	(1,300)
	-					-	-	-

PROBLEM 12.11A (Continued)

a. (Continued)

June	30	Cash	59,800	
		Accumulated Depreciation – Equipment	16,800	
		Accounts Receivable		28,000
		Equipment		48,600
		To record realization of assets.		
June	30	Accounts Payable	30,200	
		Cash		30,200
		Payment on account.		
June	30	A. Hunt Capital	42,100	
		K. Lally, Capital	18,800	
		D. Portman, Capital	1,300	
		Cash		62,200
		To record final distribution to partners.		

PROBLEM 12.11A (Continued)

b.

Item	Cash	Accounts Receivable	Equipment	Accum. depreciation	Accounts Payable	A. Hunt Capital	K. Lally Capital	D. Portman Capital
Balances before liquidation	$32,600	$28,000	$48,600	$16,800	$30,200	$42,100	$18,800	$1,300
Sales of noncash assets and loss on sale of assets	45,000	(28,000)	(48,600)	(16,800)		(7,400)	(4,440)	(2,960)
	77,600	-	-	-		34,700	14,360	(1,660)
Payment of liabilities	(30,200)				(30,200)			
	47,400				-	34,700	14,360	(1,660)
Payment of deficiency	1,660							1,660
	49,060					34,700	14,360	0
Allocation of cash	(49,060)					(34,700)	(14,360)	0
	0					0	0	0

PROBLEM 12.11A (Continued)

b. (Continued)

June	30	Cash	45,000	
		Accumulated Depreciation – Equipment	16,800	
		Loss on Realization	14,800	
		Accounts Receivable		28,000
		Equipment		48,600
		To record realization of assets.		
	30	A. Hunt, Capital ($14,800 × 50%)	7,400	
		K. Lally, Capital ($14,800 × 30%)	4,440	
		D. Portman, Capital ($14,800 × 20%)	2,960	
		Loss on Realization		14,800
		To allocate loss on realization.		
	30	Accounts Payable	30,200	
		Cash		30,200
		Payment on account.		
	30	Cash ($1,300 – $2,960)	1,660	
		D. Portman, Capital		1,660
		Invest cash in business.		
	30	A. Hunt, Capital ($42,100 – $7,400)	34,700	
		K. Lally, Capital ($18,800 – $4,440)	14,360	
		Cash ($32,600 + $45,000 – $30,200 + $1,660)		49,060
		To record final distribution to partners.		

PROBLEM 12.11A (Continued)

c.

Item	Cash	Accounts Receivable	Equipment	Accum. Depreciation	Accounts Payable	A. Hunt Capital	K. Lally Capital	D. Portman Capital
Balances before liquidation	$32,600	$28,000	$48,600	$16,800	$30,200	$42,100	$18,800	$1,300
Sales of noncash assets and loss on sale of assets	30,000	(28,000)	(48,600)	(16,800)		(14,900)	(8,940)	(5,960)
	62,600	-	-	-	30,200	27,200	9,860	(4,660)
Payment of liabilities	(30,200)				(30,200)			
	32,400				-	27,200	9,860	(4,660)
Transfer of deficiency						(2,913)	(1,747)	4,660
						24,287	8,113	-
Allocation of cash	(32,400)					(24,287)	(8,113)	
	-					-	-	

PROBLEM 12.11A (Continued)

c. (Continued)

June	30	Cash	30,000	
		Accumulated Depreciation – Equipment	16,800	
		Loss on Realization	29,800	
		Accounts Receivable		28,000
		Equipment		48,600
		To record realization of assets.		
	30	A. Hunt, Capital ($29,800 × 50%)	14,900	
		K. Lally, Capital ($29,800 × 30%)	8,940	
		D. Portman, Capital ($29,800 × 20%)	5,960	
		Loss on Realization		29,800
		To allocate loss on realization.		
	30	Accounts Payable	30,200	
		Cash		30,200
		Payment on account.		
	30	A. Hunt, Capital ($4,660 × 5 ÷ 8)	2,913	
		K. Lally, Capital ($4,660 × 3 ÷ 8)	1,747	
		D. Portman, Capital ($1,300 – $5,960)		4,660
		To reallocate capital balances.		
	30	A. Hunt, Capital ($42,100 – $14,900 – $2,913)	24,287	
		K. Lally, Capital ($18,800 – $8,940 – $1,747)	8,113	
		Cash ($32,600 + $30,000 – $30,200)		32,400
		To record final distribution to partners.		

PROBLEM 12.11A (Continued)

Taking It Further:

The profit and loss ratio should not be used when distributing cash to partners in a liquidation. The relevant balance that must be used is the balance in each partner's capital account, which will likely not bear any relationship to the profit and loss ratio.

LO 7 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.12A

a. (1)

Item	Cash	Merchandise Inventory	Notes Payable	H. Brumby Capital	R. Criolio Capital	A. Paso Capital
Balances before liquidation	$142,600	$402,900	$113,000	$227,900	$179,900	$24,700
Sale of merchandise inventory	434,000	(402,900)		10,367	10,367	10,366
	576,600		$113,000	238,267	190,267	35,066
Payment of notes payable	(113,000)		(113,000)			
	463,600		-	238,267	190,267	35,066
Payment of cash	(463,600)			(238,267)	(190,267)	(35,066)
				-	-	-

PROBLEM 12.12A (Continued)

a. (1) (Continued)

Aug.	8	Cash	434,000	
		Gain on Realization		31,100
		Merchandise Inventory		402,900
		To record realization of assets.		
	8	Gain on Realization	31,100	
		H. Brumby, Capital ($31,100 × ⅓)		10,367
		R. Criolio, Capital ($31,100 × ⅓)		10,367
		A. Paso, Capital ($31,100 × ⅓)		10,366
		To allocate gain on realization.		
	8	Notes Payable	113,000	
		Cash		113,000
		Repay notes payable.		
	8	H. Brumby, Capital ($227,900 + $10,367)	238,267	
		R. Criolio, Capital ($179,900 + $10,367)	190,267	
		A. Paso, Capital ($24,700 + $10,366)	35,066	
		Cash ($142,600 + $434,000 – $113,000)		463,600
		To record final distribution to partners.		

PROBLEM 12.12A (Continued)

a. (2)

Item	Cash	Merchandise Inventory	Notes Payable	H. Brumby Capital	R. Criolio Capital	A. Paso Capital
Balances before liquidation	$142,600	$402,900	$113,000	$227,900	$179,900	$24,700
Sale of merchandise inventory	318,000	(402,900)		(28,300)	(28,300)	(28,300)
	460,600	-	113,000	199,600	151,600	(3,600)
Payment of notes payable	(113,000)		(113,000)			
	347,600		-	199,600	151,600	(3,600)
Payment of deficiency	3,600					3,600
	351,200			199,600	151,600	-
Payment of cash	(351,200)			(199,600)	(151,600)	
	-			-	-	

PROBLEM 12.12A (Continued)

a. (2) (Continued)

Aug.	8	Cash	318,000	
		Loss on Realization	84,900	
		Merchandise Inventory		402,900
		To record realization of assets.		
	8	H. Brumby, Capital ($84,900 × ⅓)	28,300	
		R. Criolio, Capital ($84,900 × ⅓)	28,300	
		A. Paso, Capital ($84,900 × ⅓)	28,300	
		Loss on Realization		84,900
		To allocate loss on realization.		
	8	Notes Payable	113,000	
		Cash		113,000
		Repay notes payable.		
	8	Cash	3,600	
		A. Paso, Capital ($24,700 – $28,300)		3,600
		Invest cash in business.		
	8	H. Brumby, Capital ($227,900 – $28,300)	199,600	
		R. Criolio, Capital ($179,900 – $28,300)	151,600	
		Cash ($142,600 + $318,000 – $113,000 + 3,600)		351,200
		To record final distribution to partners.		

