The Adjustment of Partnership Accounts.*

BY LEO GREENDLINGER, B. C. S.

PART II.

To adjust partners' accounts when the books have been kept by double entry:

Mr. Whatley in his *Accountants' and Bookkeepers' Vade-Mecum* states that frequently in a final adjustment of the accounts the assets are insufficient to meet the liabilities as well as claims of the partners themselves, and in consequence the position of affairs will be one of the following:

(1) Either the assets realized are not sufficient to pay the debts and liabilities of the firm in full;
(2) Or the assets realized are sufficient to liquidate the claims of creditors, but insufficient to repay the advances of partners;
(3) Or the assets are sufficient to pay the debts and liabilities of the firm and the advances of the partners, but insufficient to repay each partner his respective capital.

Accordingly Mr. Whatley proceeds to work out various problems showing how the adjustment should be made in any one of the three possible cases, and adds:

There is no need here to take into consideration a case where the assets realize their full value, for the accounts would be closed in their natural order without any difficulty.

This, however, is not always the case. On the contrary, when accounts are adjusted at a dissolution, *unless insolvent*, (because then the partners have no benefit in view over which to raise trouble) there will always spring up a number of points over which disagreement will arise in adjusting the final affairs. One partner may claim that he understood this clause in one way while the other will claim a different construction. We will, then, take in addition to the cases mentioned the following:

*Submitted to the Faculty of New York University School of Commerce, Accounts and Finance in fulfillment of the requirements for the degree of Master of Commercial Science.*
SECOND PROBLEM IN PARTNERSHIP
ADJUSTMENTS.

The assets to have realized their full value, but the retiring partner to be entitled to goodwill, as stated in their articles of co-partnership.

A., B., C. and D. arranged on January 1, 1905, to become partners in a manufacturing enterprise for a period of five years. They signed Articles of Co-Partnership, the latter containing among the ordinary clauses incidental to a partnership the following essentials:

A., B., and C. are each to contribute $5,000, while D. is to bring in the sum of $10,000, the combined capital of the partnership to be $25,000.

Interest at the rate of 6 per cent. to be allowed to any partner whose investment may exceed the sum which he is required to bring in to the business. On the other hand interest at the same rate is to be charged to any partner whose investment is below the required sum. In either case these respective debits or credits are to be carried through the Profit and Loss Account and adjusted to the partners' accounts according to their agreement as regards the division of profits or losses.

Each partner is allowed to draw the sum of $100 per month, which sum so drawn is to constitute a charge to the Salaries Account. This account is to be finally charged up as a loss.

The profits or losses of the business are to be divided in proportion to each partner's capital and the time such capital was employed in the business.

It is the right of each and every partner to ask for a dissolution of co-partnership at the expiration of three years from date hereof, provided he gives reasonable notice of such intention to his associates.

If any member of the firm desires to take advantage of the last mentioned clause, he is entitled, in addition to the net balance shown to his account in the ledger, to a quarter of the Goodwill of the business, the latter to be based on the last year's net profits, and to be one and one-half times that sum.

If a partner retires, the remaining partners are not obliged to pay him in cash more than two-thirds of his capital. They may pay the balance by giving a promissory note, which shall not run for more than six months.

The firm of A., B., C. and D. continues in business to December 31, 1907, when D. expresses his desire to retire. The other partners having no objection, an accountant is called in to adjust the affairs of the concern and to prepare the proper financial and business statements, as well as the respective Capital Accounts.

Upon examination the following facts are discovered:

While the books have been kept on the double entry principle, the nominal accounts have never been closed, no Profit and Loss Statements were ever prepared, and in some instances errors were made in charging improperly items to Expense which should have been charged to Plant and Machinery.
The Adjustment of Partnership Accounts.

Upon consultation with the members of the firm, the latter instruct the accountant to prepare yearly statements of their respective standing for the period of their partnership (three years) and then to adjust the accounts as per existing agreement, subject to the following changes concurred in by all members of the concern:

A reserve is to be created for bad debts, $200.00 per year; a reserve is also to be created of $200.00 per year for depreciation; the clause relating to interest charges or allowances is to be ignored entirely as the members believe that each partner has maintained his required investment.

