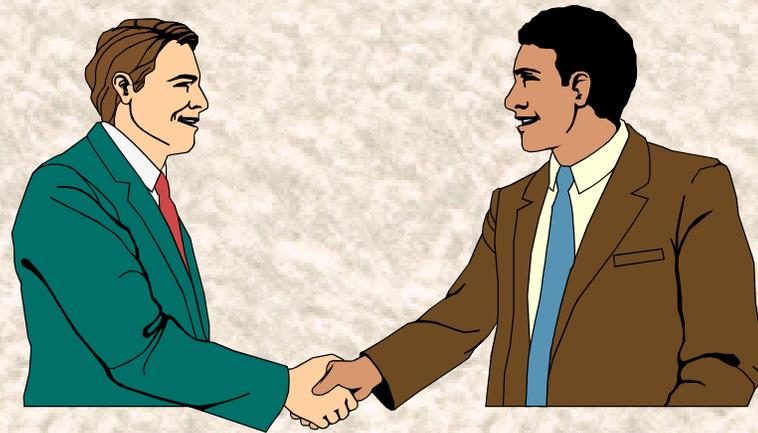


Partnerships

Instructor's comments have been added for your benefit. Be sure to click on each of the yellow notes; hovering on them will reveal SOME of the information -- clicking will allow you to scroll to read the entire comment. There may be more than one note on a page.

Partnerships



Partnerships

Overview



- **Characteristics**
- **Investments**
- **Division of Income (Loss)**
- **Admitting**
- **Withdrawal**
- **Liquidation**



Partnerships



Characteristics

Partnerships

Characteristics



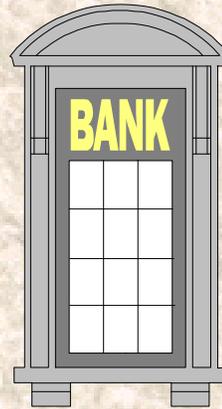
- responsible for acts of other partners



Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability



Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability
- agreement is contract



Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability
- agreement is contract
- limited life



Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability
- agreement is contract
- limited life
- capital and drawing accounts



Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability
- agreement is contract
- limited life
- capital and drawing accounts
- income tax



Partnerships

Income Tax Comparison
(no blank provided in note-taking guide)



	Files 		
	Return?		
Proprietorship			
Partnership			
Corporation			

Partnerships

Income Tax Comparison



	Files Return?		
Proprietorship	No 		
Partnership			
Corporation			

Partnerships

Income Tax Comparison



	Files Return?		
Proprietorship	No		
Partnership	Yes 		
Corporation			

Partnerships

Income Tax Comparison



	Files Return?		
Proprietorship	No		
Partnership	Yes		
Corporation	Yes		

Partnerships

Income Tax Comparison



	Files Return?	Pays  Tax?	
Proprietorship	No		
Partnership	Yes		
Corporation	Yes		

Partnerships

Income Tax Comparison



	Files Return?	Pays Tax?	
Proprietorship	No	No	
Partnership	Yes		
Corporation	Yes		

Partnerships

Income Tax Comparison



	Files Return?	Pays Tax?	
Proprietorship	No	No	
Partnership	Yes	No 📄	
Corporation	Yes		

Partnerships

Income Tax Comparison



	Files Return?	Pays Tax?	
Proprietorship	No	No	
Partnership	Yes	No	
Corporation	Yes	Yes	

Partnerships

Income Tax Comparison



	Files Return?	Pays Tax?	Income Taxed? 
Proprietorship	No	No	Yes 
Partnership	Yes	No	
Corporation	Yes	Yes	

Partnerships

Income Tax Comparison



	Files Return?	Pays Tax?	Income Taxed?
Proprietorship	No	No	Yes
Partnership	Yes	No	Yes 
Corporation	Yes	Yes	

Partnerships

Income Tax Comparison

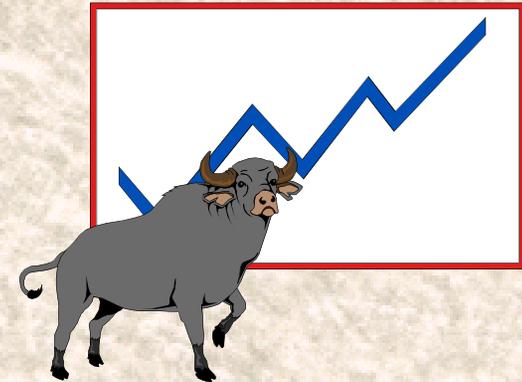


	Files Return?	Pays Tax?	Income Taxed?
Proprietorship	No	No	Yes
Partnership	Yes	No	Yes
Corporation	Yes	Yes	Yes