PROBLEM 12.12A (Continued)

b.

Item	Cash	Merchandise Inventory	Notes Payable	H. Brumby Capital	R. Criolio Capital	A. Paso Capital
Balances before liquidation	$142,600	$402,900	$113,000	$227,900	$179,900	$24,700
Sale of merchandise inventory	318,000	(402,900)		(28,300)	(28,300)	(28,300)
	460,600	-	113,000	199,600	151,600	(3,600)
Payment of notes payable	(113,000)		(113,000)			
	347,600		-	199,600	151,600	(3,600)
Allocation of deficiency				(1,800)	(1,800)	3,600
						-
Payment of cash	(347,600)			(197,800)	(149,800)	
	-			-	-	

PROBLEM 12.12A (Continued)

b. (Continued)

Aug.	8	H. Brumby, Capital ($3,600 × 50%)	1,800	
		R. Criolio, Capital ($3,600 × 50%) ..	1,800	
		A. Paso, Capital ($24,700 – $28,300)		3,600
		To reallocate capital accounts.		
	8	H. Brumby, Capital ($227,900 – $28,300– $1,800)	197,800	
		R. Criolio, Capital ($179,900 – $28,300 – $1,800)	149,800	
		Cash ($142,600 + $318,000 – $113,000)		347,600
		To record final distribution to partners.		

Taking It Further:

To ensure that no partners have a deficit (debit balances) when the partnership is liquidated, the partnership agreement should provide for a minimum capital balance that should be sufficient to address any losses experienced on liquidation.

LO 7 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.13A

a.

2023			
Mar. 2	Cash	15,000	
	Equipment	18,000	
	Z. Moreau, Capital		33,000
	Invest assets in business.		
2	Cash	10,000	
	Furniture	17,000	
	Notes Payable		5,000
	K. Krneta, Capital		22,000
	Invest assets in business.		
2	Cash	20,000	
	Equipment	13,000	
	V. Visentin, Capital		33,000
	Invest assets in business.		
Dec. 20	Z. Moreau, Drawings	30,000	
	K. Krneta, Drawings	30,000	
	V. Visentin, Drawings	30,000	
	Cash		90,000
	Record cash drawings.		
31	Income Summary	110,000	
	Z. Moreau, Capital ($110,000 × 3/8)		41,250
	K. Krneta, Capital ($110,000 × 2/8)		27,500
	V. Visentin, Capital ($110,000 × 3/8)		41,250
	To close Income Summary.		

PROBLEM 12.13A (Continued)

a. (Continued)

MKV PERSONAL COACHING
Capital Balances December 31, 2023

	Z. Moreau	K. Krneta	V. Visentin	Total
Investments	$33,000	$22,000	$33,000	$88,000
Drawings	(30,000)	(30,000)	(30,000)	(90,000)
Profit for the year	41,250	27,500	41,250	110,000
Ending Balance	$44,250	$19,500	$44,250	$108,000

		Debit	Credit
2024			
Jan. 5	K. Krneta, Capital	19,500	
	Z. Moreau, Capital		2,250
	V. Visentin, Capital		2,250
	Cash		15,000
	To record withdrawal of partner.		

Capital balance of withdrawing partner		$19,500
Payment to withdrawing partner		15,000
Bonus to remaining partners		$ 4,500
Allocation of bonus:		
Z. Moreau, Capital ($4,500 × 3/6)	$2,250	
V. Visentin, Capital ($4,500 × 3/6)	2,250	$4,500

		Debit	Credit
Dec. 20	Z. Moreau, Drawings	42,750	
	V. Visentin, Drawings	45,000	
	Cash		87,750
	To record cash drawings.		
31	Income Summary	123,750	
	Z. Moreau, Capital ($123,750 × 4/9)		55,000
	V. Visentin, Capital ($123,750 × 5/9)		68,750
	To close Income Summary.		

PROBLEM 12.13A (Continued)

a. (Continued)

2025			
Jan. 4	Cash	31,000	
	Z. Moreau, Capital (4/9 × $9,000)	4,000	
	V. Visentin, Capital (5/9 × $9,000)	5,000	
	D. Hirjikaka, Capital		40,000
	To record admission to partnership.		

Total capital of existing partnership [see b.]	$129,000
Investment by new partner, D. Hirjikaka	31,000
Total capital of new partnership	$160,000
D. Hirjikaka capital credit (25% × $160,000)	$40,000
Investment by new partner, D. Hirjikaka	$31,000
D. Hirjikaka capital credit	40,000
Bonus to new partner	$ 9,000

PROBLEM 12.13A (Continued)

b.

MKV PERSONAL COACHING
Balance of Partners' Capital Accounts
January 4, 2025

	D. Hirjikaka	Z. Moreau	K. Krneta	V. Visentin	Total
Balance Dec. 31, 2023		$44,250	$19,500	$44,250	$108,000
Withdrawal of partner		2,250	(19,500)	2,250	(15,000)
Drawings 2024		(42,750)		(45,000)	(87,750)
Profit for the year 2024		55,000		68,750	123,750
Balance Dec. 31, 2024		58,750	$0	70,250	129,000
Admission new partner	$40,000	(4,000)		(5,000)	31,000
Balance Jan. 4, 2025	$40,000	$54,750		$65,250	$160,000

PROBLEM 12.13A (Continued)

b. (Continued)

MKV PERSONAL COACHING
Balance Sheet (partial)
January 4, 2025

Partners' equity		
D. Hirjikaka, capital	**$40,000**	
Z. Moreau, capital	**54,750**	
V. Visentin, capital	**65,250**	
Total partners' equity		**$160,000**

Taking It Further:

Most partnerships agree to continue the partnership year while allowing partners to withdraw or be admitted to the partnership. This is particularly the case in large partnerships where these events often occur. The process to be followed should be spelled out in the partnership agreement. Formulas on how to calculate and allocate the profit for a partial year are necessary so that a partner can be admitted or withdrawn without the books being closed.

In the case of MKV Personal Coaching, the business carried on in spite of the withdrawal by Karen Krneta and the admission of Dela Hirjikaka. None of the temporary accounts of the partnership were closed, nor were new accounting records created.

LO 2,3,4,5,6 BT: AP Difficulty: C Time: 60 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.1B

a. Advantages of forming a partnership instead of a corporation include:
   i. A partnership is more easily formed and less expensive to establish than is a corporation.
   ii. A partnership is subject to fewer government regulations and restrictions than is a corporation.
   iii. Decisions can be made quickly on important matters that affect the firm.

   Disadvantages of forming a partnership instead of a corporation include:
   i. Mutual agency provides for the risk of the actions taken by any of the partners that affects all partners. The action of any partner is binding on all other partners.
   ii. Limited life since the ownership of the business is not easily transferred by the sale of shares as is the case for corporations.
   iii. Unlimited liability in general partnerships. Each partner is jointly and severally (individually) liable for all partnership liabilities.

b.

Jan. 1	Cash	9,500	
	Accounts Receivable	15,000	
	Merchandise Inventory	20,000	
	Equipment	18,000	
	Allowance for Doubtful Accounts		3,500
	Accounts Payable		25,000
	F. Visanji, Capital		34,000
	To invest assets in business.		

