E12-1. Shani Davis has prepared the following list of statements about partnerships.

1. A partnership is an association of three or more persons to carry on as co-owners of a business for profit.
2. The legal requirements for forming a partnership can be quite burdensome.
3. A partnership is not an entity for financial reporting purposes.
4. The net income of a partnership is taxed as a separate entity.
5. The act of any partner is binding on all other partners, even when partners perform business acts beyond the scope of their authority.
6. Each partner is personally and individually liable for all partnership liabilities.
7. When a partnership is dissolved, the assets legally revert to the original contributor.
8. In a limited partnership, one or more partners have unlimited liability and one or more partners have limited liability for the debts of the firm.
9. Mutual agency is a major advantage of the partnership form of business.

Instructions

Identify each statement on page 542 as true or false. If false, indicate how to correct the statement.

E12-2. K. Meissner, S. Cohen, and E. Hughes are forming a partnership. Meissner is transferring $50,000 of personal cash to the partnership. Cohen owns land worth $15,000 and a small building worth $80,000, which she transfers to the partnership. Hughes transfers to the partnership cash of $9,000, accounts receivable of $32,000 and equipment worth $19,000. The partnership expects to collect $29,000 of the accounts receivable.

Instructions

a. Prepare the journal entries to record each of the partners' investments.

b. What amount would be reported as total owners' equity immediately after the investments?
E12-3. Jack Herington has owned and operated a proprietorship for several years. On January 1, he decides to terminate this business and become a partner in the firm of Herington and Kaspar. Herington's investment in the partnership consists of $12,000 in cash, and the following assets of the proprietorship: accounts receivable $14,000 less allowance for doubtful accounts of $2,000, and equipment $20,000 less accumulated depreciation of $4,000. It is agreed that the allowance for doubtful accounts should be $3,000 for the partnership. The fair market value of the equipment is $13,500.

Instructions

Journalize Herington's admission to the firm of Kaspar and Herington.

E12-4. F. Calvert and G. Powers have capital balances on January 1 of $50,000 and $40,000, respectively. The partnership income-sharing agreement provides for (1) annual salaries of $20,000 for Calvert and $12,000 for Powers, (2) interest at 10% on beginning capital balances, and (3) remaining income or loss to be shared 60% by Calvert and 40% by Powers.

Instructions

a. Prepare a schedule showing the distribution of net income, assuming net income is (1) $50,000 and (2) $36,000.

b. Journalize the allocation of net income in each of the situations above.

E12-5. O. Guillen (beginning capital, $60,000) and K. Williams (beginning capital $90,000) are partners. During 2008, the partnership earned net income of $70,000, and Guillen made drawings of $18,000 while Williams made drawings of $24,000.

Instructions
Exercises

a. Assume the partnership income-sharing agreement calls for income to be divided 45% to Guillen and 55% to Williams. Prepare the journal entry to record the allocation of net income.

b. Assume the partnership income-sharing agreement calls for income to be divided with a salary of $30,000 to Guillen and $25,000 to Williams, with the remainder divided 45% to Guillen and 55% to Williams. Prepare the journal entry to record the allocation of net income.

c. Assume the partnership income-sharing agreement calls for income to be divided with a salary of $40,000 to Guillen and $35,000 to Williams, interest of 10% on beginning capital, and the remainder divided 50%-50%. Prepare the journal entry to record the allocation of net income.

d. Compute the partners' ending capital balances under the assumption in part (c).

E12-6. For Starrite Co., beginning capital balances on January 1, 2008, are Gary Stark $20,000 and Jim Nyland $18,000. During the year, drawings were Stark $8,000 and Nyland $5,000. Net income was $30,000, and the partners share income equally.

Instructions

a. Prepare the partners' capital statement for the year.

b. Prepare the owners' equity section of the balance sheet at December 31, 2008.

E12-7. Moe, Larry, and Curly are forming The Stooges Partnership. Moe is transferring $30,000 of personal cash and equipment worth $25,000 to the partnership. Larry owns land worth $18,000 and a small building worth $75,000, which he transfers to the partnership. There is a long-term mortgage of $20,000 on the land and building, which the partnership assumes. Curly transfers cash of $7,000, accounts receivable of $36,000, supplies worth $3,000, and equipment worth $22,000 to the partnership. The partnership expects to collect $32,000 of the accounts receivable.

