

# Chapter 12

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## Partnerships

### T Questions

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

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

6. Partners share losses in the same ratio that they share profits if the partnership agreement does not discuss sharing the losses. If the agreement specifies no profit-and-loss ratio, the partners share profits and losses equally.
7. Partner withdrawals of cash for personal use do *not* affect the sharing of profits and losses by the partners. Their shares of profits and losses are based on the profit-and-loss ratio, which is determined separately from their cash withdrawals.
8. Four events dissolve a partnership: withdrawal of a partner, death of a partner, admission of a new partner, and liquidation of the partnership. *Note*: Students need name only two of these events.
9. When a partner resigns from the partnership and receives assets greater than her capital balance, the excess is shared by the other partners based on their profit-and-loss ratio.
10. The three steps in liquidating a partnership are (1) selling the assets of the entity, (2) paying its liabilities, and (3) paying any remaining cash to the partners.
11. Cope and Hope share (a) gains and losses on the sale of noncash assets based on their profit-and-loss ratio and (b) the final cash distribution based on their capital balances.

12. All net income or net loss and all gains and losses on the sale of assets are allocated based on the profit-and-loss ratio. This includes bonuses to partners when new partners are admitted, capital adjustments arising from asset revaluations when partners withdraw from the business, and capital deficiencies in liquidation. The only allocation that is based on the partners' capital balances is the payment of assets to partners, such as in liquidation.

## T Daily Exercises

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(10 min.) **DE 12-1**

1. *Advantages:*

A partnership can raise more capital than a *proprietorship*, combines the partners' expertise, and can be more productive than individuals working alone.

A partnership is less expensive to organize than a *corporation*. In addition, the partnership income is not taxed. The partnership's income is taxed to the partners as individuals. There is no double taxation of partnerships.

2. *Disadvantages:*

The partnership agreement may be difficult to formulate since it defines the distribution of net income and net loss. The agreement must be rewritten when there is a change in partnership. In addition, mutual agency and unlimited liability create personal obligations for each partner, unlike a stockholder, who has limited personal liability for the obligations of a corporation.

Lane's errors were:

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

*Market value* measures a partner's capital investment in a partnership because the business is buying the asset at its current market value. The partnership's journal entry is

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Building		285,000	
	Hahn, Capital			285,000
	To record Hahn's investment in the partnership.			

Req. 1

(All amounts in millions)

Total assets:	\$4 + \$17 + \$10 + \$7 + \$3	= \$35
Total liabilities:		= \$3
Total owners' equity:	\$35 - \$3	= \$32

Req. 2

Journal			
ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Cash		4	
Land		17	
Note Payable			3
Green, Capital			18
To record Green's investment in the partnership.			
Cash		10	
Equipment		4	
Smith, Capital			14
To record Smith's investment in the partnership.			

Req. 3

Green, capital.....	\$18
Smith, capital.....	<u>14</u>
Total owners' equity.....	<u>\$32</u>

1. Benz:  $\$15,000 \times \frac{1}{2} = \$7,500$

Hanna:  $\$15,000 \times \frac{1}{2} = \$7,500$

2.

Benz, Capital		Hanna, Capital	
7,500	470,000	7,500	105,000
Bal.	462,500	Bal.	97,500

*Req. 1*

<b>Journal</b>				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
20X6				
1. a. During	Benz, Drawing		70,000	
the	Hanna, Drawing		50,000	
year	Cash			120,000
	Partner withdrawals of cash.			
20X6				
b. May 31	Income Summary		115,000	
	Benz, Capital			
	([\\$470,000 / \\$575,000] × \\$115,000)			94,000
	Hanna, Capital			
	([\\$105,000 / \\$575,000] × \\$115,000)			21,000
20X6				
c. May 31	Benz, Capital		70,000	
	Hanna, Capital		50,000	
	Benz, Drawing			70,000
	Hanna, Drawing			50,000