The affairs of the concern as disclosed by the books and information are as follows:

Purchases of raw material during the year 1905 were $29,500.00. Included in this, however, is a return sale of $400.00. Sales during the same period were $57,300.00. Included in this is a return purchase amounting to $200.00. Labor expenses were $11,200.00; rent of factory $1,000.00. Other incidentals in the manufacture were $200.00. The inventory of raw materials was $9,600.00. $1,600.00 was paid in commissions, and $450.00 in sundry trade expenses. Rent for office and salesroom was $600.00. Salaries were $6,800.00. Repairs and renewals to plant and machinery were $275.00. The firm borrowed of the bank $5,000.00, on which there was a discount of $150.00. General expenses, such as stationery, printing, etc., were $455.00. The partners' accounts disclose the following state of affairs:

A'S INVESTMENTS.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>3,000.00</td>
</tr>
<tr>
<td>March 1</td>
<td>1,000.00</td>
</tr>
<tr>
<td>April 1</td>
<td>1,000.00</td>
</tr>
<tr>
<td>October 1</td>
<td>1,000.00</td>
</tr>
</tbody>
</table>

A'S WITHDRAWALS.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1</td>
<td>500.00</td>
</tr>
<tr>
<td>July 1</td>
<td>500.00</td>
</tr>
</tbody>
</table>

B'S INVESTMENTS.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>5,000.00</td>
</tr>
<tr>
<td>July 1</td>
<td>2,000.00</td>
</tr>
</tbody>
</table>
The Journal of Accountancy.

B.'S WITHDRAWALS.

1905.
April 1. .................................................. $1,500.00
August 1. ................................................. 500.00

C.'S INVESTMENTS.

1905.
January 1. ................................................. $2,000.00
March 1. .................................................. 2,000.00
June 1. ................................................... 1,000.00
September 1. ......................................... 1,000.00
October 1. ............................................... 500.00

C.'S WITHDRAWALS.

1905.
February 1. ............................................. $200.00
April 1. ................................................. 1,000.00
July 1. .................................................... 500.00

D.'S INVESTMENTS.

1905.
January 1. ............................................... $8,000.00
April 1. .................................................. 2,000.00
July 1. .................................................... 1,000.00
September 1. ......................................... 500.00

D.'S WITHDRAWALS.

1905.
March 1. .................................................. $1,500.00
June 1. .................................................. 500.00
August 1. ............................................... 1,000.00

These withdrawals do not include salaries to which the partners were entitled; these were paid monthly and charged through the Salary Account.

In 1906 conditions were as follows:

Purchases, $21,700.00. Sales, $61,300.00. Inventory of raw materials on hand at the end of the year, $3,700.00. Inventory of finished goods, $1,200.00. Labor and wages, $15,400.00. Sundry factory expenses, $3,200.00. Salaries, $7,200.00. General office expenses, $450.00. An item of $200.00 which properly should have been charged to the Plant and Machinery Account was incorrectly debited to Selling Expenses. Interest and discount on loans amounted to $150.00. Partners' Accounts remained unchanged excepting that the profits were not actually withdrawn. These had never been determined, and no nominal accounts had been closed.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>$29,500</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>$9,600</td>
</tr>
<tr>
<td>Returns</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total Deduct</strong></td>
<td><strong>9,800</strong></td>
</tr>
<tr>
<td>Labor</td>
<td>$19,700.00</td>
</tr>
<tr>
<td>Rent of factory</td>
<td>11,200.00</td>
</tr>
<tr>
<td>Sundry factory expenses</td>
<td>200.00</td>
</tr>
<tr>
<td>Repairs and Renewals</td>
<td>275.00</td>
</tr>
<tr>
<td>Depreciation on Plant and Machinery</td>
<td>200.00</td>
</tr>
<tr>
<td>Prime Profit</td>
<td>24,325.00</td>
</tr>
<tr>
<td><strong>Total Deduct</strong></td>
<td><strong>24,325.00</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$56,900.00</strong></td>
</tr>
<tr>
<td>Sales</td>
<td>$57,300</td>
</tr>
<tr>
<td>Less returns</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$56,900.00</strong></td>
</tr>
<tr>
<td>Selling Expenses:</td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td>$1,600</td>
</tr>
<tr>
<td>Rent of salesroom</td>
<td>600</td>
</tr>
<tr>
<td>Trade expenses</td>
<td>450</td>
</tr>
<tr>
<td><strong>Total Selling Expenses</strong></td>
<td><strong>$2,650.00</strong></td>
</tr>
<tr>
<td>Ordinary Business Profit</td>
<td>21,675.00</td>
</tr>
<tr>
<td><strong>Total Ordinary Business Profit</strong></td>
<td><strong>$24,325.00</strong></td>
</tr>
<tr>
<td>General Expense</td>
<td>$455.00</td>
</tr>
<tr>
<td>Salaries</td>
<td>6,800.00</td>
</tr>
<tr>
<td>Balance carried down</td>
<td>14,420.00</td>
</tr>
<tr>
<td><strong>Total General Expense</strong></td>
<td><strong>$21,675.00</strong></td>
</tr>
<tr>
<td>Discount on loan</td>
<td>$150.00</td>
</tr>
<tr>
<td>Net Profit</td>
<td>14,270.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,420.00</strong></td>
</tr>
</tbody>
</table>