PROBLEM 12.1B (Continued)

b. (Continued)

	Jan.	1	Cash	5,000	
			Accounts Receivable	20,000	
			Merchandise Inventory	15,000	
			Equipment	14,000	
			Allowance for Doubtful Accounts		4,500
			Accounts Payable		20,000
			P. Vanbakel, Capital		29,500
			To invest assets in business.		
c.	Jan.	1	Cash ($34,000 – $29,500)	4,500	
			P. Vanbakel, Capital		4,500
			Invest cash in business.		

PROBLEM 12.1B (Continued)

d.

VISANJI AND VANBAKEL PARTNERSHIP
Balance Sheet
January 1, 2024

Assets

Current assets	
Cash ($9,500 + $5,000 + $4,500)	$ 19,000
Accounts receivable[1]	27,000
Merchandise inventory ($20,000 + $15,000)	35,000
Total current assets	81,000
Property, plant, and equipment	
Equipment ($18,000 + $14,000)	32,000
Total assets	$113,000

Liabilities and Partners' Equity

Current liabilities	
Accounts payable ($25,000 + $20,000)	$45,000
Partners' equity	
F. Visanji, capital	34,000
P. Vanbakel, capital	34,000
Total partners' equity	68,000
Total liabilities and partners' equity	$113,000

[1] ($15,000 - $3,500 + $20,000 - $4,500) = $27,000

PROBLEM 12.1B (Continued)

Taking It Further:

Advantages of forming a partnership instead of operating as two proprietorships include:

i. **The skills of the two individuals forming the partnership may be complementary and so their ability to provide better services to their customers is automatically enhanced.**
ii. **The partnership will provide an ability to share the tasks involved in running the business.**
iii. **A partnership will likely provide more security to the individual partners in case of illness or absence.**
iv. **The combined capital of the partners will help secure debt for operations.**
v. **The partnership structure might assist one of the partners in a succession plan.**

LO 1,2 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.2B

a.

Dec. 31	Income Summary	170,500	
	K. Ali, Capital		85,250
	P. Ramsey, Capital		85,250
	To close Income Summary.		

Profit is shared equally.

b.

Division of Profit

	K. Ali	P. Ramsey	Total
Profit			$170,500
Salary allowance			
K. Ali	$82,000		
P. Ramsey		$33,000	
Total			115,000
Profit remaining for allocation			55,500
Fixed ratio			
K. Ali ($55,500 × 50%)	27,750		
P. Ramsey ($55,500 × 50%)		27,750	
Total			55,500
Profit remaining for allocation			0
Profit allocated to the partners	$109,750	$60,750	$170,500

Dec. 31	Income Summary	170,500	
	K. Ali, Capital		109,750
	P. Ramsey, Capital		60,750
	To close Income Summary.		

PROBLEM 12.2B (Continued)

c.

Division of Profit

	K. Ali	P. Ramsey	Total
Profit..			$90,000
Salary allowance			
K. Ali	$60,000		
P. Ramsey		$55,000	
Total			115,000
Profit (deficiency) remaining for allocation			(25,000)
Interest allowance			
K. Ali ($53,500 × 5%)................	2,675		(2,675)
Profit (deficiency) remaining for allocation			(27,675)
Fixed ratio			
K. Ali ($27,675 × 65%)..............	(17,989)		
P. Ramsey ($27,675 × 35%).....		(9,686)	
Total			27,675
Profit remaining for allocation			0
Profit allocated to the partners....	$44,686	$45,314	$90,000

Dec. 31	Income Summary..........................	90,000	
	K. Ali, Capital		44,686
	P. Ramsey, Capital		45,314
	To close Income Summary.		

Taking It Further:

Each partner is jointly and severally liable for all partnership liabilities. Ali should be concerned with the possibility that the business does not succeed and there are insufficient assets to pay all debt outstanding. If this happens, the creditors could then make claims against the personal assets of the partners. In this case, Ali has more assets to lose than his partner Ramsey, who is less cautious about handling expenses.

LO 3 BT: AP Difficulty: M Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.3B

a.

1.	**Dec. 31**	**Income Summary**	**30,000**	
		S. Little, Capital[1]		**18,000**
		L. Brown, Capital[2]		**9,000**
		P. Gerhardt, Capital[3]		**3,000**
		To close Income Summary.		

[1] ($30,000 × 6/10) =$18,000
[2] ($30,000 × 3/10) =$9,000
[3] ($30,000 × 1/10) =$3,000

PROBLEM 12.3B (Continued)
a. (Continued)

2.	Dec. 31	Income Summary	55,000	
		S. Little, Capital		10,000
		L. Brown, Capital		30,000
		P. Gerhardt, Capital		15,000
		To close Income Summary.		

LBG COMPANY
Division of Profit
Year Ended December 31, 2024

	S. Little	L. Brown	P. Gerhardt	Total
Profit				$55,000
Salary allowance				
S. Little	$5,000			
L. Brown		$25,000		
P. Gerhardt			$10,000	
Total				40,000
Profit remaining for allocation				15,000
Fixed ratio (remainder shared equally)				
S. Little ($15,000 × 1/3)	5,000			
L. Brown ($15,000 × 1/3)		5,000		
P. Gerhardt ($15,000 × 1/3)			5,000	
Total				15,000
Profit remaining for allocation				0
Profit allocated to the partners	$10,000	$30,000	$15,000	$55,000

PROBLEM 12.3B (Continued)

a. (Continued)

3.	Dec. 31	Income Summary............................	25,000	
		S. Little, Capital..............................	4,825	
		L. Brown, Capital........................		11,550
		P. Gerhardt, Capital..................		18,275
		To close Income Summary.		

LBG COMPANY
Division of Profit
Year Ended December 31, 2024

	S. Little	L. Brown	P. Gerhardt	Total
Profit................................				$25,000
Interest allowance				
S. Little ($65,000 × 7%)	$4,550			
L. Brown ($40,000 × 7%)		$2,800		
P. Gerhardt ($20,000 × 7%)			$1,400	
Total				8,750
Profit remaining for allocation				16,250
Salary allowance				
L. Brown		15,000		
P. Gerhardt			20,000	
Total				35,000
Profit (deficiency) remaining for allocation				(18,750)
Fixed ratio				
S. Little [$(18,750) × 3/6].........	(9,375)			
L. Brown [$(18,750) × 2/6].........		(6,250)		
P. Gerhardt [$(18,750) × 1/6].........			(3,125)	
Total				(18,750)
Profit remaining for allocation				0
Profit allocated to the partners...........	$(4,825)	$11,550	$18,275	$25,000

PROBLEM 12.3B (Continued)

b.

LBG COMPANY
Statement of Partners' Equity
Year Ended December 31, 2024

	S. Little	L. Brown	P. Gerhardt	Total
Capital, January 1	$65,000	$40,000	$20,000	$125,000
Add: Profit for the year	10,000	30,000	15,000	55,000
	75,000	70,000	35,000	180,000
Less: Drawings	21,000	14,000	9,000	44,000
Capital, December 31	$54,000	$56,000	$26,000	$136,000

Taking It Further:

The partnership would include a salary allowance in its profit- and loss-sharing arrangements to reward partners that contribute more time and effort in generating revenues for the business or bring specialized talents. This element of the allocation of profit provides fairness in rewarding effort.