*Req. 2*

Benz, Capital		Hanna, Capital	
	470,000		105,000
70,000	94,000	50,000	21,000
	494,000		76,000

Total partnership capital, \$570,000	

(10 min.) **DE 12-7**

	<u>Lawson</u>	<u>Martinez</u>	<u>Edwards</u>	<u>Total</u>
Total net income.....				\$140,000
Sharing of first \$40,000 of net income based on capital balances:				
Lawson ( $[\$20,000 / \$100,000] \times \$40,000$ )..	\$ 8,000			
Martinez ( $[\$30,000 / \$100,000] \times \$40,000$ )..		\$12,000		
Edwards ( $[\$50,000 / \$100,000] \times \$40,000$ )..			\$20,000	
Total.....				<u>40,000</u>
Net income remaining for allocation.....				<u>\$100,000</u>
Sharing of next \$40,000 based on service:				
Lawson ( $\$40,000 \times 1/2$ ).....	20,000			
Edwards ( $\$40,000 \times 1/2$ ).....			20,000	
Total.....				<u>40,000</u>
Net income remaining for allocation.....				<u>60,000</u>
Remainder shared equally:				
Lawson ( $\$60,000 \times 1/3$ ).....	20,000			
Martinez ( $\$60,000 \times 1/3$ ).....		20,000		
Edwards ( $\$60,000 \times 1/3$ ).....			20,000	
Total.....				<u>60,000</u>
Net income remaining for allocation.....				<u>\$ -0-</u>
Net income allocated to the partners.....	<u>\$48,000</u>	<u>\$32,000</u>	<u>\$60,000</u>	<u>\$140,000</u>

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

	<u>Fung</u>	<u>Kiawa</u>	<u>Total</u>
Total net income.....			\$50,000
<i>First, salaries:</i>			
Fung.....	\$15,000		
Kiawa.....		\$10,000	
Total.....			<u>25,000</u>
Net income remaining for allocation.....			<u>25,000</u>
<i>Second, interest on beginning capital balances:</i>			
Fung ( $\$30,000 \times .07$ ).....	2,100		
Kiawa ( $\$40,000 \times .07$ ).....		2,800	
Total.....			<u>4,900</u>
Net income remaining for allocation.....			<u>20,100</u>
Remainder shared equally:			
Fung ( $\$20,100 \times 1/2$ ).....	10,050		
Kiawa ( $\$20,100 \times 1/2$ ).....		10,050	
Total.....			<u>20,100</u>
Net income remaining for allocation.....			<u>\$ -0-</u>
Net income allocated to the partners.....	<u>\$27,150</u>	<u>\$22,850</u>	<u>\$50,000</u>

Req. 1

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Jay, Capital		90,000	
	Reynoldo, Capital			90,000
	To admit Reynoldo as a partner.			

Jay keeps the \$20,000 difference between Reynoldo’s payment (\$110,000) and Jay’s capital balance (\$90,000). This is a personal gain to Jay.

Req. 2

Ingel is not obligated to admit Reynoldo as a full partner with a voice in management of the firm. But Reynoldo does have the right to share in the profits and losses of the partnership.

Req. 1

There is no bonus to any partner, as shown here:

Partnership capital before Welsh is admitted (\$70,000 + \$90,000)...	\$160,000
Welsh’s investment in the partnership.....	<u>80,000</u>
Partnership capital after Welsh is admitted.....	<u>\$240,000</u>
Welsh’s capital in the partnership—same as his investment; no bonus (\$240,000 × 1/3).....	<u>\$ 80,000</u>

Req. 2

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash		80,000	
	Welsh, Capital			80,000
	To admit Welsh as a partner with a one-third interest in the business.			

<b>Journal</b>				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash		50,000	
	Kliptel, Capital			40,000
	Nagasawa, Capital			
	(\$10,000 × 1/2)			5,000
	Osburn, Capital			
	(\$10,000 × 1/2)			5,000
	To admit Kliptel as a partner with a one-fifth interest in the business.			

