

Practice Set

ACCOUNTING FOR PARTNERSHIPS

I. ENTRY OF NEW PARTNER AND DIVISION OF EARNINGS

NEW PARTNER PAYS A BONUS

Mary Perry became a partner of Linda's Video Showcase on January 2 of Year 2. She invested \$30,000 cash and received one-fifth interest (20%). Linda's capital was \$70,000. Make the Journal Entries to record the admission of Mary into the partnership.

Capital, Linda Smith	\$70,000
Additional Investment	<u>30,000</u>
Total Partnership Equity	<u>\$100,000</u>

Mary receives (.2) (\$100,000) = \$ 20,000
 Linda receives a bonus of \$ 10,000

	DR.	CR.
Jan. 2 Cash	30,000	
Capital, Mary Perry		20,000
Capital, Linda Smith		10,000

DIVISION OF YEAR TWO'S INCOME

Linda Smith and Mary Perry were to receive salaries of \$50,000 and \$30,000 respectively. After the distribution of salaries, any positive or negative balance would be distributed according to their 4:1 capital ratio. Year 2's income was \$110,000. Make the Journal Entry necessary to record the distribution of Year 2's income.

	Linda Smith	Mary Perry	
Year 2's Income:			\$110,000
Salary Distribution:			
Linda Smith	\$50,000		
Mary Perry		\$30,000	
To be distributed.			<u>80,000</u>
			\$ 30,000
			Dec. 31
			Income Summary
			Capital, Linda Smith
			Capital, Mary Perry
			110,000
			74,000
			36,000
Capital Ratio Distribution:			
Linda Smith (.8) (\$30,000) =	24,000		
Mary Perry (.2) (\$30,000) =		6,000	
To be distributed.			<u>30,000</u>
	<u>\$74,000</u>	<u>\$36,000</u>	<u>\$110,000</u>

Hint: After Salaries, Mary received a distribution of \$6,000.