LO 3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.4B

a.

LAM TAN PARTNERSHIP
Division of Loss
Year Ended January 31, 2024

	T. Lam	C. Tan	Total
Loss...			$(30,000)
Salary allowance			
T. Lam......................................	$20,000		
C. Tan		$30,000	
Total			50,000
Deficiency remaining for allocation			(80,000)
Interest allowance			
T. Lam ($100,000 × 5%).............	5,000		
C. Tan ($120,000 × 5%)		6,000	
Total			11,000
Deficiency remaining for allocation			(91,000)
T. Lam [($91,000 × 3/7)]	(39,000)		
C. Tan [($91,000 × 4/7)]		(52,000)	
Total			91,000
Loss remaining for allocation			0
Loss allocated to the partners	$(14,000)	$(16,000)	$(30,000)

PROBLEM 12.4B (Continued)

b.

LAM TAN PARTNERSHIP
Statement of Partners' Equity
Year Ended January 31, 2024

	T. Lam	C. Tan	Total
Capital, February 1, 2023	$100,000	$120,000	$220,000
Less: Drawings	12,000	14,400	26,400
Loss for the year	14,000	16,000	30,000
	26,000	30,400	56,400
Capital, January 31, 2024	$ 74,000	$ 89,600	$163,600

c.

Jan. 31	T. Lam, Capital	14,000	
	C. Tan, Capital	16,000	
	Income Summary		30,000
	To close Income Summary.		
31	T. Lam, Capital	12,000	
	C. Tan, Capital	14,400	
	T. Lam, Drawings		12,000
	C. Tan, Drawings		14,400
	To close Income Summary.		

Taking It Further:

There is no relationship between the salary allowance specified in the profit and loss ratio and a partner's drawings.

LO 3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.5B

a.

CLAY AND OGLETREE, LLP
Income Statement
Year Ended September 30, 2024

Service revenue		$515,000
Expenses		
Salaries expense	$225,000	
Depreciation expense	12,000	
Insurance expense	18,500	
Interest expense	5,000	
Property tax expense	15,000	
Total expenses		275,500
Profit for the year		$239,500

CLAY AND OGLETREE, LLP
Statement of Partners' Equity
Year Ended September 30, 2024

	G. Clay	M. Ogletree	Total
Capital, October 1, 2023	$ 65,000	$ 37,500	$102,500
Add: Investment	10,000	0	10,000
Profit for the year[1]	143,700	95,800	239,500
	218,700	133,300	352,000
Less: Drawings	150,000	100,000	250,000
Capital, September 30, 2024	$68,700	$33,300	$102,000

[1]G. Clay $239,500 × 3/5 = $143,700
M. Ogletree $239,500 × 2/5 = $95,800

PROBLEM 12.5B (Continued)

a. (Continued)

CLAY AND OGLETREE, LLP
Balance Sheet
September 30, 2024

Assets		
Current assets		
Cash		$ 13,500
Accounts receivable		105,000
Prepaid insurance		3,500
Total current assets		122,000
Property, plant, and equipment		
Equipment	$60,000	
Accumulated depreciation	12,000	
Total property, plant, and equipment		48,000
Total assets		$170,000
Liabilities and Partners' Equity		
Current liabilities		
Accounts payable		$ 21,500
Unearned revenue		24,000
Current portion of note payable		5,000
Total current liabilities		50,500
Long-term liabilities		
Note payable, net of current portion		17,500
Total liabilities		68,000
Partners' equity		
G. Clay, capital		68,700
M. Ogletree, capital		33,300
Total partners' equity		102,000
Total liabilities and partners' equity		$170,000

PROBLEM 12.5B (Continued)

b.	Sept. 30	Service Revenue	515,000	
		Income Summary		515,000
		To close revenue account.		
	30	Income Summary	275,500	
		Salaries Expense		225,000
		Depreciation Expense		12,000
		Insurance Expense		18,500
		Interest Expense		5,000
		Property Tax Expense		15,000
		To close expense accounts.		
	30	Income Summary	239,500	
		G. Clay, Capital		143,700
		M. Ogletree, Capital		95,800
		To close Income Summary.		
	30	G. Clay, Capital	150,000	
		M. Ogletree, Capital	100,000	
		G. Clay, Drawings		150,000
		M. Ogletree, Drawings		100,000
		To close drawings accounts.		

Taking It Further:

The amount of the drawings taken by individual partners can be of any amount that the partners agree to, although a deficit position in any capital account should be avoided. Since the amount of the capital balances at September 30, 2024 are disproportionate, the partners may want to provide for an interest allowance in their formula to arrive at the allocation of any profit in the future. M. Ogletree should not be allowed to draw as high an amount in the future because he will risk having a deficit position in his capital account.

LO 3,4 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.6B

a.

Dec. 31	C. Maguire, Drawings	12,000	
	F. Whelan, Drawings	8,000	
	Salaries Expense		20,000
	To correct error.		

b.

Profit as reported:	$10,100
Add back salaries expense	20,000
Revised profit	$30,100

The profit allocation is $15,050 ($30,100 ÷ 2) to each partner since no agreement as to the allocation of profit was arrived at.

c.

MAGUIRE & WHELAN CLEANING SERVICES
Statement of Partners' Equity
Year Ended December 31, 2024

	C. Maguire	F. Whelan	Total
Capital, Jan. 1	$ 0	$ 0	$ 0
Add: Investment	2,500	8,750	11,250
Profit for the year	15,050	15,050	30,100
	17,550	23,800	41,350
Less: Drawings	12,000	8,000	20,000
Capital, December 31	$ 5,550	$15,800	$21,350

PROBLEM 12.6B (Continued)

d.

MAGUIRE & WHELAN CLEANING SERVICES
Balance Sheet
December 31, 2024

Assets

Current assets			
Cash			$ 13,750
Property, plant, and equipment			
Equipment	$ 1,500		
Less: Accumulated depreciation	300	$1,200	
Vehicles	8,000		
Less: Accumulated depreciation	1,600	6,400	
Total property, plant, and equipment			7,600
Total assets			$21,350

Partners' Equity

Partners' equity	
C. Maguire, capital	$ 5,550
F. Whelan, capital	15,800
Total partners' equity	$21,350

Taking It Further:

Due to inexperience, Caitlin and Fiona failed to come to an agreement on the allocation of profit before they began their business together. This failure caused the profit to be split evenly at the end of the first year of operations. While Caitlin is correct that an equal allocation might not be fair if she worked twice as hard as Fiona, Fiona also has a good point in arguing that she should be rewarded for her larger investment into the business on January 1, 2024. Caitlin and Fiona should come to some agreement to a fair allocation of profit for the coming year and document the details in writing.

LO 3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.7B

a.

May 1	Cash	100,000	
	Kai, Capital		100,000
	Invest cash in business.		

Total capital of existing partnership	$400,000
Investment by Kai	100,000
Total capital of new partnership	$500,000
Kai 's capital credit ($500,000 × 20%)	$100,000
Investment by Kai	$100,000
Kai's capital credit	100,000
Bonus	$ 0

b.

