**PP-26A Account for partner investments, allocating profits and losses to**

**the partners, preparing partnership financial statements [20–30 min]**

Lorena Lally and Allie Raras formed a partnership on March 15. The partners

agreed to invest equal amounts of capital. Lally invested her proprietorship’s assets

and liabilities (credit balances in parentheses). See the table that follows.

Lally’s Current

Book Values Market Values

Accounts receivable......................... $12,300 $10,600

Inventory......................................... 47,000 38,000

Prepaid expenses ............................. 3,600 3,400

Store equipment .............................. 41,000 28,000

Accounts payable ............................ (24,000) (24,000)

On March 15, Raras invested cash in an amount equal to the current market value of

Lally’s partnership capital. The partners decided that Lally will earn 70% of partnership

profits because she will manage the business. Raras agreed to accept 30% of the

profits. During the period ended December 31, the partnership earned net income of

$74,000. Lally ’s drawings were $42,000, and Raras ’s drawings totaled $22,000.

Requirements

**1.** Journalize the partners’ initial investments.

**2.** Prepare the partnership balance sheet immediately after its formation on March 15.

**3.** Journalize the closing of the Income summary and partner Drawing accounts on

December 31.