Partnership capital before Kliptel is admitted (\$70,000 + \$80,000)...	\$150,000
Kliptel's investment in the partnership.....	<u>50,000</u>
Partnership capital after Kliptel is admitted.....	<u>\$200,000</u>
Kliptel's capital in the partnership (\$200,000 × 1/5).....	<u>\$ 40,000</u>
Bonus to the old partners (\$50,000 ! \$40,000).....	<u>\$ 10,000</u>

NOK Partners			
Balance Sheet			
June 30, 20X2			
Cash (\$40,000 + \$50,000)	\$ 90,000	Total liabilities	\$100,000
Other assets	210,000	Nagasawa, capital	
		(\$70,000 + \$5,000)	75,000
		Osburn, capital	
		(\$80,000 + \$5,000)	85,000
		Kliptel, capital	<u>40,000</u>
Total assets	<u>\$300,000</u>	Total liabilities and capital	<u>\$300,000</u>

(10 min.) **DE 12-13**

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash		140,000	
	Page, Capital (\$16,000 × 2/3)		10,667	
	Franco, Capital (\$16,000 × 1/3)		5,333	
	Everett, Capital			156,000
	To admit Everett as a partner with a 30% interest in the business.			

Partnership capital before Everett is admitted (\$230,000 + \$150,000).....	\$380,000
Everett's investment in the partnership.....	<u>140,000</u>
Partnership capital after Everett is admitted.....	<u>\$520,000</u>
Everett's capital in the partnership (\$520,000 × .30).....	<u>\$156,000</u>
Bonus to Everett (\$156,000 ! \$140,000).....	<u>\$ 16,000</u>

(5-10 min.) **DE 12-14**

*Req. 1*

Green can take assets of \$64,000, which is the amount of her capital balance in the assets of the business. The profit-and-loss ratio is not used because the business is distributing assets to an owner. It is not dividing profits or losses among the partners.

*Req. 2*

The business can:

- Borrow the cash.
- Sell assets for cash.

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

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a. July 31	Land (\$150,000 ! \$55,000)		95,000	
	Green, Capital (\$95,000 × 1/4)			23,750
	Henry, Capital (\$95,000 × 1/2)			47,500
	Isaac, Capital (\$95,000 × 1/4)			23,750
	To revalue the land and allocate the gain to the partners.			
b. July 31	Cash		90,500	
	Note Payable			90,500
	To borrow money.			
c. July 31	Henry, Capital (\$43,000 + \$47,500)		90,500	
	Cash			90,500
	To record withdrawal of Henry from the business.			

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Henry, Capital (\$43,000 + \$47,500)		90,500	
	Green, Capital (\$30,000 × 1/2)			15,000
	Isaac, Capital (\$30,000 × 1/2)			15,000
	Cash			60,500
	To record withdrawal of Henry from the business.			

	Cash +	Noncash Assets =	Liabilities	Capital		
				Avignon + (60%)	Bloch + (20%)	Crane + (20%)
Balance before sale of assets.....	\$10,000	\$90,000	\$30,000	\$40,000	\$20,000	\$10,000
Sale of assets and sharing of loss.....	75,000	(90,000)		(9,000)	(3,000)	(3,000)
Balances.....	85,000	-0-	30,000	31,000	17,000	7,000
Payment of liabilities..	(30,000)		(30,000)			
Balances.....	55,000	-0-	-0-	31,000	17,000	7,000
Payment of cash to partners.....	(55,000)			(31,000)	(17,000)	(7,000)
Balances .....	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

\* Loss = \$90,000 ! \$75,000 = \$15,000

Avignon: \$15,000 × .60 = \$9,000

Bloch: \$15,000 × .20 = 3,000

Crane: \$15,000 × .20 = 3,000

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash		75,000	
	Avignon, Capital		9,000	
	Bloch, Capital		3,000	
	Crane, Capital		3,000	
	Noncash Assets			90,000
	To sell assets at a loss.			
	Liabilities		30,000	
	Cash			30,000
	To pay liabilities.			
	Avignon, Capital		31,000	
	Bloch, Capital		17,000	
	Crane, Capital		7,000	
	Cash			55,000
	To pay cash to the partners in final liquidation of the business.			