May 1	Cash	145,000	
	Ho, Capital ($36,000 × 4/7)		20,571
	Ishikawa, Capital ($36,000 × 2/7)		10,286
	Jay, Capital ($36,000 × 1/7)		5,143
	Kai, Capital		109,000

Total capital of existing partnership	$400,000
Investment by Kai	145,000
Total capital of new partnership	$545,000
Kai's capital credit ($545,000 × 20%)	$109,000
Investment by Kai	$145,000
Kai's capital credit	109,000
Bonus to old partners	$ 36,000

PROBLEM 12.7B (Continued)

c.	**May 1**	**Cash**	**65,000**	
		Ho, Capital ($28,000 × 4/7)	**16,000**	
		Ishikawa, Capital ($28,000 × 2/7)	**8,000**	
		Jay, Capital ($28,000 × 1/7)	**4,000**	
		Kai, Capital		**93,000**
		Invest cash in business.		

Total capital of existing partnership	**$400,000**
Investment by Kai	**65,000**
Total capital of new partnership	**$465,000**
Kai's capital credit ($465,000 × 20%)	**$93,000**
Investment by Kai	**$65,000**
Kai's capital credit	**93,000**
Bonus to new partner	**$28,000**

Taking It Further:

A new partner may purchase a partnership interest with a gain or loss. A gain to the new partner may be experienced if the new partner's capital received when joining the partnership is greater than the amount paid by the new partner to be admitted to the partnership. A loss to the new partner may be experienced if the new partner's capital received when joining the partnership is less than the amount paid by the new partner to be admitted to the partnership.

The two main factors that determine the outcome (gain or loss) are: 1) the percentage of the total partnership capital to be given to the new partner and 2) the amount of the total capital of the original partners prior to the admission of the new partner.

LO 5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.8B

a.	Oct. 1	A. Nolan, Capital ($60,000 × 25%).....	15,000	
		C. Santos, Capital		15,000
		To record purchase of an interest.		
b.	Oct. 1	Cash	80,000	
		A. Nolan, Capital (50% × $18,500)		9,250
		D. Elder, Capital (40% × $18,500) .		7,400
		T. Wuhan, Capital (10% × $18,500)		1,850
		C. Santos, Capital		61,500
		To record purchase of an interest.		

Total capital of existing partnership	$125,000
Investment by C. Santos	80,000
Total capital of new partnership	$205,000
C. Santos' capital credit ($205,000 × 30%).......	$61,500
Investment by new partner, C. Santos	$80,000
C. Santos' capital credit	61,500
Bonus to old partners	$18,500

PROBLEM 12.8B (Continued)

c.	**Oct. 1**	**Cash ....**	**36,000**	
		A. Nolan, Capital ($12,300 × 50%)...	**6,150**	
		D. Elder, Capital ($12,300 × 40%)....	**4,920**	
		T. Wuhan, Capital ($12,300 × 10%) .	**1,230**	
		C. Santos, Capital		**48,300**
		To record purchase of an interest.		

Total capital of existing partnership	**$125,000**
Investment by C. Santos	**36,000**
Total capital of new partnership	**$161,000**

C. Santos' capital credit ($161,000 × 30%).....	**$48,300**

Investment by new partner	**$36,000**
C. Santos' capital credit	**48,300**
Bonus to new partner.....................................	**$12,300**

d.

Solve for x
30% × ($125,000 + x) = x
$37,500 + .3x = x
$37,500 = .7x
x = $53,571

Proof: ($125,000 + $53,571) × 30% = $53,571

Taking It Further:

Existing partners would be willing to give a bonus to a new partner because he is bringing badly needed expertise and an excellent reputation to the partnership. These qualities will yield greater revenues and consequently profits for all partners. The skills of the new partner are very complementary to the existing partners, making it easier to obtain and retain clients. This is often true in law firms offering a variety of specialties to clients.

LO 5 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.9B

a.	**Dec.**	**31**	**R. Dixon, Capital ....**	**35,000**	
			G. Khan, Capital		**35,000**
			To record purchase of an interest.		

b.	**Dec.**	**31**	**R. Dixon, Capital ....**	**35,000**	
			B. Vuong, Capital ($12,500 × 5/8)	**7,813**	
			G. Khan, Capital ($12,500 × 3/8)..	**4,687**	
			Cash		**47,500**
			To record withdrawal of partner.		

Dixon's capital balance	**$35,000**
Payment to Dixon	**47,500**
Bonus to Dixon	**$12,500**

c.	**Dec.**	**31**	**R. Dixon, Capital ....**	**35,000**	
			B. Vuong, Capital ($5,500 × 5/8)		**3,437**
			G. Khan, Capital ($5,500 × 3/8)		**2,063**
			Cash		**29,500**
			To record withdrawal of partner.		

Dixon's capital balance	**$35,000**
Payment to Dixon	**29,500**
Bonus to remaining partners......	**$ 5,500**

Taking It Further:

For a new partner to be admitted, the remaining partners must approve Dixon's sale of her interest to S. Meyers. The remaining partners cannot be forced to accept a change in partners dictated by the withdrawing partner.

LO 6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.10B

a.

Feb.	1	T. Radzik, Capital	98,000	
		Cash		90,000
		S. Kopel, Capital ($8,000 × ¾)		6,000
		E. Falkenberg, Capital ($8,000 × ¼)		2,000
		To record withdrawal of partner.		

b. S. Kopel, Capital $79,000 + $6,000 = $85,000
E. Falkenberg, Capital $47,000 + $2,000 = $49,000

c.

Dec. 31	Income Summary	45,000	
	S. Kopel, Capital ($45,000 × 2/3)		30,000
	E. Falkenberg, Capital ($45,000 × 1/3)		15,000
	To close Income Summary.		

d.

S. Kopel, Capital ($85,000 + $30,000)	$115,000
E. Falkenberg, Capital ($49,000 + $15,000)	64,000
Total partnership capital	$179,000

e.

Mar. 1	Cash	110,000	
	S. Kopel, Capital ($20,050 × 2/3)	13,367	
	E. Falkenberg, Capital ($20,050 × 1/3)	6,683	
	D. Malkin, Capital		130,050
	To record admission of partner.		

Total capital of existing partnership	$179,000
Investment by D. Malkin	110,000
Total capital of new partnership	$289,000

D. Malkin's capital credit ($289,000 × 45%)	$130,050

Investment by D. Malkin	$110,000
D. Malkin's capital credit	130,050
Bonus to new partner	$ 20,050

PROBLEM 12.10B (Continued)

f.	S. Kopel, Capital ($115,000 – $13,367)	$101,633
	E. Falkenberg, Capital ($64,000 – $6,683) ..	57,317
	D. Malkin, Capital	130,050
	Total partnership capital	$289,000

Taking It Further:

There might be several reasons why a withdrawing partner would be motivated to agree to a cash payment that results in a bonus to the remaining partners. A penalty might have been applied because of some circumstances that were adverse to the partnership caused by the withdrawing partner. The partnership agreement might contain a clause that provides for the discounting of the withdrawing partners' capital upon his departure under certain circumstances. Or, the withdrawing partner may have personal reasons for needing cash immediately and is willing to accept a lesser amount as a result.

LO 3,5,6 BT: AP Difficulty: C Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.11B

a.

Item	Cash	Accounts Receivable	Equipment	Accumulated Depreciation	Accounts Payable	B. Hally Capital	H. Lockyear Capital	A. Vu Capital
Balances before liquidation	$33,000	$20,000	$75,200	$6,400	$53,160	$39,600	$25,200	$3,840
Sale of noncash assets	88,800	(20,000)	(75,200)	(6,400)				
	121,800	-	-	-	53,160	39,600	25,200	3,840
Payment of liabilities	(53,160)				(53,160)			
	68,640				-	39,600	25,200	3,840
Allocation of cash based on capital balances	(68,640)					(39,600)	(25,200)	(3,840)
	-					-	-	-

PROBLEM 12.11B (Continued

a. (Continued)

May	31	Cash	88,800	
		Accumulated Depreciation – Equipment	6,400	
		Accounts Receivable		20,000
		Equipment		75,200
		To record realization of assets.		
	31	Accounts Payable	53,160	
		Cash		53,160
		Payment on account.		
	31	B. Hally, Capital	39,600	
		H. Lockyear, Capital	25,200	
		A. Vu, Capital	3,840	
		Cash		68,640
		To record final distribution to partners.		