The Adjustment of Partnership Accounts.
The state of affairs in 1907 was as follows:

Purchases, $26,800.00. Sales, $58,500.00. Inventory of raw materials on hand, $5,200.00. Factory expenses were $16,900.00, inclusive of labor, rent, etc. Selling expenses were:

- Advertising ............................................. $4,000.00
- Rent of salesroom ..................................... 2,000.00
- Commissions ........................................... 1,500.00
- Freight and cartage ................................... 200.00

General salaries were $7,100.00. General expenses, $400.00.

Partners' Account were as follows:

1906.
- June 1, D. withdrew .................................... $4,000.00
- October 1, he reinvested ............................. 2,000.00
- March 1, B. withdrew ................................ 1,500.00
- March 1, A. withdrew ................................ 1,500.00
- August 1, he reinvested .............................. 1,000.00

The condition of Assets and Liabilities on December 31, 1907, as disclosed by the books and various data, was as follows:

**ASSETS.**

- Plant and machinery .................................... $3,700
- Real estate ............................................ 8,000
- Cash on hand and in bank ............................ 11,570
- Bills Receivable ....................................... 20,000
- Accounts receivable .................................. 37,100
- Horses, harness and wagons ....................... 1,200
- Investments .......................................... 5,000
- Patents and patterns ................................ 1,600

**LIABILITIES.**

- Bills payable .......................................... $20,500
- Accounts payable .................................... 27,500

It is required to adjust the Partners' Capital Accounts and to find the amount due by the remaining partners to the retiring one.

**SOLUTION.**

As a Profit and Loss Account had never been prepared during the existence of the partnership, our first step must be that of preparing a Profit and Loss Account for the respective years of the partnership, and to take into consideration the various points covered by the agreement, not forgetting the amendments made with the consent of all.

Accordingly we prepare the Profit and Loss Account shown on the preceding page.
### The Adjustment of Partnership Accounts

<table>
<thead>
<tr>
<th>A's Account</th>
<th>B's Account</th>
<th>C's Account</th>
<th>D's Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>Investments</td>
<td>Investments</td>
<td>Investments</td>
</tr>
<tr>
<td>$30,000 x 12 = $360,000</td>
<td>$500 x 11 = $5,500</td>
<td>$1,500 x 9 = $13,500</td>
<td>$1,500 x 10 = $15,000</td>
</tr>
<tr>
<td>$10,000 x 9 = $90,000</td>
<td>$500 x 3 = $1,500</td>
<td>$1,000 x 5 = $5,000</td>
<td>$500 x 7 = $3,500</td>
</tr>
<tr>
<td>$10,000 x 3 = $30,000</td>
<td>$500 x 6 = $3,000</td>
<td>$1,000 x 4 = $4,000</td>
<td>$1,000 x 4 = $4,000</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>Withdrawals</td>
<td>Withdrawals</td>
<td>Withdrawals</td>
</tr>
<tr>
<td>$8,500</td>
<td>$16,000</td>
<td>$14,200</td>
<td>$23,500</td>
</tr>
</tbody>
</table>

