

Assignment Chapter 4 and Chapter 5 Exercises

Discussion Questions

1. In the absence of an agreement, how will the net income be distributed between Ethan Arnold and Tessa Winthrop, partners in the firm of A and W Environmental Engineering?
2. **A)** The articles of partnership provide for a salary allowance of \$6,000 per month to partner C. If partner C withdrew only \$4,000 per month, would this affect the division of the partnership net income?
B) At the end of the fiscal year, what accounts are debited and credited to record the division of net income among partners?
3. Explain the difference between the admission of a new partner to a partnership (a) by purchase of an interest from another partner and (b) by contribution of assets to the partnership.
4. Why is it important to state all partnership assets in terms of current prices at the time of the admission of a new partner?
5. Why might a partnership pay a bonus to a newly admitted partner?
6. In the liquidation process, (a) how are losses and gains on realization divided among the partners, and (b) how is cash distributed among the partners?

Practice Exercises

1. **Admitting new partner:** Lia Wu and Becca Sims are partners who share in the income equally and have capital balances of \$150,000 and \$62,500, respectively. Wu, with the consent of Sims, sells one third of her interest to Kara Oliver. What entry is required by the partnership if the sales price is (a) \$40,000? (b) \$60,000?
2. **Admitting new partner who contributes assets:** After the tangible assets have been adjusted to current market prices, the capital accounts of Travis Harris and Keelyn Kidd have balances of \$60,000 and \$90,000, respectively. Felix Flores is to be admitted to the partnership, contributing \$45,000 cash to the partnership, for which he is to receive ownership equity of \$60,000. All partners share equally in income.
 - a. Journalize the entry to record the admission of Flores, who is to receive a bonus of \$15,000.
 - b. What are the capital balances of each partner after the admission of the new partner?
3. **Admitting new partner with bonus:** J. Taylor and K. Garcia are partners in Green Earth Consultants. Taylor and Garcia share income equally. L. Harris will be admitted to the partnership. Prior to the admission, equipment was revalued downward by \$8,000. The capital balances of each partner are \$100,000 and \$139,000, respectively, prior to the revaluation.
 - a. Provide the journal entry for the asset revaluation.

b. Provide the journal entry for Harris's admission under the following independent situations:

1. Harris purchased a 20% interest for \$50,000.
2. Harris purchased a 30% interest for \$125,000.

4. Dividing partnership income Alex Hutchins and Caitlin Jenkins formed a partnership, dividing income as follows:

1. Annual salary allowance to Hutchins of \$24,000.
2. Interest of 12% on each partner's capital balance on January 1.
3. Any remaining net income divided to Hutchins and Jenkins, 2:1.

Hutchins and Jenkins had \$60,000 and \$80,000, respectively, in their January 1 capital balances. Net income for the year was \$36,000.

Req. How much net income should be distributed to Hutchins?

5. Dividing partnership income: Desmond Drury and Ty Wilkins have decided to form a partnership. They have agreed that Drury is to invest \$20,000 and that Wilkins is to invest \$30,000. Drury is to devote full time to the business, and Wilkins is to devote one-half time. The following plans for the division of income are being considered:

- a. Equal division.
- b. In the ratio of original investments.
- c. In the ratio of time devoted to the business.
- d. Interest of 10% on original investments and the remainder in the ratio of 3:2.
- e. Interest of 10% on original investments, salary allowances of \$34,000 to Drury and \$17,000 to Wilkins, and the remainder equally.
- f. Plan (e), except that Drury is also to be allowed a bonus equal to 20% of the amount by which net income exceeds the salary allowances.

Instructions

For each plan, determine the division of the net income under each of the following assumptions: (1) net income of \$150,000 and (2) net income of \$66,000.

6. Liquidating partnerships—deficiency: Prior to liquidating their partnership, Min and Alvarez had capital accounts of \$120,000 and \$200,000, respectively. The partnership assets were sold for \$60,000. The partnership had no liabilities. Min and Alvarez share income and losses equally.

- a. Determine the amount of Min's deficiency.
- b. Determine the amount distributed to Alvarez, assuming Min is unable to satisfy the deficiency.

7. Statement of partnership liquidation: After the accounts are closed on July 3, 2010, prior to liquidating the partnership, the capital accounts of Whitney Lacy, Eli Oliver, and Alberto Diaz are \$28,200, \$7,800, and \$37,200, respectively. Cash and noncash

assets total \$5,800 and \$82,400, respectively. Amounts owed to creditors total \$15,000. The partners share income and losses in the ratio of 2:1:1. Between July 3 and July 29, the noncash assets are sold for \$33,200, the partner with the capital deficiency pays his deficiency to the partnership, and the liabilities are paid.

Instructions

1. Prepare a statement of partnership liquidation, indicating **(a)** the sale of assets and division of loss, **(b)** the payment of liabilities, **(c)** the receipt of the deficiency (from the appropriate partner), and **(d)** the distribution of cash.
2. Assume the partner with the capital deficiency declares bankruptcy and is unable to pay the deficiency. Journalize the entries to **(a)** allocate the partner's deficiency and **(b)** distribute the remaining cash.