(10 min.) **DE 12-19**

Green and Henry			
Balance Sheet			
July 31, 20XX			
Cash (\$39,000 ! \$10,000)	\$ 29,000	Note payable	\$ 15,000
Inventory	38,000	Other liabilities	80,000
Land	101,000	Green, capital (\$64,000 + \$2,000)	66,000
Building \$95,000		Henry, capital (\$63,000 + \$4,000)	67,000
Less Accum. depr. (35,000)	60,000		
Total assets	<u>\$228,000</u>	Total liabilities and capital	<u>\$228,000</u>

(5-10 min.) **DE 12-20**

Frost and Martin		
Income Statement		
Year Ended September 30, 20X4		
Service revenue		\$140,000
Total expenses		<u>35,000</u>
Net income		<u>\$105,000</u>
Allocation of net income:		
To Frost (\$105,000 × 2/3)	\$70,000	
To Martin (\$105,000 × 1/3)	<u>35,000</u>	<u>\$105,000</u>

## T Exercises

(10-15 min.) **E 12-1**

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

- The partnership form of business has some disadvantages. Partnerships are somewhat like marriages. Optimism at the start can turn sour if the partners do not get along well.
- Each partner can bind the business to a contract that gives each other partner unlimited personal liability for the debts of the business if it cannot pay. One partner making some mistakes or acting in an undesirable manner can create losses for the other partner(s). In the extreme case, a partner may grow disenchanted with participation in the business.
- If a partner leaves the business, the old partnership ceases to exist, and reorganization becomes necessary. Preparing a partnership agreement can consume lots of time and energy.

<b>Journal</b>				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash		16,300	
	Accounts Receivable		10,600	
	Office Furniture (\$2,700 ! \$1,100)		1,600	
	Building		71,000	
	Allowance for Uncollectible Accounts			2,900
	Accounts Payable			3,300
	Note Payable			10,000
	Accrued Expenses Payable			1,200
	Flute, Capital			82,100
	To record Flute's investment in the partnership.			

Partners' shares of net income and net loss:

	NET INCOME (NET LOSS)		
	MEPPEN	QUAID	TOTAL
a. Half to each partner	<u>\$(26,000)</u>	<u>\$(26,000)</u>	<u>\$(52,000)</u>
b. Meppen			
(\$40,000 / \$110,000 × \$77,000)	<u>\$ 28,000</u>		
Quaid			<u>\$ 77,000</u>
(\$70,000 / \$110,000 × \$77,000)		<u>\$ 49,000</u>	
c. Meppen			
(\$40,000 / \$110,000 × \$33,000)	<u>\$(12,000)</u>		
Quaid			<u>\$(33,000)</u>
(\$70,000 / \$110,000 × \$33,000)		<u>\$(21,000)</u>	
d. Total net income			\$ 98,000
Sharing of first \$60,000 based on capital contributions:			
Meppen			
(\$40,000/\$110,000 × \$60,000)	\$ 21,818		
Quaid			
(\$70,000/\$110,000 × \$60,000)		\$ 38,182	<u>60,000</u>
Net income left for allocation			38,000
Sharing based on service:			
Meppen (\$30,000 × .30)	9,000		
Quaid (\$30,000 × .70)		21,000	<u>30,000</u>
Net income left for allocation			8,000
Balance shared equally:			
Meppen (\$8,000 × 1/2)	4,000		
Quaid (\$8,000 × 1/2)		4,000	<u>8,000</u>
Net income left for allocation			\$ -0-
Net income allocated to the partners	<u>\$ 34,818</u>	<u>\$ 63,182</u>	<u>\$ 98,000</u>

<b>Journal</b>				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a. Income Summary		98,000	
	Meppen, Capital			34,818
	Quaid, Capital			63,182
	b. Meppen, Capital		47,000	
	Meppen, Drawing			47,000
	Quaid, Capital		53,000	
	Quaid, Drawing			53,000

Overall, partnership capital decreased by \$2,000 [net income of \$98,000 minus total partner drawings of \$100,000 (\$47,000 + \$53,000)].

