

# APPENDIX A—Solutions

## ACCOUNTING FOR UNINCORPORATED BUSINESSES

### Appendix A, SE 1.

Jan.	1	Cash	12,000	
		Office Equipment	8,000	
		Bob, Capital		12,000
		Kim, Capital		8,000
		To record formation of partnership		

### Appendix A, SE 2.

#### Computation of capital ratios:

Bob	\$12,000	12	÷	20	=	60%
Kim	<u>8,000</u>	8	÷	20	=	40%
	<u>\$20,000</u>					

#### Division of income:

Bob	\$5,000	×	0.60	=	\$3,000
Kim	\$5,000	×	0.40	=	\$2,000

### Appendix A, SE 3.

					Income of Partner		Income
					Bob	Kim	Distributed
Total income for distribution							\$5,000
Distribution of interest							
	Bob	(	\$12,000	×	0.10	)	\$1,200
	Kim	(	\$ 8,000	×	0.10	)	\$ 800
Remaining income after interest							\$3,000
Equal distribution of remaining income							
	Bob				1,500		
	Kim				<u>1,500</u>		( 3,000)
Remaining income							<u>—</u>
Income of partners					<u>\$2,700</u>	<u>\$2,300</u>	<u>\$5,000</u>

**Appendix A, SE 4.**

					Income of Partner		Income
					Bob	Kim	Distributed
Total income for distribution							\$5,000
Distribution of interest							
	Bob	(	\$12,000	× 0.10 )	\$1,200		
	Kim	(	\$ 8,000	× 0.10 )		\$ 800	( 2,000)
Remaining income after interest							
Distribution of salary							\$3,000
	Bob				6,000		( 6,000)
Negative balance after interest and salary							(\$3,000)
Equal distribution of negative balance							
	Bob				( 1,500)		
	Kim					( 1,500)	
Remaining income							—
Income of partners					<u>\$5,700</u>	<u>(\$ 700)</u>	<u>\$5,000</u>

**Appendix A, SE 5.**

The Capital account balances would remain the same at \$15,000 for Bob and \$10,000 for Sonia because Sonia is buying Kim's interest directly from Kim and not from the partnership.

Dec.	31	Kim, Capital		10,000	
		Sonia, Capital			10,000
		To transfer Kim's Capital account balance to Sonia			

**Appendix A, SE 6.**

<b>Partners' equity in the original partnership</b>									
								<b>\$25,000</b>	
<b>Cash investment by Sonia</b>									
								<b><u>11,000</u></b>	
<b>Partners' equity in the new partnership</b>									
<b>Sonia's equity \$36,000 × 1 / 6</b>								<b><u>\$ 6,000</u></b>	
<b>Bonus to original partners</b>									
<b>Investment by Sonia</b>								<b>\$11,000</b>	
<b>Less equity assigned to Sonia</b>								<b><u>6,000</u></b>	<b><u>\$ 5,000</u></b>
<b>Distribution of bonus to original partners</b>									
<b>Bob ( \$5,000 × 1 / 2 )</b>								<b>\$ 2,500</b>	
<b>Kim ( \$5,000 × 1 / 2 )</b>								<b><u>2,500</u></b>	<b><u>\$ 5,000</u></b>
<b>New Capital account balances:</b>									
<b>Bob \$15,000 + \$2,500 = \$17,500</b>									
<b>Kim \$10,000 + \$2,500 = \$12,500</b>									
<b>Sonia \$ 6,000</b>									
<b>Dec. 31 Cash</b>									
<b>Bob, Capital</b>								<b>11,000</b>	<b>2,500</b>
<b>Kim, Capital</b>									<b>2,500</b>
<b>Sonia, Capital</b>									<b>6,000</b>
<b>Investment by Sonia for one-sixth interest in partnership, bonus distributed to Bob and Kim</b>									

**Appendix A, SE 7.**

Partners' equity in the original partnership											\$25,000
Cash investment by Sonia											<u>5,000</u>
Partners' equity in the new partnership											<u>\$30,000</u>
	Sonia's equity	\$30,000	×	1	/	4					<u>\$ 7,500</u>
Bonus to new partner											
	Equity assigned to Sonia									\$7,500	
	Less investment by Sonia									<u>5,000</u>	<u>\$ 2,500</u>
Distribution of bonus from original partners											
	Bob	(	\$2,500	×	1	/	2	)		\$1,250	
	Kim	(	\$2,500	×	1	/	2	)		<u>1,250</u>	<u>\$ 2,500</u>
New Capital account balances:											
	Bob	\$15,000	–	\$1,250	=	\$13,750					
	Kim	\$10,000	–	\$1,250	=	\$ 8,750					
	Sonia	\$ 7,500									
Dec.	31	Cash								5,000	
		Bob, Capital								1,250	
		Kim, Capital								1,250	
		Sonia, Capital									7,500
		Investment by Sonia for one-fourth									
		interest in partnership, bonus from Bob									
		and Kim									

