

NEW PARTNER RECEIVES A BONUS

On January 4 of Year 3 a new store opened, the capital for which had been provided by Robert Jones, who invested \$40,000 for a 30% interest in the company. Linda Smith and Mary Perry had capital balances on January 4 of Year 3 of \$104,000 and \$26,000 respectively. Make the Journal Entry necessary to record the admission of Robert Jones into the partnership.

Capital, Linda Smith	\$104,000
Capital, Mary Perry	26,000
Additional Capital	<u>40,000</u>
Total Capital	\$170,000

Robert Jones receives (.30) (\$170,000) =	\$ 51,000
Linda Smith gives up (.8) (\$11,000) =	8,800
Mary Perry gives up (.2) (\$11,000) =	<u>2,200</u>

Jan. 4	Cash	40,000	
	Capital, Linda Smith	8,800	
	Capital, Mary Perry	2,200	
	Capital, Robert Jones	51,000	

DIVISION OF YEAR THREE'S INCOME

Year three's income of \$150,000 would be distributed as follows: Linda and Mary would receive salaries of \$50,000 and \$30,000 respectively. All partners would receive 10% interest on their beginning capital balances. Linda, Mary, and Robert had beginning capital balances of \$95,200, \$23,800, and \$51,000 respectively. Robert Jones was to receive a bonus of all income earned over \$50,000 after salaries and interest had been distributed of up to \$10,000. Robert was a silent partner and as a result, any remaining balance would be shared by Linda and Mary according to their beginning capital ratios of 4:1. Make the Journal Entry necessary to read the distribution of Year 3's income.

	To Linda Smith	To Mary Perry	To Robert Jones	
Year 3's Income				\$150,000
Salary Distribution				
Linda Smith	\$50,000			
Mary Perry		\$30,000		<u>(80,000)</u>
To be distributed.				\$70,000
10% Interest to All Partners				
Linda Smith (\$95,200) (.1) =	9,520			
Mary Perry (\$23,800) (.1) =		2,380		
Robert Jones (\$51,000) (.1)			\$5,100	<u>(17,000)</u>
To be distributed.				\$53,000
Bonus to Robert Jones			3,000	<u>(3,000)</u>
Capital Ratio Distribution				\$50,000
Linda Smith (\$50,000) (.8)	40,000			
Mary Perry (\$50,000) (.2)		10,000		<u>(50,000)</u>
To be distributed.				<u>0</u>
Total Distribution to each Partner.	<u>\$99,520</u>	<u>\$42,380</u>	<u>\$8,100</u>	<u>\$150,000</u>

Hint: Robert's bonus was only \$3,000.