PROBLEM 12.11B (Continued)

b.

Item	Cash	Accounts Receivable	Equipment	Accumulated Depreciation	Accounts Payable	B. Hally Capital	H. Lockyear Capital	A. Vu Capital
Balances before liquidation	$33,000	$20,000	$75,200	$6,400	$53,160	$39,600	$25,200	$3,840
Sale of noncash assets	60,000	(20,000)	(75,200)	(6,400)		(14,400)	(8,640)	(5,760)
	93,000	-	-	-		25,200	16,560	(1,920)
Payment of liabilities	(53,160)				(53,160)			
	39,840				-	25,200	16,560	(1,920)
Payment of deficit	1,920							1,920
	41,760					25,200	16,560	-
Allocation of cash based on capital balances	(41,760)					(25,200)	(16,560)	
	-					-	-	

PROBLEM 12.11B (Continued)

b. (Continued)

May	31	Cash	60,000	
		Accumulated Depreciation – Equipment	6,400	
		Loss on Realization	28,800	
		Accounts Receivable		20,000
		Equipment		75,200
		.To record realization of assets.		
	31	B. Hally, Capital ($28,800 × 50%)	14,400	
		H. Lockyear, Capital ($28,800 × 30%)	8,640	
		A. Vu, Capital ($28,800 × 20%)	5,760	
		Loss on Realization		28,800
		To allocate loss on realization.		
	31	Accounts Payable	53,160	
		Cash		53,160
		Payment on account.		
	31	Cash ($3,840 – $5,760)	1,920	
		A. Vu, Capital		1,920
		Invest cash in business.		
	31	B. Hally, Capital ($39,600 – $14,400)	25,200	
		H. Lockyear, Capital ($25,200 – $8,640)	16,560	
		Cash ($33,000 + $60,000 – $53,160 + $1,920)		41,760
		To record final distribution to partners.		

PROBLEM 12.11B (Continued)

c.

Item	Cash	Accounts Receivable	Equipment	Accum. Depreciation	Accounts Payable	B. Hally Capital	H. Lockyear Capital	A. Vu Capital
Balances before liquidation	$33,000	$20,000	$75,200	$6,400	$53,160	$39,600	$25,200	$3,840
Sale of noncash assets	40,000	(20,000)	(75,200)	(6,400)		(24,400)	(14,640)	(9,760)
	73,000	-	-	-	53,160	15,200	10,560	(5,920)
Payment of liabilities	(53,160)				(53,160)			
	19,840				-	15,200	10,560	(5,920)
Allocation of loss						(3,700)	(2,220)	5,920
Allocation of cash based on capital balances	(19,840)					(11,500)	(8,340)	-
	-					-	-	-

PROBLEM 12.11B (Continued)

c. (Continued)

May	31	Cash	40,000	
		Accumulated Depreciation – Equipment	6,400	
		Loss on Realization	48,800	
		Accounts Receivable		20,000
		Equipment		75,200
		To record realization of assets.		
	31	B. Hally, Capital ($48,800 × 50%)	24,400	
		H. Lockyear, Capital ($48,800 × 30%)	14,640	
		A. Vu, Capital ($48,800 × 20%)	9,760	
		Loss on Realization		48,800
		To allocate loss on realization.		
	31	Accounts Payable	53,160	
		Cash		53,160
		Payment on account.		
	31	B. Hally, Capital ($5,920 x 5 ÷ 8)	3,700	
		H. Lockyear, Capital ($5,920 x 3 ÷ 8)	2,220	
		A. Vu, Capital ($3,840 – $9,760)		5,920
		To reallocate capital balances.		
	31	B. Hally, Capital ($39,600 – $24,400 – $3,700)	11,500	
		H. Lockyear, Capital ($25,200 – $14,640 – $2,220)	8,340	
		Cash ($33,000 + $40,000 – $53,160)		19,840
		To record final distribution to partners.		

PROBLEM 12.11B (Continued)

Taking It Further:

Creditors must be paid before the partners upon liquidation and failing to do so would be defrauding creditors of their legal claim against the business.

LO 7 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.12B

a. (1)

Item	Cash	Supplies	Accounts Payable	M. Nokota Capital	S. Taishuh Capital	A. Paso Capital
Balances before liquidation	$100,000	$110,000	$90,000	$70,000	$30,000	$20,000
Sale of supplies	130,000	(110,000)		10,000	5,000	5,000
	230,000	-	90,000	80,000	35,000	25,000
Payment of liabilities	(90,000)		(90,000)			
	140,000		-	80,000	35,000	25,000
Payment of cash	(140,000)			(80,000)	(35,000)	(25,000)
	-			-	-	-

PROBLEM 12.12B (Continued)

a. (1) (Continued)

Sept.	30	Cash	130,000	
		Gain on Realization.................		20,000
		Supplies...................................		110,000
		To record realization of assets.		
	30	Gain on Realization	20,000	
		M. Nokota, Capital ($20,000 × ½)		10,000
		S. Taishuh, Capital ($20,000 × ¼)		5,000
		A. Paso, Capital ($20,000 × ¼)		5,000
		To allocate gain on realization.		
	30	Accounts Payable...........................	90,000	
		Cash...		90,000
		Payment on account.		
	30	M. Nokota, Capital		
		($70,000 + $10,000)	80,000	
		S. Taishuh, Capital		
		($30,000 + $5,000)	35,000	
		A. Paso, Capital		
		($20,000 + $5,000)	25,000	
		Cash ($100,000 + $130,000		
		– $90,000)................................		140,000
		To record final distribution to partners.		

PROBLEM 12.12B (Continued)

b. (2)

Item	Cash	Supplies	Accounts Payable	M. Nokota Capital	S. Taishuh Capital	A. Paso Capital
Balances before liquidation	$100,000	$110,000	$90,000	$70,000	$30,000	$20,000
Sale of supplies	25,000	(110,000)		(42,500)	(21,250)	(21,250)
	125,000	-	90,000	27,500	8,750	(1,250)
Payment of liabilities	(90,000)		(90,000)			
	35,000		-	27,500	8,750	(1,250)
Payment of deficit	1,250					1,250
	36,250			27,500	8,750	-
Payment of cash	(36,250)			(27,500)	(8,750)	
	-			-	-	

PROBLEM 12.12B (Continued)

a. (2) (Continued)

Sept.	30	Cash	25,000	
		Loss on Realization	85,000	
		Supplies		110,000
		To record realization of assets.		
	30	M. Nokota, Capital ($85,000 × ½)	42,500	
		S. Taishuh, Capital ($85,000 × ¼)	21,250	
		A. Paso, Capital ($85,000 × ¼)	21,250	
		Loss on Realization		85,000
		To allocate loss on realization.		
	30	Accounts Payable	90,000	
		Cash		90,000
		Payment on account.		
	30	Cash	1,250	
		A. Paso, Capital ($20,000 – $21,250)		1,250
		Invest cash in business.		
	30	M. Nokota, Capital ($70,000 – $42,500)	27,500	
		S. Taishuh, Capital ($30,000 – $21,250)	8,750	
		Cash ($100,000 + $25,000 – $90,000 + $1,250)		36,250
		To record final distribution to partners.		