Partners' equity in the partnership:

a. Falco's balance	\$ 50,000
Graham's balance	100,000
Ott's balance	<u>-0-</u>
b. Partnership capital before Falco is admitted	
(\$100,000 + \$50,000)	\$150,000
Falco's investment	<u>75,000</u>
Partnership capital after Falco is admitted	<u>\$225,000</u>
Falco's capital in the partnership	
(\$225,000 × 1/3)	\$ 75,000
Graham's capital in the partnership	100,000
Ott's capital in the partnership	<u>50,000</u>
Total partnership capital	<u>\$225,000</u>
c. Partnership capital before Falco is admitted	
(\$100,000 + \$50,000)	\$150,000
Falco's investment	<u>60,000</u>
Partnership capital after Falco is admitted	<u>\$210,000</u>
Falco's capital in the partnership	
(\$210,000 × 1/4)	\$ 52,500
Graham's capital in the partnership	
\$100,000 + [(\$60,000 ! \$52,500) × 1/2]	103,750
Ott's capital in the partnership	
\$50,000 + [(\$60,000 ! \$52,500) × 1/2]	<u>53,750</u>
Total partnership capital	<u>\$210,000</u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Ott, Capital		50,000	
	Falco, Capital			50,000
b.	Cash		75,000	
	Falco, Capital			75,000
c.	Cash		60,000	
	Falco, Capital			52,500
	Graham, Capital ( $\$7,500 \times 1/2$ )			3,750
	Ott, Capital ( $\$7,500 \times 1/2$ )			3,750

1.	Echols' owner's equity before asset write-down	\$60,000
	Echols' share of asset write-down ( $\$45,000 \times 1/3$ )	<u>(15,000)</u>
	Echols receives assets of	<u>\$45,000</u>
2.	Schaeffer's owner's equity before asset write-down	\$80,000
	Schaeffer's share of asset write-down ( $\$45,000 \times 2/3$ )	<u>(30,000)</u>
	Schaeffer's owner's equity to begin the proprietorship	<u>\$50,000</u>

Journal					
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
a. May 31	Bermuda, Capital ( $\$12,000 \times 5/10$ )		6,000		
	Rye, Capital ( $\$12,000 \times 3/10$ )		3,600		
	Augustine, Capital ( $\$12,000 \times 2/10$ )		2,400		
	Inventory				12,000
	To revalue the inventory and allocate the loss to the partners.				
	31 Land		32,000		
	Bermuda, Capital ( $\$32,000 \times 5/10$ )				16,000
	Rye, Capital ( $\$32,000 \times 3/10$ )				9,600
	Augustine, Capital ( $\$32,000 \times 2/10$ )				6,400
	To revalue the land and allocate the gain to the partners.				
b. May 31	Bermuda, Capital				
	( $\$36,000 - \$6,000 + \$16,000$ )		46,000		
	Rye, Capital ( $\$4,000^* \times 3/5$ )		2,400		
	Augustine, Capital ( $\$4,000^* \times 2/5$ )		1,600		
	Cash				25,000
	Note Payable to E. Bermuda				25,000
	To record withdrawal of Bermuda from the partnership.				

\*Bermuda received partnership cash (\$25,000) and a note of \$25,000, a total settlement of..... \$50,000  
 Bermuda's capital balance at time of withdrawal..... (46,000)  
 Loss to be shared by the other partners..... \$ 4,000

*Req. 1*

Each partner receives cash equal to his capital balance because cash (\$54,000) equals total partnership capital:

Barry.....	\$23,000
McCall.....	20,000
Flaten.....	11,000
Total.....	<u>\$54,000</u>

*Req. 2*

Barry receives cash of \$20,000 { \$23,000 ! [(\$54,000 ! \$45,000) × 1/3]}.

