

Case Study 10: Accounting for Partnerships

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Record the partners' investments in the general journal
 - Prepare a statement of changes in partners' equity
 - Identify what you personally could contribute to a partnership
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Study Tips:

Complete this case study after Chapter 28, Glencoe Accounting, First-Year Course.
Approximate time to complete: 1 1/2 hours.

Overview:

Home to R.E.M. and the B52s, Athens, Georgia, is a haven for rock-and-roll musicians and fans. With a thriving downtown (the University of Georgia is there), it's little wonder that Guy Goodman and Deborah Reece would relocate their business, Turnabout Records, from Auburn, Alabama, to Athens.

Turnabout sells, buys, and trades CDs, vinyl records, and tapes. (Vinyl records are also known as LPs, which stands for long playing records.) And while almost no new audio releases are produced as vinyl records, many people still enjoy the music that was recorded on them. So Goodman and Reece wanted Turnabout to be able to supply them by offering LPs as well as needles and styluses for turntables.

The store carries “thousands and thousands” of new and used CDs. Tapes run a distant third in terms of inventory, and they “don’t carry any new cassettes, which have just about gone the way of the dinosaur,” Goodman said.

The store's owners won't accept any musical merchandise that is scratched up or not handled properly. LPs and tapes must be in very good condition.

The store will pay between \$1 and \$5 in cash or trade, and a trade will bring the customer slightly more value. The store's needs determine whether or not they will buy the CD, LP, or tape. If Turnabout has 50 copies of a particular recording, obviously the store doesn't need another copy.

As partners, they bring a great deal of musical experience to their business. Goodman is a former singer and guitar player and self-proclaimed musical historian, which helps him provide his customers with information and place special orders. He has also produced recordings. Reece has worked as a radio announcer for WGAU and a film critic for *Athens Observer*. She also sang with the Randall Bramblett Band.

Accounting Applications:

Instructions: Now that you have completed the case study above, answer the following questions on your own.

1. Assume that when Goodman and Reece started Turnabout Records, they invested the following:

	Goodman	Reece
Cash	\$3,500	\$5,000
CDs, LPs, and Tapes	1,200	677
Store equipment	350	500

2. Write the general journal entry recording the partners' investments in the business. Use January 1 of last year as the date and Memorandum 1 as the source document. Use page 1 of the general journal.

GENERAL JOURNAL						PAGE <u>1</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12
13						13
14						14
15						15
16						16

- Assume that Goodman and Reece agree to divide net income or loss equally. Record the closing entry if they had a net income of \$33,780 for the fiscal year ending last December. Use page 24 of the general journal.

GENERAL JOURNAL					PAGE <u>24</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1					1
2					2
3					3
4					4
5					5
6					6
7					7
8					8
9					9
10					10
11					11
12					12
13					13
14					14
15					15
16					16

- 4. Using the investments given in question 1 and the net income given in question 2, prepare a statement of changes in partners' equity for the year ended last December. There were no beginning capital balances, and withdrawals were \$4,500 for Goodman and \$5,500 for Reece.

Turnabout Records											
Statement of Changes in Partners'											
For the Year Ended December 31, 19--											

Class Interaction and Discussion:

Instructions: Read the question below. As a class, discuss your responses.

Has anyone in your family started a business as a partnership? Interview the family member or one of the partners of a local business to find out what it's like to be a partner in a business. Describe the business and find out why he or she entered into the partnership rather than start the business alone. Discuss with the class what you learned.

Optional Small Group Extension Activity:

Instructions: Break into pairs and complete the following activity.

If you were to enter into a partnership, what do you think you could contribute? Discuss the partnerships you might form and what each student could contribute. How would your contribution help the business succeed?

Optional Internet Exploration and Research Activity:

Instructions: Using your favorite search engine, research the following activity.

Find businesses that specialize in selling vinyl records. Then choose a business to report on. Include the name of the business, address, URL, and any other information found at the Web site.

Summary Questions:

1. Describe the partnership formed by Guy Goodman and Deborah Reece.

2. List the possible benefits and drawbacks of the partnership form of organization.

3. Which accounts are affected by the entry that transfers profits and losses to the owners?
