

Module 2: ACC 1200 Partnerships and Corporations Pack

Introduction

Businesses can be organized in different legal forms. Two common business structures studied in accounting are partnerships and corporations.

Each structure has its own accounting procedures for:

- ownership
- profit allocation
- financial reporting

Understanding how partnerships and corporations operate helps students analyze financial transactions and prepare accounting records correctly.

Partnerships

A partnership is a voluntary association of two or more individuals who agree to operate a business together and share profits or losses.

A partnership agreement typically defines:

- ownership percentages
- income allocation
- withdrawal rules
- responsibilities of each partner

Characteristics of a Partnership

Partnerships generally have the following characteristics:

- **Voluntary association** - partners agree to operate a business together
- **Limited life** - the partnership can end when a partner withdraws or dies
- **Mutual agency** - each partner can act on behalf of the partnership
- **Unlimited liability** - partners may be personally responsible for business debts
- **Pass-through taxation** - profits and losses are taxed to the partners individually

Partner Capital Accounts

Each partner has a capital account that records their investment in the partnership.

Capital accounts increase with:

- partner investments
- allocated profits

Capital accounts decrease with:

- withdrawals
- allocated losses

Example: Recording Partner Investments

Two partners invest cash into the partnership.

Partner A invests \$30,000.

Partner B invests \$20,000.

Journal entry:

Debit: Cash 50,000

Credit: A, Capital 30,000

Credit: B, Capital 20,000

Allocation of Net Income or Net Loss

Partnership profits or losses are distributed according to the partnership agreement.

Common allocation methods include:

- equal distribution
- salary allowances
- interest allowances
- ratio based distribution

Example: Equal Profit Allocation

Net income for the period is \$10,000.

Two partners share income equally.

Journal entry:

Debit: Income Summary 10,000

Credit: A, Capital 5,000

Credit: B, Capital 5,000

Example: Salary Allowance Allocation

Partnership agreement:

Partner A salary allowance = \$4,000

Partner B salary allowance = \$3,000

Remaining income is split equally.

Net income = \$12,000

Step 1: Record salary allowances

A receives 4,000

B receives 3,000

Remaining income = 5,000

Step 2: Split remaining income

2,500 each

Final allocation:

A receives 6,500

B receives 5,500

Journal entry:

Debit: Income Summary 12,000

Credit: A, Capital 6,500

Credit: B, Capital 5,500

Admission of a New Partner

A new partner may be admitted to the partnership by:

- purchasing an existing partner's interest
- investing assets into the partnership

Purchase of Partnership Interest

A new partner purchases ownership from an existing partner.

Example:

Partner C purchases half of Partner A's capital.

Journal entry:

Debit: A, Capital

Credit: C, Capital

No cash enters the partnership.

New Partner Investment

A new partner contributes assets directly to the partnership.

Example:

Partner C invests \$15,000 cash.

Journal entry:

Debit: Cash 15,000

Credit: C, Capital 15,000

Corporations

A corporation is a separate legal entity owned by shareholders.

Corporations issue stock to raise capital and operate independently from their owners.

Advantages of Corporations

- limited liability for shareholders
- continuous life
- easier transfer of ownership
- ability to raise large amounts of capital

Disadvantages of Corporations

- government regulation
- double taxation on profits

Issuing Common Stock

Corporations raise capital by issuing shares of stock.

Issuing Stock at Par Value

Example:

Company issues common stock for \$10,000 cash.

Journal entry:

Debit: Cash 10,000

Credit: Common Stock 10,000

Issuing Stock Above Par Value

If stock is issued above par value, the excess is recorded in Paid-in Capital.

Example:

Stock issued for \$12,000 with \$10,000 par value.

Journal entry:

Debit: Cash 12,000

Credit: Common Stock 10,000

Credit: Paid-in Capital in Excess of Par 2,000

Dividends

Dividends represent distributions of earnings to shareholders.

There are three important dates for dividends.

Date of Declaration

The corporation announces the dividend.

Journal entry:

Debit: Retained Earnings
Credit: Dividends Payable

Date of Record

No journal entry is recorded.

The company identifies shareholders who will receive dividends.

Date of Payment

The corporation pays the dividend.

Journal entry:

Debit: Dividends Payable
Credit: Cash

Retained Earnings

Retained earnings represent accumulated profits that are kept in the business.

The retained earnings calculation is:

Beginning Retained Earnings

- Net Income
 - Dividends
 - = Ending Retained Earnings

Retained earnings appear in the equity section of the balance sheet.

Common Student Errors

Students often make the following mistakes when studying partnerships and corporations:

- confusing capital accounts with revenue accounts
- incorrectly allocating partnership income
- recording stock issuance incorrectly
- forgetting the three dividend dates

To avoid these errors:

- always identify the type of transaction
- review ownership structure
- follow the correct journal entry format

Practice Problems

Problem 1

Partner A invests \$25,000 cash into a partnership.

Record the journal entry.

Problem 2

Partners A and B share profits equally.

Net income for the period is \$8,000.

Record the income allocation.

Problem 3

A corporation issues stock for \$15,000 cash.

Record the journal entry.

Problem 4

The corporation declares dividends of \$2,000.

Record the declaration entry.

Practice Problem Answers

Problem 1

Debit: Cash 25,000

Credit: A, Capital 25,000

Problem 2

Debit: Income Summary 8,000

Credit: A, Capital 4,000

Credit: B, Capital 4,000

Problem 3

Debit: Cash 15,000

Credit: Common Stock 15,000

Problem 4

Debit: Retained Earnings 2,000

Credit: Dividends Payable 2,000