### Investments

- **A's Account**
  - $30,000 x 12 = $360,000
  - $10,000 x 9 = $90,000
  - $10,000 x 3 = $30,000

- **B's Account**
  - $500 x 11 = $5,500
  - $500 x 3 = $1,500
  - $500 x 6 = $3,000

- **C's Account**
  - $1,500 x 9 = $13,500
  - $1,000 x 5 = $5,000
  - $1,000 x 4 = $4,000

- **D's Account**
  - $1,500 x 10 = $15,000
  - $500 x 7 = $3,500
  - $500 x 4 = $2,000

### Withdrawals

- **A's Account** $8,500
- **B's Account** $16,000
- **C's Account** $14,200
- **D's Account** $23,500

---

The table above illustrates the adjustments to partnership accounts, showing the calculations for investments and withdrawals for each partner.
Having ascertained the net profit for this year (1905) we have to allocate the same in accordance with the partnership provision as well as in accordance with the amended clause.

This clause, it will be recalled, provided for a yearly reserve of $200.00 against bad debts, while the agreement proper called for the adjustment of the net profits according to the capital invested and the time that such capital had been used in the business.

Lisle in his Accounting in Theory and Practice gives the following rule in regard to such adjustment:

To divide the profits of a co-partnership according to the amount of each partner's capital and the time it has been in the business, multiply the sums on the credit side of each partner's account by the portion of time from the date of payment to the close of the account, and deduct from the sum of these products the sum of the products of the debit side formed in the same way. This will give the products (net) for each partner, and the profit to be allocated should be divided according to these products.

Following this rule we have the result shown on the preceding page.

Hence,

\[
\frac{49,500}{246,300} \times 14,070 = 2,827.71; \quad \frac{56,000}{246,300} \times 14,070 = 3,199.02;
\]

\[
\frac{42,000}{246,300} \times 14,070 = 2,416.42; \quad \frac{98,500}{246,300} \times 14,070 = 5,626.85
\]

making the respective shares as follows:

A. .......................................................... $2,827.71
B. .......................................................... 3,199.02
C. .......................................................... 2,416.42
D. .......................................................... 5,626.85

We are now prepared to arrange the Profit and Loss Appropriation Account for 1905 as shown on page 101.

We proceed then to determine the results of the operation for the next year (1906) and prepare the Profit and Loss Account for 1906 as shown on page 102.
### PROFIT AND LOSS APPROPRIATION ACCOUNT, 1905.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Reserve for Bad Debts</td>
<td>$200.00</td>
<td>By Net Profits</td>
<td>$14,270.00</td>
</tr>
<tr>
<td>A.'s share of profits</td>
<td>2,827.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.'s share of profits</td>
<td>3,199.02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.'s share of profits</td>
<td>2,416.42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D.'s share of profits</td>
<td>5,026.85</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,270.00</strong></td>
<td><strong>Total</strong></td>
<td><strong>$14,270.00</strong></td>
</tr>
</tbody>
</table>

### PROFIT AND LOSS APPROPRIATION ACCOUNT, 1906.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Reserve for Bad Debts</td>
<td>$200.00</td>
<td>By Net Profits</td>
<td>$5,400.00</td>
</tr>
<tr>
<td>A.'s share of profits</td>
<td>1,089.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.'s share of profits</td>
<td>1,140.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.'s share of profits</td>
<td>1,004.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D.'s share of profits</td>
<td>1,965.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,400.00</strong></td>
<td><strong>Total</strong></td>
<td><strong>$5,400.00</strong></td>
</tr>
</tbody>
</table>

### PROFIT AND LOSS APPROPRIATION ACCOUNT, 1907.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Reserve for Bad Debts</td>
<td>$200.00</td>
<td>By Net Profits</td>
<td>$5,800.00</td>
</tr>
<tr>
<td>A.'s share of profits</td>
<td>1,107.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.'s share of profits</td>
<td>1,186.32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.'s share of profits</td>
<td>1,187.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D.'s share of profits</td>
<td>2,099.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,800.00</strong></td>
<td><strong>Total</strong></td>
<td><strong>$5,800.00</strong></td>
</tr>
</tbody>
</table>