PROBLEM 12.12B (Continued)

b.

Sept.	**30**	**M. Nokota, Capital ($1,250 × 2/3)**	**833**	
		S. Taishuh, Capital ($1,250 × 1/3)	**417**	
		A. Paso, Capital ($20,000 – $21,250)		**1,250**
		To reallocate capital accounts.		
	30	**M. Nokota, Capital ($70,000 – $42,500 – $833)**	**26,667**	
		S. Taishuh, Capital ($30,000 – $21,250 – $417)	**8,333**	
		Cash ($100,000 + $25,000 – $90,000)		**35,000**
		To record final distribution to partners.		

Taking It Further:

The reasons a partnership might decide to liquidate include: 1) the activity generating the revenue of the business has stopped; 2) government regulations have caused the business to be no longer viable; 3) internal discord among the partners; and 4) the business might not have intended to last very long, and this is the logical end of the business model.

LO 7 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

PROBLEM 12.13B

a.

2023			
Feb. 14	**Cash**	**9,000**	
	Furniture	**15,000**	
	I. Moretti, Capital		**24,000**
	Invest assets in business.		
14	**Cash**	**12,000**	
	Equipment	**24,000**	
	A. Kam, Capital		**36,000**
	Invest assets in business.		
14	**Cash**	**18,000**	
	Equipment	**40,000**	
	Accounts Payable		**10,000**
	C. Fenandoe, Capital		**48,000**
	Invest assets in business.		
Dec. 20	**I. Moretti, Drawings ($72,000 × 2/9)**	**16,000**	
	A. Kam, Drawings ($72,000 × 3/9)	**24,000**	
	C. Fenandoe, Drawings ($72,000 × 4/9)	**32,000**	
	Cash		**72,000**
	Record cash drawings.		
31	**Income Summary**	**81,900**	
	I. Moretti, Capital ($81,900 × 2/9)		**18,200**
	A. Kam, Capital ($81,900 × 3/9)		**27,300**
	C. Fenandoe, Capital ($81,900 × 4/9)		**36,400**
	To close Income Summary.		

PROBLEM 12.13B (Continued)

a. (Continued)

MKF MARKETING
Capital Balances December 31, 2023

	I. Moretti	A. Kam	C. Fe-nandoe	Total
Investments	$24,000	$36,000	$48,000	$108,000
Drawings	(16,000)	(24,000)	(32,000)	(72,000)
Profit for the year	18,200	27,300	36,400	81,900
Ending Balance	$26,200	$39,300	$52,400	$117,900

Date	Account	Debit	Credit
2024			
Jan. 5	C. Fenandoe, Capital (1/2 × $52,400)	26,200	
	C. Wells, Capital		26,200
	To record admission to partnership.		
Dec. 20	I. Moretti, Drawings ($91,800 × 2/9)	20,400	
	A. Kam, Drawings ($91,800 × 3/9)	30,600	
	C. Fenandoe, Drawings ($91,800 × 2/9)	20,400	
	C. Wells, Drawings ($91,800 × 2/9)	20,400	
	Cash		91,800
	To record cash drawings.		
31	Income Summary	103,050	
	I. Moretti, Capital ($103,050 × 2/9)		22,900
	A. Kam, Capital ($103,050 × 3/9)		34,350
	C. Fenandoe, Capital ($103,050 × 2/9)		22,900
	C. Wells, Capital ($103,050 × 2/9)		22,900
	To close Income Summary.		
2025			
Jan. 2	C. Fenandoe, Capital	28,700	
	I. Moretti, Capital		900
	A. Kam, Capital		1,350
	C. Wells, Capital		900
	Cash		25,550
	To record withdrawal of partner.		

PROBLEM 12.13B (Continued)

a. (Continued)

Capital balance of withdrawing partner (part b)	**$28,700**
Payment to withdrawing partner	**25,550**
Bonus to remaining partners	**$ 3,150**

Allocation of bonus:

I. Moretti, Capital ($3,150 × 2/7)	**$900**	
A. Kam, Capital ($3,150 × 3/7)	**1,350**	
C. Wells, Capital ($3,150 × 2/7)	**900**	**$3,150**

PROBLEM 12.13B (Continued)

b.

MKFW MARKETING
Statement of Partners' Equity
Year ended December 31, 2024

	I. Moretti	A. Kam	C. Fenandoe	C. Wells	Total
Capital January 1	$26,200	$39,300	$52,400		$117,900
Admission of partner			(26,200)	$26,200	
Add: Profit for the year	22,900	34,350	22,900	22,900	103,050
	49,100	73,650	49,100	49,100	220,950
Less: Drawings	20,400	30,600	20,400	20,400	91,800
Capital, December 31	$28,700	$43,050	$28,700	$28,700	$129,150

c.

Balance of Partners' Capital Accounts
January 2, 2025

	I. Moretti	A. Kam	C. Fenandoe	C. Wells	Total
Balance Dec. 31, 2024	$28,700	$43,050	$28,700	$28,700	$129,150
Withdrawal of partner	900	1,350	(28,700)	900	(25,550)
Balance Jan. 2, 2025	$29,600	$44,400	$ 0	$29,600	$103,600

PROBLEM 12.13B (Continued)

Taking It Further:

No, Moretti is not correct. Each partner's capital account balance is their claim on the net assets of the partnership. Since cash would be the only remaining asset, it must be distributed to the partners based on the capital account balances.

LO 2,3,4,5,6 BT: AP Difficulty: C Time: 60 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.1 FINANCIAL REPORTING PROBLEM

a. The main deciding factor in choosing between the partnership and the corporate structure when the business was founded was likely the availability of cash needed to finance the business. In this case the owners likely chose the corporate structure. Limited liability may have also been a welcome feature of the corporate form of organization.

To have its shares traded on a stock exchange, Aritzia would have needed to adopt the corporate structure. The transfer of ownership would have been easier with the corporate structure. With the continued expansion came a greater need for financing and consequently the involvement of more and more creditors. Consequently, the owners needed the corporate structure to attract more capital and ensure limited liability to its owners.

b. 1) The Statement of Operations and the Statement of Comprehensive Income (Loss): There would not be any income tax expense on the partnership income statement. Partnership earnings are taxed in the hands of the partners. Nor would there be any earnings per share disclosure.

2) Statement of Financial Position: The equity section of this statement would be called Partnership Equity instead of Shareholders' Equity. Each partner's capital account balance would be listed, in place of Share Capital, Contributed Surplus, Retained Earnings, and Accumulated Other Comprehensive Income.

3) The Statements of Changes in Shareholders' Equity would be replaced with a Statement of Partners' Equity.

4) Statement of Cash Flows: There would be no difference.

LO 1 BT: C Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.2 INTERPRETING FINANCIAL STATEMENTS

The advantage of operating as a limited partnership is that it allows some (limited) partners to invest in the partnership and have limited liability. This appeals to many individuals who want to invest in the business but do not want to take the risk of having unlimited liability for all the partnership liabilities. From the business' perspective, the company would be able to attract more investors and capital if they could offer investors limited liability. The General Partner also maintains control of the day-to-day operations.