Instructions

Prepare a classified balance sheet for the partnership after the partners' investments on December 31, 2008.

E12-8. The Best Company at December 31 has cash $20,000, noncash assets $100,000, liabilities $55,000, and the following capital balances: Rodriguez $45,000 and Escobedo $20,000. The firm is liquidated, and $110,000 in cash is received for the noncash assets. Rodriguez and Escobedo income ratios are 60% and 40%, respectively.

Instructions
Exercises

Prepare a cash distribution schedule.

**E12-9.** Data for The Best partnership are presented in E12-8.

**Instructions**

Prepare the entries to record:

a. The sale of noncash assets.

b. The allocation of the gain or loss on liquidation to the partners.

c. Payment of creditors.

d. Distribution of cash to the partners.

**E12-10.** Prior to the distribution of cash to the partners, the accounts in the NJF Company are: Cash $28,000, Newell Capital (Cr.) $17,000, Jennings Capital (Cr.) $15,000, and Farley Capital (Dr.) $4,000. The income ratios are 5 : 3 : 2, respectively.

**Instructions**

a. Prepare the entry to record (1) Farley's payment of $4,000 in cash to the partnership and (2) the distribution of cash to the partners with credit balances.

b. Prepare the entry to record (1) the absorption of Farley's capital deficiency by the other partners and (2) the distribution of cash to the partners with credit balances.

**E12-11.** J. Lynn, M. Oller, and F. Tate share income on a 5 : 3 : 2 basis. They have capital balances of $30,000, $26,000, and $18,000, respectively, when Doc Duran is admitted to the partnership.

**Instructions**

Prepare the journal entry to record the admission of Doc Duran under each of the following assumptions.

a. Purchase of 50% of Lynn's equity for $19,000.

b. Purchase of 50% of Oller's equity for $12,000.

c. Purchase of \( \frac{331}{3} \% \) of Tate's equity for $9,000.
*E12-12. G. Olde and R. Young share income on a 6 : 4 basis. They have capital balances of $100,000 and $70,000, respectively, when K. Twener is admitted to the partnership.

Instructions

Prepare the journal entry to record the admission of K. Twener under each of the following assumptions.

a. Investment of $90,000 cash for a 30% ownership interest with bonuses to the existing partners.

b. Investment of $50,000 cash for a 30% ownership interest with a bonus to the new partner.

*E12-13. B. Cates, V. Elder, and S. Nguyen have capital balances of $50,000, $40,000, and $32,000, respectively. Their income ratios are 5 : 3 : 2. Nguyen withdraws from the partnership under each of the following independent conditions.

1. Cates and Elder agree to purchase Nguyen's equity by paying $17,000 each from their personal assets. Each purchaser receives 50% of Nguyen's equity.

2. Elder agrees to purchase all of Nguyen's equity by paying $22,000 cash from her personal assets.

3. Cates agrees to purchase all of Nguyen's equity by paying $26,000 cash from her personal assets.

Instructions

Journalize the withdrawal of Nguyen under each of the assumptions above.

*E12-14. H. Barrajas, T. Dingler, and R. Fisk have capital balances of $95,000, $75,000, and $60,000, respectively. They share income or loss on a 5 : 3 : 2 basis. Fisk withdraws from the partnership under each of the following conditions.

1. Fisk is paid $68,000 in cash from partnership assets, and a bonus is granted to the retiring partner.

2. Fisk is paid $56,000 in cash from partnership assets, and bonuses are granted to the remaining partners.

Instructions
Journalize the withdrawal of Fisk under each of the assumptions above.

*E12-15. Carson, Letterman, and O'Brien are partners who share profits and losses 50%, 30%, and 20%, respectively. Their capital balances are $100,000, $60,000, and $40,000, respectively.

Instructions

a. Assume Stewart joins the partnership by investing $80,000 for a 25% interest with bonuses to the existing partners. Prepare the journal entry to record his investment.

b. Assume instead that Carson leaves the partnership. Carson is paid $120,000 with a bonus to the retiring partner. Prepare the journal entry to record Carson's withdrawal.