To Inventory (1905) ........................................ $9,600.00
   Purchases .............................................. 21,700.00
           ___________  _________
          $31,300.00
   Less Inventory ........................................ $27,600.00
   Labor and Wages .................................... 15,100.00
   Factory Expenses .................................. 1,000.00
   Depreciation on Plant, etc. ..................... 1,200.00
   Prime Profit ....................................... 5,550.00
           ___________  _________
           $22,350.00
   To General Selling Expenses (after adjustment) ...
   Ordinary Business Profit ............................ $7,200.00
   Balance carried down ............................... 5,550.00
           ___________  _________
           $13,200.00
   To Salaries ........................................... $16,200.00
   General Office Expense ............................. 450.00
   Interest and Discount ............................... 150.00
   Net Profit ........................................... 5,550.00
           ___________  _________
           $5,550.00
The Adjustment of Partnership Accounts.


<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Inventory (1906)</td>
<td>$3,700</td>
</tr>
<tr>
<td>Purchases</td>
<td>26,800</td>
</tr>
<tr>
<td></td>
<td>$30,500</td>
</tr>
<tr>
<td>Less Inventory</td>
<td>5,200</td>
</tr>
<tr>
<td>Factory Expenses</td>
<td>16,900</td>
</tr>
<tr>
<td>Depreciation on Plant</td>
<td>200.00</td>
</tr>
<tr>
<td>Prime Profit</td>
<td>16,100</td>
</tr>
<tr>
<td></td>
<td>$58,500</td>
</tr>
<tr>
<td>To Selling Expenses:</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>$500</td>
</tr>
<tr>
<td>Rent of Salesroom</td>
<td>600</td>
</tr>
<tr>
<td>Commissions</td>
<td>1,500</td>
</tr>
<tr>
<td>Freight, etc.</td>
<td>200</td>
</tr>
<tr>
<td>Ordinary Business Profit</td>
<td>$13,300</td>
</tr>
<tr>
<td></td>
<td>$16,100</td>
</tr>
<tr>
<td>To General Salaries</td>
<td></td>
</tr>
<tr>
<td>General Expense</td>
<td>400.00</td>
</tr>
<tr>
<td>Net Profit</td>
<td>5,800.00</td>
</tr>
<tr>
<td></td>
<td>$13,300</td>
</tr>
</tbody>
</table>

By Sales ........................................ $58,500.00

By Prime Profit ................................ $16,100.00

By Ordinary Business Profit .............. $13,300.00
The Journal of Accountancy.

Observing the same method for the present (1906) year, we add to the previous balances (shown in 1905 to the Capital Accounts) the profits allocated to each partner's account, and we find the following results:

A. is entitled to ........................................... $1,089.22
B. is entitled to ........................................... 1,140.89
C. is entitled to ........................................... 1,004.16
D. is entitled to ........................................... 1,965.73

of the total net profits, available for allocation among the partners as per agreement. We prepare then the Profit and Loss Appropriation Account for 1906 on page 101.

The next step in our solution is to determine the result of the operation of the year 1907. Following the former routine we prepare the Profit and Loss Account for 1907 shown on page 103.

In accordance with our adopted rule we take into consideration the various shiftingsthat take place with regard to capital, and arrive at the following results:

A. is entitled to ........................................... $1,167.36
B. is entitled to ........................................... 1,186.32
C. is entitled to ........................................... 1,187.14
D. is entitled to ........................................... 2,059.18

of the total amount of the net profits available for allocation. We have then the Profit and Loss Appropriation Account for 1907 as shown on page 101.

From the data given we are able to verify these results by preparing a financial statement, which will show the Balance Sheet and Partners' Capital Accounts (page 105 to 109, inclusive).