**Appendix A, P 1.**

**1. Entry prepared**

<b>Cash</b>	<b>240,000</b>	
<b>Building</b>	<b>220,000</b>	
<b>Equipment</b>	<b>140,000</b>	
<b>Ed Rivers, Capital</b>		<b>240,000</b>
<b>Bob Bascomb, Capital</b>		<b>360,000</b>
<b>Initial investments of Ed Rivers and Bob Bascomb</b>		

**2. Share of income for each partner determined**

**a. Income shared equally**

	<b>2011</b>	<b>2012</b>
<b>Rivers</b>		
( \$84,000 × 0.50 )	<b>\$42,000</b>	
( \$40,000 × 0.50 )		<b>\$20,000</b>
<b>Bascomb</b>		
( \$84,000 × 0.50 )	<b>42,000</b>	
( \$40,000 × 0.50 )		<b>20,000</b>
<b>Totals</b>	<b><u>\$84,000</u></b>	<b><u>\$40,000</u></b>

**b. Because the partners failed to agree on an income-sharing arrangement, income must be shared equally. This answer is identical to a .**

**c. Income shared on the basis of the partners' original investments**

	<b>2011</b>	<b>2012</b>
<b>Rivers</b>		
( \$84,000 × 240 / 600 )	<b>\$33,600</b>	
( \$40,000 × 240 / 600 )		<b>\$16,000</b>
<b>Bascomb</b>		
( \$84,000 × 360 / 600 )	<b>50,400</b>	
( \$40,000 × 360 / 600 )		<b>24,000</b>
<b>Totals</b>	<b><u>\$84,000</u></b>	<b><u>\$40,000</u></b>

**Appendix A, P 1. (Continued)**

d.	Interest on investments; remainder shared equally												
	2011 computation:						Income of Partner		Income				
							Rivers	Bascomb	Distributed				
	Total Income for Distribution								\$84,000				
	Distribution of Interest												
		Rivers (	\$240,000	×	0.10	)	\$24,000						
		Bascomb (	\$360,000	×	0.10	)		\$36,000	( 60,000)				
	Remaining Income after Interest								\$24,000				
	Equal Distribution of Remaining												
	Income												
		Rivers (	\$24,000	×	0.50	)	12,000						
		Bascomb (	\$24,000	×	0.50	)		12,000	( 24,000)				
	Remaining Income								—				
	Income of Partners						\$36,000	\$48,000	\$84,000				
	2012 computation:						Income of Partner		Income				
Rivers							Bascomb	Distributed					
Total Income for Distribution								\$40,000					
Distribution of Interest													
	Rivers (	\$240,000	×	0.10	)	\$24,000							
	Bascomb (	\$360,000	×	0.10	)		\$36,000	( 60,000)					
Negative Balance after Interest								(\$20,000)					
Equal Distribution of Negative													
Balance													
	Rivers (	\$20,000	×	0.50	)	( 10,000)							
	Bascomb (	\$20,000	×	0.50	)		( 10,000)	20,000					
Remaining Income								—					
Income of Partners						\$14,000	\$26,000	\$40,000					

**Appendix A, P 1. (Continued)**

e. Salaries allowed; remainder shared equally												
2011 computation:							Income of Partner		Income			
							Rivers	Bascomb	Distributed			
Total Income for Distribution									\$84,000			
Distribution of Salaries												
		Rivers					\$40,000					
		Bascomb						\$28,000	( 68,000)			
Remaining Income after Salaries									\$16,000			
Equal Distribution of Remaining Income												
		Rivers (	\$16,000	×	0.50	)	8,000					
		Bascomb (	\$16,000	×	0.50	)		8,000	( 16,000)			
Remaining Income									—			
Income of Partners							\$48,000	\$36,000	\$84,000			
2012 computation:							Income of Partner		Income			
							Rivers	Bascomb	Distributed			
Total Income for Distribution									\$40,000			
Distribution of Salaries												
		Rivers					\$40,000					
		Bascomb						\$28,000	( 68,000)			
Negative Balance after Salaries									(\$28,000)			
Equal Distribution of Negative Balance												
		Rivers (	\$28,000	×	0.50	)	( 14,000)					
		Bascomb (	\$28,000	×	0.50	)		( 14,000)	28,000			
Remaining Income									—			
Income of Partners							\$26,000	\$14,000	\$40,000			

