



## CHALLENGE 1

W wishes to purchase 1/4 interest in the partnership of X, Y, and Z. The three partners agreed to sell to W 1/4 of their respective capital and P&L interest in exchange for a total payment of P 50,000. The partner's capital accounts and the profit and loss ratio immediately before the admission of W are as follows:

|   | <b>CAPITAL BALANCES</b> | <b>PROFIT AND LOSS RATIO</b> |
|---|-------------------------|------------------------------|
| X | 95,000                  | 60%                          |
| Y | 46,000                  | 30%                          |
| Z | 26,000                  | 10%                          |

After admission of W, what should be their respective capital balances and P&L ratio?

## SUGGESTED SOLUTION

|   | <b>OLD CAPITAL BALANCES</b> | <b>OLD PROFIT AND LOSS RATIO</b> |  | <b>NEW CAPITAL BALANCES</b> | <b>NEW PROFIT AND LOSS RATIO</b> |
|---|-----------------------------|----------------------------------|--|-----------------------------|----------------------------------|
| W |                             |                                  |  | 41,750.00                   | 25.00%                           |
| X | 95,000.00                   | 60.00%                           |  | 71,250.00                   | 45.00%                           |
| Y | 46,000.00                   | 30.00%                           |  | 34,500.00                   | 22.50%                           |
| Z | 26,000.00                   | 10.00%                           |  | 19,500.00                   | 7.50%                            |
|   | <u>167,000.00</u>           | <u>100.00%</u>                   |  | <u>167,000.00</u>           | <u>100.00%</u>                   |

When an incoming partner purchase a portion or all of interest, the partnership assets remain unchanged and no cash or assets will be recorded. Instead the transaction is recorded by opening a capital account of the new partner and decreasing the capital account of the selling/old partner. The cash paid for these transactions becomes a personal transaction between partners.

### JOURNAL ENTRY

|            |           |           |
|------------|-----------|-----------|
| X, Capital | 23,750.00 |           |
| Y, Capital | 11,500.00 |           |
| Z, Capital | 6,500.00  |           |
| W, Capital |           | 41,750.00 |



# PHILIPPINE ACCOUNTANCY GUIDE

"Digitalizing The World of Accountancy"

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## COMPUTATION

### Approach 1

|          | a   | b | c            | W       |
|----------|-----|---|--------------|---------|
|          |     |   | $a \times c$ | $a - c$ |
| <b>X</b> | 60% | x | 45%          | 15%     |
| <b>Y</b> | 30% | x | 22.50%       | 7.50%   |
| <b>Z</b> | 10% | x | 7.50%        | 2.50%   |

### Approach 2

| a    | b | c   | W            | To Old Partners |
|------|---|-----|--------------|-----------------|
|      |   |     | $a \times c$ | $a - d$         |
| 100% | x | 1/4 | 25%          | 75%             |

| a        | b   | c            | New P&L ratio of Old Partner |
|----------|-----|--------------|------------------------------|
|          |     | $a \times c$ | $a - c$                      |
| <b>X</b> | 75% | x            | 45.00%                       |
| <b>Y</b> | 75% | x            | 22.50%                       |
| <b>Z</b> | 75% | x            | 7.50%                        |
|          |     |              | <b><u>75.00%</u></b>         |

### Approach 1

|          | a      | b | c   | d            | e | W                       |
|----------|--------|---|-----|--------------|---|-------------------------|
|          |        |   |     | $a \times c$ |   | $a - d$                 |
| <b>X</b> | 95,000 | x | 3/4 | 71,250.00    |   | 23,750.00               |
| <b>Y</b> | 46,000 | x | 3/4 | 34,500.00    |   | 11,500.00               |
| <b>Z</b> | 26,000 | x | 3/4 | 19,500.00    |   | <u>6,500.00</u>         |
|          |        |   |     |              |   | <b><u>41,750.00</u></b> |

### Approach 2

|          |        |   |     | W                       |
|----------|--------|---|-----|-------------------------|
| <b>X</b> | 95,000 | x | 1/4 | 23,750.00               |
| <b>Y</b> | 46,000 | x | 1/4 | 11,500.00               |
| <b>Z</b> | 26,000 | x | 1/4 | <u>6,500.00</u>         |
|          |        |   |     | <b><u>41,750.00</u></b> |