In accordance with the provision in regard to goodwill, we would make the following journal entry:

Goodwill Dr. ........................................... $2,100
For one-quarter of the total value, credited to D.'s account as per agreement.
To D., Cr. ........................................... $2,100
For his share in the total value of good will, based, per agreement, at one and one-half times the sum of last year's (1907) net profits.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash in bank and on hand</strong> $11,570.00</td>
<td><strong>Bills Payable</strong> $20,500</td>
</tr>
<tr>
<td>Investments $5,000</td>
<td><strong>Accounts Payable</strong> $27,500</td>
</tr>
<tr>
<td>Bills Receivable $20,000</td>
<td>Capital:</td>
</tr>
<tr>
<td>Accounts Receivable $37,100</td>
<td>Original combined investment $23,300</td>
</tr>
<tr>
<td></td>
<td>Profits $24,870</td>
</tr>
<tr>
<td><strong>Less Reserve for Bad Debts $600</strong></td>
<td><strong>Less Withdrawals</strong> $4,000</td>
</tr>
<tr>
<td><strong>$57,100</strong></td>
<td><strong>44,170.00</strong></td>
</tr>
<tr>
<td><strong>Inventories</strong> $56,500</td>
<td></td>
</tr>
<tr>
<td>Inventory $20,000</td>
<td></td>
</tr>
<tr>
<td>Horses, Harness and Wagon $1,200.00</td>
<td></td>
</tr>
<tr>
<td>Patent and Patterns $1,000</td>
<td></td>
</tr>
<tr>
<td>Plant and Machinery $3,700</td>
<td></td>
</tr>
<tr>
<td>Less Reserve for depreciation $600</td>
<td></td>
</tr>
<tr>
<td><strong>$3,100.00</strong></td>
<td></td>
</tr>
<tr>
<td>Real Estate $8,000</td>
<td></td>
</tr>
<tr>
<td><strong>$92,170.00</strong></td>
<td><strong>$92,170.00</strong></td>
</tr>
</tbody>
</table>

---

**The Adjustment of Partnership Accounts.**
A'S CAPITAL ACCOUNT.

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>January 1, By Investment</td>
<td>$3,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>March 1, By Investment</td>
<td>1,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>April 1, By Investment</td>
<td>1,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>October 1, By Investment</td>
<td>1,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, By share of profits</td>
<td>2,827.71</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$8,827.71</td>
<td></td>
</tr>
<tr>
<td>1906</td>
<td>January 1, By Balance</td>
<td>$7,827.71</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, By share of profits</td>
<td>1,089.22</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>$8,916.93</td>
<td></td>
</tr>
<tr>
<td>1907</td>
<td>January 1, By Balance</td>
<td>$8,916.93</td>
<td></td>
</tr>
<tr>
<td></td>
<td>August 1, By Investment</td>
<td>1,167.36</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, By share of profits</td>
<td>$11,084.29</td>
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<td></td>
<td></td>
<td>$11,084.29</td>
<td></td>
</tr>
<tr>
<td>1908</td>
<td>January 1, By Balance</td>
<td>$9,584.29</td>
<td></td>
</tr>
</tbody>
</table>
### B. S. CAPITAL ACCOUNT

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>April 1, To Withdrawals</td>
<td>$1,500.00</td>
</tr>
<tr>
<td></td>
<td>August 1, To Withdrawals</td>
<td>$500.00</td>
</tr>
<tr>
<td></td>
<td>December 31, To Balance</td>
<td>$8,199.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$10,199.02</strong></td>
</tr>
<tr>
<td>1906</td>
<td>December 31, To Balance</td>
<td><strong>$9,339.91</strong></td>
</tr>
<tr>
<td>1907</td>
<td>March 1, To Withdrawals</td>
<td>$1,500.00</td>
</tr>
<tr>
<td></td>
<td>December 31, To Balance</td>
<td>$10,526.23</td>
</tr>
<tr>
<td>1908</td>
<td></td>
<td><strong>$9,026.23</strong></td>
</tr>
<tr>
<td>1909</td>
<td>January 1, By Investment</td>
<td>$5,000.00</td>
</tr>
<tr>
<td></td>
<td>July 1, By Investment</td>
<td>$2,000.00</td>
</tr>
<tr>
<td></td>
<td>December 31, By share of profits</td>
<td><strong>$3,199.02</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$10,199.02</strong></td>
</tr>
<tr>
<td>1906</td>
<td>January 1, By Balance</td>
<td><strong>$9,339.91</strong></td>
</tr>
<tr>
<td>1907</td>
<td>March 1, To Withdrawals</td>
<td>$1,500.00</td>
</tr>
<tr>
<td></td>
<td>December 31, To Balance</td>
<td>$10,526.23</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>$9,026.23</strong></td>
</tr>
<tr>
<td>1908</td>
<td>January 1, By Balance</td>
<td><strong>$9,026.23</strong></td>
</tr>
</tbody>
</table>

The Adjustments of Partnership Accounts.
C'S CAPITAL ACCOUNT.