Partnerships

Characteristics

- responsible for acts of other partners
- unlimited liability
- agreement is contract
- limited life
- capital and drawing accounts
- income tax
- reward is share of profits—not employee



Partnerships

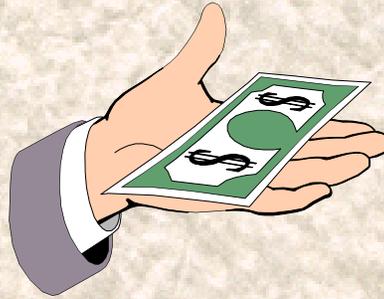
Investments

Partnerships

Investments



■ **Cash**



Partnerships

Investments

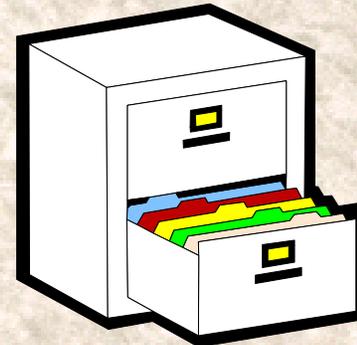
- Cash
- Other Assets



Partnerships

Investments

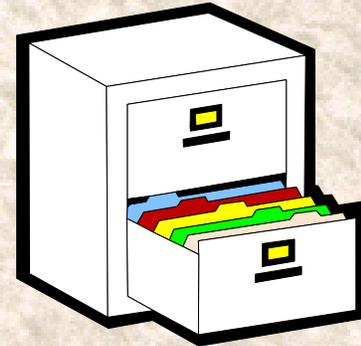
- Cash
- Other Assets



Partnerships

Investments

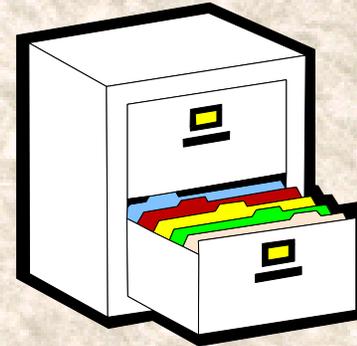
- Cash
- Other Assets



Partnerships

Investments

- Cash
- Other Assets



Partnerships

Investments

- Cash
- Other Assets



“Cost” is agreed valuation
of contributed assets

Partnerships

Division of Income and Loss 

Partnerships

Division of Income and Loss



- when there is no agreement



Partnerships

Division of Income and Loss

- when there is no agreement
- agreement sometimes provides for:



Partnerships

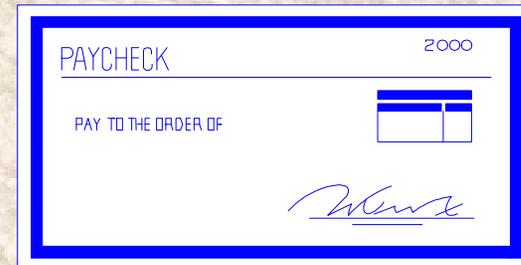
Division of Income and Loss

- when there is no agreement
- agreement sometimes provides for:
 - < original investment (ratio or “interest”)

Partnerships

Division of Income and Loss

- when there is no agreement
- agreement sometimes provides for:
 - < original investment (ratio or “interest”)
 - < time invested (“salary”)



Partnerships

Division of Income and Loss

- when there is no agreement
- agreement sometimes provides for:
 - < original investment (ratio or “interest”)
 - < time invested (“salary”)
 - < remainder

Partnerships

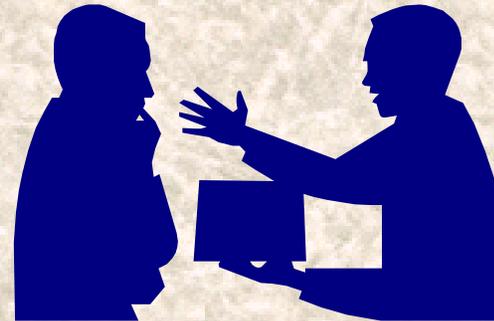
Admitting a New Partner

Partnerships

Admitting a New Partner



- when transaction is outside the p/s, p/s accounts are **NOT** affected



Partnerships

Admitting a New Partner

- when transaction is outside the p/s, p/s accounts are **NOT** affected
- account equal to amount invested

Partnerships

Admitting a New Partner

- when transaction is outside the p/s, p/s accounts are NOT affected
- account equal to amount invested, bonus to OLD partners

Partnerships

Admitting a New Partner

- when transaction is outside the p/s, p/s accounts are NOT affected
- account equal to amount invested, bonus to OLD partners, or bonus to NEW partner