LO 1 BT: K Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.3 COLLABORATIVE LEARNING ACTIVITY

All the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.

LO 5,6 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.4 COMMUNICATION ACTIVITY

To: **Drs. Cheema and Unger**

From: **Your Accountant**

Subject: **Partnership Agreement for Medical Practice**

All provinces have a *Partnership Act* that provides the basic rules for the formation and operation of partnerships. Partnerships are easy to form and are not subject to much government regulation. There are three forms of partnership organizations that share the following characteristics:

- **A partnership is a voluntary association of individuals.**
- **Assets of the partnership are co-owned.**
- **Profit is divided among the partners as specified in the partnership agreement.**
- **Each partner acts for the partnership when doing partnership business and the action of any partner is binding on all other partners.**
- **The life of the partnership is not unlimited. Any change in ownership dissolves the partnership.**

1. <u>General Partnership</u>

Each partner has unlimited personal liability for all the debts of the partnership. This is the main disadvantage of a general partnership.

BYP12.4 (Continued)

2. **Limited Partnership (LP)**

   One or more of the partners retain unlimited liability and are called general partners. The remaining partners have limited liability and are called limited partners. Limited partners tend to be investors who are not active in the business. Their liability is limited to their initial investment in the business.

3. **Limited Liability Partnership (LLP)**

   Most professionals form this type of partnership, which is designed to protect innocent partners from negligent actions of other partners. Partners remain fully liable for their own negligence as well as those they supervise and control but have limited liability for negligence of the other partners.

I look forward to a productive session with both of you.

LO 1 BT: S Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.5 "ALL ABOUT YOU" ACTIVITY

a. **A partnership can exist although there might not be a formal agreement in place.**

b. **The revenues that could be generated from the band include:**

1. **Fees for performances**
2. **Royalties of proceeds on sale of songs to other performers**
3. **Fees for endorsements of products if they obtain sponsors or on sales of merchandise**
4. **SOCAN royalties for airing music**

c. **Expenses to operate the band could include:**

1. **Studio time to record songs**
2. **Repair on musical instruments**
3. **Rent for space to work**
4. **Electricity and other utilities**
5. **Travel costs to promote their music**
6. **Accommodation and meals while delivering performances in other cities**
7. **Promotion costs**
8. **Professional fees from an agent**
9. **Depreciation expense on musical instruments.**

d. **Some of the issues relating to sharing of the revenues and the costs incurred by the band could include:**

1. **Some band members might own their own musical instruments and feel that they should be reimbursed for the costs of these instruments.**
2. **Some band member might have contributed more talent and effort in writing songs or lyrics that are used by all band members.**
3. **Additional personal assets, such as a car that might be used for travel.**

BYP12.5 (Continued)

d. (continued)

4. **If money is needed to finance the band, more of it may have been contributed by one band member than the others.**

e. Should one of the band members want to leave, the issues that could come up and should be dealt with in the partnership agreement on a departure include:

1. **How to deal with musical instruments that were used by this band member and determining whose property it is if a new instrument was purchased.**
2. **The ownership of copyrights of the lyrics.**
3. **Royalties yet to be recognized from use of the songs created while in the band.**
4. **Cash invested to finance the operations of the band.**
5. **The possible need to change the name of the band.**
6. **Allowing the member leaving the band the right to use a song and receive a portion of the royalty from a song created while with the band but very successful after the member leaves the band.**

f. Should another band member join the band, when revenues have already been recognized, issues would include:

1. **A requirement for the new member to purchase some of the goodwill that has already been established by the existing band.**
2. **The ownership of copyrights of the lyrics already in place.**
3. **Royalties yet to be recognized by the future use of the songs created before joining the band.**
4. **The possible need to change the name of the band.**

BYP12.5 (Continued)

g. Issues that would need to be dealt with if a band member were to do solo performances include:

1. **Determining the rights to the songs being used in a performance.**
2. **Use of equipment or resources that are controlled and paid for by the band.**
3. **Association of the performance to the band and the repercussions on reputation and future earning ability.**

h. Should the band decide to split up, issues will be similar to the ones dealt with when the band was formed. They would include:

1. **How to deal with musical instruments that were purchased.**
2. **Dealing with outstanding debts or obligations of the band, including any outstanding claims from previous band members.**
3. **The ownership of copyrights of the lyrics.**
4. **Royalties yet to be generated from the songs created while in the band.**
5. **Rights to the band name.**

LO 3,5,6,7 BT: E Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

BYP12.6 Santé Smoothie Saga

a. 1. A formalized partnership agreement is imperative. A formal agreement will ensure that you consider all possible situations, contingencies, and disagreements that could arise. At present, you may both agree with all the decisions being made. However, if a disagreement occurs later, you will be able to turn to the partnership agreement for guidance.

The partnership agreement should contain basic information such as the name and principal location of the partnership, the purpose of the business, and the date of inception. In addition, the agreement should specify the names and capital contributions of the partners, the rights and duties of the partners, the basis for sharing profit or loss, provisions for withdrawal of assets, procedures for settling disputes, procedures for the withdrawal or admission of a partner, the rights and duties of a surviving partner if a partner dies, and procedures for liquidating a partnership.

2. Jade Wingert would need to borrow $6,900.

Total fair value of Santé Smoothie's net assets:	
($8,050 + $800 + $1,200 + $450 + $1,500)	**$12,000**
Total fair value of J Wingert's (Gem Frogurt) net assets:	
($1,500 + $5,250 + $500 + $350 + $7,500 – $10,000)	**5,100**
Difference	**$ 6,900**

BYP12.6 (Continued)

a. (Continued)

3. **Both the total amount of assets and the total amount of Jade Wingert's debt should be considered in making this decision. Each partner is jointly and severally liable for all partnership liabilities. If you go forward with the partnership, both partners will be signing the lease agreement. This debt will be in addition to the bank loan payable, which is due in the near future. If the business does not succeed and there are insufficient assets to pay all debt outstanding, creditors could then make claims against the personal assets of the partners. Jade Wingert appears to have few personal assets. This could leave you (Natalie Koebel) responsible for repaying all liabilities of the partnership.**

4. **Before becoming a partner with Jade Wingert, you (Natalie Koebel) should ask to see the financial statements of Gem Frogurt to assess its profitability. You should also consider what benefits (if any) would result from combining the businesses. Lastly, it would be helpful to develop a cash flow budget to see if the new business will generate enough cash to cover the lease payment and the upcoming bank loan repayment.**

BYP 12.6 (Continued)

b.

SANTÉ SMOOTHIES
Balance Sheet
April 1, 2025

Assets

Current assets		
Cash		$16,450[1]
Accounts receivable		6,050
Inventory		1,700
Supplies		800
Total current assets		25,000
Property, plant, and equipment		
Equipment		9,000
Total assets		$34,000

Liabilities and Partners' Equity

Current liabilities		
Bank loan payable		$10,000
Partners' equity		
J. Wingert, capital	$12,000	
N. Koebel, capital	12,000	24,000
Total liabilities and partners' equity		$34,000

[1] Value of N. Koebel's proprietorship net assets	$12,000
Value of Jade Wingert's proprietorship net assets	5,100
Cash Jade Wingert borrowed	6,900
Cash from N. Koebel's proprietorship	8,050
Cash from Jade Wingert's proprietorship	1,500
Total cash when partnership is formed	$16,450

LO 5 BT: AP Difficulty: M Time: 40 min. AACSB: None CPA: cpa-t001 CM: Reporting

LEGAL NOTICE

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