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>January 1</td>
<td>By Investment</td>
<td>$2,000.00</td>
</tr>
<tr>
<td></td>
<td>February 1</td>
<td>To Withdrawals</td>
<td>$200.00</td>
</tr>
<tr>
<td></td>
<td>April 1</td>
<td>To Withdrawals</td>
<td>$1,000.00</td>
</tr>
<tr>
<td></td>
<td>July 1</td>
<td>To Withdrawals</td>
<td>$500.00</td>
</tr>
<tr>
<td></td>
<td>December 31</td>
<td>To Balance</td>
<td>$7,216.42</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$8,916.42</td>
</tr>
<tr>
<td>1906</td>
<td>December 31</td>
<td>To Balance</td>
<td>$8,220.58</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$8,220.58</td>
</tr>
<tr>
<td>1907</td>
<td>December 31</td>
<td>To Balance</td>
<td>$9,407.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$9,407.72</td>
</tr>
<tr>
<td>1908</td>
<td>January 1</td>
<td>By Balance</td>
<td>$7,216.42</td>
</tr>
<tr>
<td></td>
<td>December 31</td>
<td>By share of profits</td>
<td>$1,004.16</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$8,220.58</td>
</tr>
<tr>
<td>1909</td>
<td>January 1</td>
<td>By Balance</td>
<td>$8,220.58</td>
</tr>
<tr>
<td></td>
<td>December 31</td>
<td>By share of profits</td>
<td>$1,187.14</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$9,407.72</td>
</tr>
</tbody>
</table>

The Journal of Accountancy.
D.'S CAPITAL ACCOUNT.

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>March 1, To Withdrawals</td>
<td>$1,500.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>June 1, To Withdrawals</td>
<td>$500.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>August 1, To Withdrawals</td>
<td>$1,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, To Balance</td>
<td>$14,125.85</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$17,126.85</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906</td>
<td>December 31, To Balance</td>
<td>$16,092.58</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$16,092.58</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>June 1, To Withdrawals</td>
<td>$4,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, To Balance</td>
<td>$16,151.76</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$20,151.76</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1908</td>
<td>January 1, By Balance</td>
<td>$16,151.76</td>
<td></td>
</tr>
</tbody>
</table>

1905. January 1, By Investment.......................... $8,000.00
April 1, By Investment................................. 2,000.00
July 1, By Investment................................. 1,000.00
September 1, By Investment............................ 500.00
December 31, By share of profits..................... 5,626.85

1906. December 31, By Balance........................... $16,092.58
January 1, By Balance................................. $14,126.85
December 31, By share of profits..................... 1,965.73

1907. January 1, By Balance............................... $16,092.58
October 1, By Investment............................... 2,000.00
December 31, By share of profits..................... 2,059.18

1908. January 1, By Balance............................... $16,151.76
The Journal of Accountancy.

which entry when posted will show the retiring partner's account as follows:

D’S CAPITAL ACCOUNT.

<table>
<thead>
<tr>
<th></th>
<th>1908.</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, By Balance:</td>
<td>$16,151.76</td>
</tr>
<tr>
<td>January 1, By 1/4 share of total valuation of goodwill</td>
<td>$2,100.00</td>
</tr>
</tbody>
</table>

The retiring partner is therefore entitled to the sum of $18,151.76, to be paid in accordance with the agreement.

There is no necessity for proceeding, as Mr. Whatley states, to work out the various possible cases (page 93), for the simple reason that in any of the mentioned instances there is a deficiency. A deficiency of capital should, and must, be treated as a loss, which is to be borne according to the provision the partners have made with regard to sharing profits or losses.

