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 $30,000
Total Partnership Equity $100,000

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.

Year 2's Income: Linda Smith Mary Perry $110,000
Salary Distribution:
Linda Smith $50,000
Mary Perry $30,000
To be distributed. $80,000
Dec. 31 Income Summary
Capital, Linda Smith 74,000
Capital, Mary Perry 36,000

Capital Ratio Distribution:
Linda Smith (.8)($30,000) = 24,000
Mary Perry (.2)($30,000) = 6,000
To be distributed. 30,000

$74,000 $36,000 $110,000

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