Partnerships

Admitting a New Partner

- when transaction is outside the p/s, p/s accounts are NOT affected
- account equal to amount invested, bonus to OLD partners, or bonus to NEW partner

Partnerships

Withdrawal of a Partner

Partnerships

Withdrawal of a Partner

- when partner takes more than capital account balance



Partnerships

Withdrawal of a Partner

- when partner takes more than capital account balance
- when partner takes less than capital account balance



Partnerships

Liquidation 

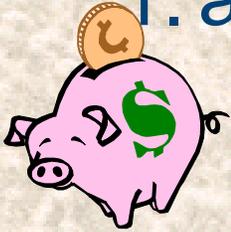
Partnerships

Liquidation
(going out of business)

Partnerships

Liquidation
(going out of business)

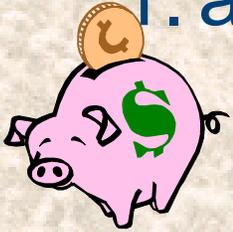
1. a. Convert non-cash assets to cash



Partnerships

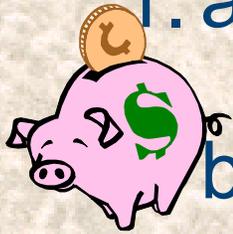
Liquidation
(going out of business)

1. a. Convert non-cash assets to cash
(realization).



Partnerships

Liquidation (going out of business)



1. a. Convert non-cash assets to cash (realization).
- b. Distribute any **gain or loss** to partners according to their **agreement**.

Partnerships

Liquidation (going out of business)

1. a. Convert non-cash assets to cash (realization).
- b. Distribute any gain or loss to partners according to their agreement.
2. Pay the creditors.

Partnerships

Liquidation (going out of business)

1. a. Convert non-cash assets to cash (realization).
b. Distribute any gain or loss to partners according to their agreement.
2. Pay the creditors.
3. Distribute **cash** to partners according to their claims

Partnerships

Liquidation (going out of business)

1. a. Convert non-cash assets to cash (realization).
b. Distribute any gain or loss to partners according to their agreement.
2. Pay the creditors.
3. Distribute cash to partners according to their claims (evidenced by their capital balances).

Partnerships

Liquidation (going out of business)

1. a. Convert non-cash assets to cash (realization).
b. Distribute any gain or loss to partners according to their agreement. 📄
2. Pay the creditors.
3. Distribute cash to partners according to their claims (evidenced by their capital balances).

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000. 

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
Total			 60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.



	Chip	Dale	Total
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest" 			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"			
"Salary" 			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"			
"Salary"			
Remainder			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	
"Salary"			
Remainder			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"			
Remainder			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

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	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	 20,000	
Remainder			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

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	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder			
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder			15,000
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	 10,000		15,000
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	10,000	 5,000	15,000
Total			60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	10,000	5,000	15,000
Total	 31,000		60,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

- (a) Prepare a schedule showing the division of net income assuming net income is \$60,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	10,000	5,000	15,000
Total	31,000	29,000	 60,000



**What's the point?
Why did we do all that?**



Closing Entry

Income Summary	60,000	
 Chip, Capital		31,000
 Dale, Capital		29,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000. 

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

 Chip	Dale	 Total
"Interest"		
"Salary"		
Remainder		
Total		18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"			
Remainder			
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

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	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder			
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

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	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder			
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder			  (27,000)
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder		(9,000)	(27,000)
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	(18,000)	(9,000)	(27,000)
Total			18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	(18,000)	(9,000)	(27,000)
Total	3,000		18,000

Exercise — Division of Income

Chip and Dale have capital balances of \$60,000 and \$40,000, respectively. The partnership income sharing agreement provides for (1) interest at 10% on their capital balances, (2) salaries of \$15,000 and \$20,000, (3) and the remainder divided in a 2:1 ratio.

(b) Prepare a schedule showing the division of net income assuming net income is \$18,000.

	Chip	Dale	Total
"Interest"	6,000	4,000	10,000
"Salary"	15,000	20,000	35,000
Remainder	(18,000)	(9,000)	(27,000)
Total	3,000	 15,000	18,000

Partnerships

Overview

U Characteristics

Partnerships

Overview

- U **Characteristics**
- U **Investments**

Partnerships

Overview

- U** Characteristics
- U** Investments
- U** Division of Income (Loss)

Partnerships

Overview

- U** Characteristics
- U** Investments
- U** Division of Income (Loss)
- U** Admitting

Partnerships

Overview

- U Characteristics**
- U Investments**
- U Division of Income (Loss)**
- U Admitting**
- U Withdrawal**

Partnerships

Overview

- U** Characteristics
- U** Investments
- U** Division of Income (Loss)
- U** Admitting
- U** Withdrawal
- U** Liquidation