**Appendix A, P 1. (Continued)**

f. Interest and salaries allowed; remainder shared equally												
2011 computation:							Income of Partner		Income			
							Rivers	Bascomb	Distributed			
Total Income for Distribution									\$84,000			
Distribution of Salaries												
Rivers							\$40,000					
Bascomb								\$28,000	( 68,000)			
Remaining Income after Salaries									\$16,000			
Distribution of Interest												
Rivers ( \$240,000 × 0.09 )							21,600					
Bascomb ( \$360,000 × 0.09 )								32,400	( 54,000)			
Negative Balance after Salaries and Interest												
									(\$38,000)			
Equal Distribution of Negative Balance												
Rivers ( \$38,000 × 0.50 )							( 19,000)					
Bascomb ( \$38,000 × 0.50 )								( 19,000)	38,000			
Remaining Income									—			
Income of Partners							<u>\$42,600</u>	<u>\$41,400</u>	<u>\$84,000</u>			
2012 computation:												
2012 computation:							Income of Partner		Income			
							Rivers	Bascomb	Distributed			
Total Income for Distribution									\$40,000			
Distribution of Salaries												
Rivers							\$40,000					
Bascomb								\$28,000	( 68,000)			
Negative Balance after Salaries									(\$28,000)			
Distribution of Interest												
Rivers ( \$240,000 × 0.09 )							21,600					
Bascomb ( \$360,000 × 0.09 )								32,400	( 54,000)			
Negative Balance after Salaries and Interest									(\$82,000)			
Equal Distribution of Negative Balance												
Rivers ( \$82,000 × 0.50 )							( 41,000)					
Bascomb ( \$82,000 × 0.50 )								( 41,000)	82,000			
Remaining Income									—			
Income of Partners							<u>\$20,600</u>	<u>\$19,400</u>	<u>\$40,000</u>			



**Appendix A, P 2.**

a.	July	31	Margaret, Capital							9,000	
			Vonice, Capital								9,000
			Sale of 20 percent of Margaret's capital interest in the partnership to Vonice								
			\$45,000 × 0.20 = \$9,000								
b.	July	31	Cash							20,000	
			Vonice, Capital								20,000
			Admission of Vonice to the partnership								
c.	July	31	Cash							30,000	
			Vonice, Capital								24,000
			Margaret, Capital								3,000
			Tracy, Capital								1,000
			Lou, Capital								2,000
			Sale of a 20 percent interest in the partnership to Vonice, bonus distributed to the original partners								
Computation:											
Original partners' capital									\$ 90,000		
Vonice's investment									<u>30,000</u>		
Capital of new partnership									<u>\$120,000</u>		
Vonice's investment									\$ 30,000		
Vonice's interest											
( \$120,000 × 0.20 )									<u>24,000</u>		
Bonus to the original partners									<u>\$ 6,000</u>	*	
*Distribution of bonus to original partners:											
Margaret ( \$6,000 × 45 / 90 )									\$3,000		
Tracy ( \$6,000 × 15 / 90 )									1,000		
Lou ( \$6,000 × 30 / 90 )									<u>2,000</u>		
Total bonus									<u>\$6,000</u>		

**Appendix A, P 2. (Continued)**

Partners' capital ratios:									
		Capital							
Partner		Balance	Ratios						
Margaret		\$45,000	45	/	90				
Tracy		15,000	15	/	90				
Lou		<u>30,000</u>	30	/	90				
		<u>\$90,000</u>							
d.	July	31	Cash				30,000		
			Margaret, Capital				9,000		
			Tracy, Capital				3,000		
			Lou, Capital				6,000		
			Vonice, Capital					48,000	
			Sale of a 40 percent interest in the						
			partnership to Vonice, bonus charged						
			to the original partners						
Computation:									
Original partners' capital							\$ 90,000		
Vonice's investment							<u>30,000</u>		
Capital of new partnership							<u>\$120,000</u>		
Vonice's interest									
( \$120,000 × 0.40 )							\$ 48,000		
Vonice's investment							<u>30,000</u>		
Bonus to Vonice							<u>\$ 18,000</u>	*	
*Distribution of bonus from original partners:									
Margaret (		\$18,000	×	45 / 90	)	\$ 9,000			
Tracy (		\$18,000	×	15 / 90	)	3,000			
Lou (		\$18,000	×	30 / 90	)	<u>6,000</u>			
Total bonus						<u>\$18,000</u>			
Partners' capital ratios: See answer to c .									

**Appendix A, P 2. (Continued)**

<b>e.</b>	<b>July</b>	<b>31</b>	<b>Margaret, Capital</b>		<b>45,000</b>	
			<b>Tracy, Capital</b>		<b>2,500</b>	
			<b>Lou, Capital</b>		<b>5,000</b>	
			<b>Cash</b>			<b>52,500</b>
			<b>Withdrawal of Margaret from the partnership*</b>			
<b>* Distribution of excess cash over Margaret's capital balance between the remaining partners:</b>						
			<b>Tracy (</b>	<b>\$7,500</b>	<b>×</b>	<b>15 / 45 )</b>
			<b>Lou (</b>	<b>\$7,500</b>	<b>×</b>	<b>30 / 45 )</b>
			<b>Total</b>	<b>\$7,500</b>		
<b>f.</b>	<b>July</b>	<b>31</b>	<b>Margaret, Capital</b>		<b>45,000</b>	
			<b>Vonice, Capital</b>			<b>45,000</b>
			<b>Sale of Margaret's partnership interest to Vonice</b>			