McCall receives cash of \$17,000 { \$20,000 ! [(\$54,000 ! \$45,000) × 1/3]}.

Flaten receives cash of \$8,000 { \$11,000 ! [(\$54,000 ! \$45,000) × 1/3]}.

Summary of liquidation transactions:

	Cash +	Noncash Assets =	Liabilities	Capital		
				Deluth + (40%)	Liu + (30%)	Bush + (30%)
Balances before sale of assets	\$ 8,000	\$ 57,000	\$ 19,000	\$ 20,000	\$ 15,000	\$ 11,000
Sale of assets and sharing of gain	69,000	(57,000)		4,800*	3,600*	3,600*
Balances	77,000	-0-	19,000	24,800	18,600	14,600
Payment of liabilities	(19,000)		(19,000)			
Balances	58,000	-0-	-0-	24,800	18,600	14,600
Payment of cash to partners	(58,000)			(24,800)	(18,600)	(14,600)
Balances	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

\*Allocation of gain to partners:

Gain: \$69,000 ! \$57,000 = \$12,000

Deluth: \$12,000 × .40 = \$ 4,800

Liu: \$12,000 × .30 = \$ 3,600

Bush: \$12,000 × .30 = \$ 3,600

	A	B	C	D	E	F
1	Valahu, Leman, and Sucre					
2	Sale of Noncash Assets					
3	(For \$136,000)					
4						
5		Noncash		Valahu	Leman	Sucre
6	Cash	Assets	Liabilities	Capital	Capital	Capital
7						
8	\$ 6,000	\$ 126,000	\$77,000	\$12,000	\$ 37,000	\$ 6,000
9	136,000	(126,000)		2,500	4,500	3,000
10						
11	\$142,000	\$ -0-	\$77,000	\$14,500	\$ 41,500	\$ 9,000
12						
13						
14						
15	(For \$90,000)					
16		Noncash		Valahu	Leman	Sucre
17	Cash	Assets	Liabilities	Capital	Capital	Capital
18	\$ 6,000	\$ 126,000	\$77,000	\$12,000	\$ 37,000	\$ 6,000
19	90,000	(126,000)		(9,000)	(16,200)	(10,800)
20						
21	\$96,000	\$ -0-	\$77,000	\$ 3,000	\$ 20,800	\$(4,800)
22						

Two ways the partners can deal with Sucre's capital deficiency include:

1. Sucre may contribute assets of \$4,800 to the partnership to erase the deficiency.
2. Valahu and Leman can absorb Sucre's deficiency in proportion to their remaining profit-sharing percentages: Valahu, 25/70; Leman, 45/70.

Klatt and Stover	
Balance Sheet	
October 31, 20X2	
<b>ASSETS</b>	
Cash (\$3,700 + \$4,000)	\$ 7,700
Accounts receivable, net (\$20,200 + \$6,300)	26,500
Inventory (\$46,000 + \$35,100)	81,100
Plant assets, net (\$103,500 + \$57,400)	<u>160,900</u>
Total assets	<u>\$276,200</u>
<b>LIABILITIES</b>	
Accounts payable (\$25,500 + \$8,300)	\$ 33,800
Accrued expenses payable (\$2,200 + \$1,400)	3,600
Notes payable	<u>55,000</u>
Total liabilities	92,400
<b>CAPITAL</b>	
Klatt, capital	90,700*
Stover, capital	<u>93,100*</u>
Total liabilities and capital	<u>\$276,200</u>

\* Total assets ! Total liabilities = Partner capital

Klatt: \$173,400 ! (\$25,500 + \$2,200 + \$55,000) = \$90,700

Stover: \$102,800 ! (\$8,300 + \$1,400) = \$93,100