Let us assume that, for the purpose of dissolution, an appraisal and revaluation of all affairs is made, and assume that the liabilities remain unchanged, but the actual realizable value of the assets (after taking into consideration the reserves) is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$6,570.00</td>
</tr>
<tr>
<td>Investments</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>16,000.00</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>18,500.00</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,200.00</td>
</tr>
<tr>
<td>Horses, harness, etc.</td>
<td>800.00</td>
</tr>
<tr>
<td>Patents and patterns</td>
<td>600.00</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>900.00</td>
</tr>
<tr>
<td></td>
<td>$45,570.00</td>
</tr>
</tbody>
</table>

As our former balance sheet showed a total of assets amounting to $92,170.00, we have a deficiency of capital to the extent of $45,600.00, which deficiency is to be adjusted among the partners according to the original provision of dividing profits or losses in proportion to the capital invested, and according to the time such capital has been employed in the business.

Suppose that the firm dissolves, and sells the assets as per valuation, entailing a cost on the realization of $500.00, we would then prepare a Realization and Liquidation Account and Partners' Capital Accounts as shown on pages 111 and 112 respectively.
### REALIZATION AND LIQUIDATION ACCOUNT OF THE FIRM OF A., B., C. AND D.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of assets to be realized as per balance sheet</td>
<td>$92,170.00</td>
</tr>
<tr>
<td>Total value of liabilities liquidated</td>
<td>46,070.00</td>
</tr>
<tr>
<td>Total value of liabilities to be liquidated</td>
<td>1,930.00</td>
</tr>
<tr>
<td>Total of supplementary charges, comprising expenses on realization</td>
<td>500.00</td>
</tr>
<tr>
<td></td>
<td><strong>$140,670.00</strong></td>
</tr>
<tr>
<td>Total value of liabilities to be liquidated as per balance sheet</td>
<td><strong>$48,000.00</strong></td>
</tr>
<tr>
<td>Total value of assets realized</td>
<td>46,570.00</td>
</tr>
<tr>
<td>Loss on realization</td>
<td>49,100.00</td>
</tr>
<tr>
<td></td>
<td><strong>$140,670.00</strong></td>
</tr>
</tbody>
</table>
A.'S CAPITAL ACCOUNT.

To Realization Account for his share of loss... $10,003.07
By amount to credit at date of expiration of partnership as per account.         $9,584.29
Balance due him to be contributed towards settling of creditors' claims            418.78

To Balance Due.                                      $10,003.07

B.'S CAPITAL ACCOUNT.

To Realization Account for his share of loss... $9,420.64
By amount to credit at date of expiration of partnership as per account.         $9,026.23
Balance due him to be contributed towards settling of creditors' claims          394.41

To Balance Due.                                      $9,420.64

C.'S CAPITAL ACCOUNT.

To Realization Account for his share of loss... $9,818.80
By amount credited at date of expiration of partnership as per account.           $9,407.72
Balance due him to be contributed towards settling of creditors' claims           411.08

To Balance Due.                                      $9,818.80

D.'S CAPITAL ACCOUNT.

To Realization Account for his share of loss... $16,857.49
By amount to credit at date of expiration of partnership as per account.          $16,151.76
Balance due him to be contributed towards settling of creditors' claims         705.73

To Balance Due.                                      $16,857.49
The Adjustment of Partnership Accounts.

This state of affairs, showing a sudden shrinkage, is, of course, rather strained, but for the purpose of illustrating the adjustment of Partners' Accounts under such conditions it is permissible. We will then adjust this shrinkage in proportion to the last balance on each partner's account.

The total capital, as per balance sheet, was $44,170.00, while the total deficiency was $46,100.00, hence the loss per cent. is 104.3609.

The respective Capital Accounts will accordingly appear as given on the preceding pages, showing the amount each partner is to contribute to make up the total insolvency of $1,930.00.

This treatise may not be exhaustive enough to enable an accountant to find in it material covering every detail that may arise in adjusting partnership accounts; yet the writer will have attained his end if it serves the practitioner as a general guide for this class of accounts in the cases that are of more frequent occurrence.

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