|  |  |  |
| --- | --- | --- |
|  | Chapter 23 | Accounting for Partnerships |

Memo

To:My Awesome Advanced Accounting Students

From:Mrs. Cleary

Date: February 19, 2017

Re:Chapter 23 Learning Guide

**Lesson 23-1 – Forming a Partnership (Page 722)**

**Bridge:**

* You have learned about sole proprietorships and corporations. This chapter will take you back to your Bartering Bonanza days in ninth grade.
* This lesson covers how to record partner investments in the form of cash and other types of contributions. You will also record withdrawals for each partner.
* A partnership agreement is not required by law, but is a good idea to avoid misunderstandings and conflicts in the future.
* An investment by the owner results in an increase in capital and an increase in an asset account.
* Supplies withdrawn by a partner affects the drawing account in the same way as a cash withdrawal by a partner.

**Reading Guide** *(Please key your answers to the following questions.)*

1. Please complete the following table by listing at least one advantage and disadvantage for each type of business organization:

|  |  |  |
| --- | --- | --- |
| **Form** | **Advantage** | **Disadvantage** |
| Sole Proprietorship |  |  |
| Partnership |  |  |
| Corporation |  |  |

1. In the partnership agreement shown on page 723, why is the third line item, part (C), important?

|  |  |  |
| --- | --- | --- |
| **23-1 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Received cash from partner as an initial investment |  |  |
| Partner withdrew cash  |  |  |
| Partner withdrew supplies |  |  |

**Lesson 23-2 – Distribution of Net Income and Owners’ Equity Statements (Page 728)**

**Bridge:**

* So you and your partner make money! Who gets what? Distribution of the net income is divided in accordance with the partnership agreement.
* The actual distribution of the next income is shown on a separate statement called the Distribution of Net Income Statement.
* Equity represents the owner’s share of the business.
* A successful business should continue to grow and owners’ equity should also continue to grow. Therefore, it is important that owners know how their equity changed during the year.
* The only difference between a balance sheet for a proprietorship and a partnership is the Equity section, which lists the capital for each partner.

**Reading Guide** *(Please key your answers to the following questions.)*

1. The partnership income may be divided other than equally. Please explain why.
2. What are the three factors that can change owner’s equity?
3. The Stockholders’ Equity section has been expanded. What has been added?
4. Where does the information needed to prepare an owners’ equity statement come from?
5. When you are preparing the Owners’ Equity Statement, where can you find if the owner’s made any additional investments during a fiscal period?

**Lesson 23-3 – Dissolving a Partnership (Page 735)**

**Bridge:**

* When partners decide to quit operating a business, the partnership must be liquidated.
* When a partnership is liquidated, the following step are taken:
	+ Sell noncash assets
	+ Pay all liabilities
	+ Distribute remaining cash to partnership according to the partnership agreement
* Sometimes during liquidation, the sale of an asset brings in less cash than the recorded book value. An account named, Loss on Realization, is added to the Other Expenses section of the chart of accounts.

**Reading Guide** *(Please key your answers to the following questions.)*

1. What is liquidation of a partnership?
2. What is realization?
3. What is involved when calculating the gain on realization?
4. What is done with the balance in the Gain on Realization account?
5. What is the last step in the liquidation process?
6. How is the amount of cash distributed to each partner determined?

|  |  |  |
| --- | --- | --- |
| **23-3 Sample Transactions** | **Account(s) Debited** | **Account(s) Credited** |
| Received cash from the sale of equipment, 20,000: original cost 25,000; total accumulated depreciation to date: 10,000.  |  |  |
| Received cash from the sale of equipment, 20,000: original cost 25,000; total accumulated depreciation to date: 2,000. |  |  |
| Paid cash to all creditors for the amount owed. |  |  |
| Recorded distribution of gain on realization to owners. (Closing Entry)  |  |  |
| Recorded distribution of loss on realization to owners. (Closing Entry) |  |  |
| Recorded final distribution of remaining cash to partners |  |  |