

Quick Question On Distributing Partners' Income

The capital balances of LMN Company are as follows: L has \$40,000, M has \$60,000, and N has \$100,000. Income is shared according to their beginning capital balances. L and M receive salaries of \$30,000 and \$50,000 respectively. Interest of 9% is paid to all partners on their beginning capital balances. N receives a bonus after salaries and interest have been distributed amounting to 25% of income over \$50,000, up to a maximum bonus of \$25,000. Calculate the amount of income distributed to each partner and their ending capital balances under each of these two independent income situations: (1) income was \$75,000, and (2) income was \$250,000.

Data Summary

Total capital = \$40,000 + \$60,000 + \$100,000 = \$200,000

Capital Ratios	Salaries	Interest of 9%	Bonus after salaries and interest
L = $40/200 = 20\%$	L = \$30,000	L = $.09(\$40,000) = \$3,600$	N = 25% over \$50,000
M = $60/200 = 30\%$	M = \$50,000	M = $.09(\$60,000) = \$5,400$	up to \$25,000
N = $100/200 = 50\%$		N = $.09(\$100,000) = \$9,000$	

Situation #1

Beginning Capital	Partner L \$40,000	Partner M \$ 60,000	Partner N \$100,000	Income Distribution	Balance <u>\$200,000</u>
Income					\$ 75,000
Salaries	30,000	50,000		(80,000)	(5,000)
Interest	3,600	5,400	9,000	(18,000)	(23,000)
Bonus			None		
Distribution	<u>(4,600)</u>	<u>(6,900)</u>	<u>(11,500)</u>	23,000	<u>0</u>
Capital	<u>\$69,000</u>	<u>\$108,500</u>	<u>\$ 97,500</u>		<u>\$275,000</u>

Situation #2

Beginning Capital	Partner L \$40,000	Partner M \$ 60,000	Partner N \$100,000	Income Distribution	Balance <u>\$200,000</u>
Income					\$250,000
Salaries	30,000	50,000		(80,000)	170,000
Interest	3,600	5,400	9,000	(18,000)	152,000
Bonus			25,000	(25,000)	127,000
Distribution	<u>25,400</u>	<u>38,100</u>	<u>63,500</u>	(127,000)	<u>0</u>
Capital	<u>\$99,000</u>	<u>\$153,500</u>	<u>\$197,500</u>		<u>\$450,000</u>