

Partnership Reporting

Many individuals set up investment entities (partnerships, LLC's, and trusts) to manage their wealth and minimize their liability to lawsuits and estate taxes. Financial Navigator is an effective way to account for these entities and can produce reports that investors are able to understand.

This document consists of four sections:

- Partnership Transactions
- Partnership Reporting (this document)
- Case Study #1, Part 1 – Partnership Structure
- Case Study #1, Part 2 – Big Picture Holding Company Example

Year-End Accounting for the Equity Section

Several steps are required to have the correct account balances when starting a new year.

Reports for Old Year

At the end of the year Financial Navigator automatically subtotals each partner's capital account as part of the Balance Sheet reports. These reports should be used as they come from FN. It is not necessary to close the various capital accounts into the main capital account. In fact, leaving the capital accounts open means the reports are more meaningful than if you make entries to close out the accounts.

Steps for New Year

In the New Year do not update the capital account balances, but manually enter the proper *net* amounts as the beginning balances for the New Year using the prior year's reports.

When starting the New Year, zero out the allocated income account and the accumulated prior year income balance. This allows the current year's income and allocated income account to be the same amount as shown on the balance sheet. This can be done as you account for the entity's equity and distribute it to each partner's capital account.

Standard Equity Presentation

If you have followed the previous instructions, the most frequent presentation of the Equity section of the Balance Sheet of the XYZ Partnership as of December 31, 2000, appears as follows:

ASSETS	
CURRENT ASSETS	
Checking Account:	
CHECKING ACCOUNT	287,000.00
TOTAL CURRENT ASSETS	287,000.00
FIXED ASSETS	
Land:	
LAND/CALIFORNIA	100,000.00
Buildings:	
BUILDING	1,000,000.00
ACCUM DEP/BUILDING	-525,500.00
TOTAL FIXED ASSETS	574,500.00
TOTAL ASSETS	861,500.00
EQUITY	
PARTNERS' CAPITAL	
Partner A:	
PARTNER A/CAPITAL	339,250.00
PARTNER A/DRAW	-117,000.00
PARTNER A/INCOME	112,625.00
Partner B:	
PARTNER B/CAPITAL	169,625.00
PARTNER B/DRAW	-39,000.00
PARTNER B/INCOME	35,725.00
Partner C:	
PARTNER C/CAPITAL	169,625.00
PARTNER C/DRAW	-39,000.00
PARTNER C/INCOME	42,340.00
Other Equity:	
ALLOCATED INCOME	-171,250.00
TOTAL PARTNERS' CAPITAL	503,000.00
PARTNERS' CAPITAL-CURRENT YEAR	358,500.00
TOTAL PARTNERS' CAPITAL	861,500.00
TOTAL LIABILITIES AND PARTNERS' CAPITAL	861,500.00

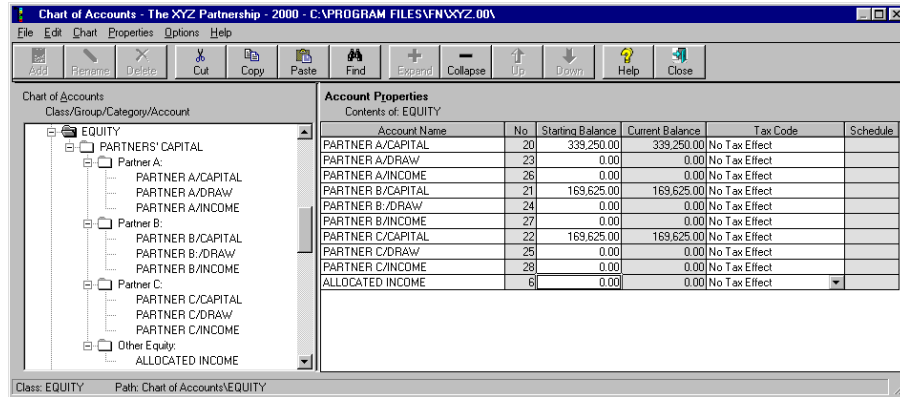
Overview of Year-End Processing

For year-end, you need to:

- Print out and review the 2000 equity account balances.
- Open the 2001 data files.
- Enter the balances for 2000 into the 2001 data files.

To complete the year-end processing:

1. Open the **Xyz.00** data files.
2. Select **Utilities | Begin a New Year** to prepare the data files for 2001. Follow the instructions on the screen. When the process is complete, FN automatically opens the 2001 data files.
3. Open the Chart of Accounts and scroll to the Equity class.
4. Change the starting balances of the partners' /DRAW and /INCOME accounts to zero.
5. Enter zero as the balance for the ALLOCATED INCOME account. The balances should be as follows:



Exit the Chart of Accounts.

6. Select **Accounts | Equity Name Changes**.
7. Change the Accumulated-prior Year's Partners' Capital to **zero**. Select **OK**.
8. Review the Balance Sheet Starting Balances.

***Note:** This technique causes 2001 allocated income to equal 2001 profit. Also, the Equity information for 2000 is correct.*

Reconciling Basis and Contributed Value

There are several issues to consider when reconciling the partner's basis in accounts.

Avoiding Unnecessary Unrealized Gains

Normally, it is easier to account for investment entities without posting unrealized gains and losses. There are no disadvantages of this approach, and it avoids a time-consuming aspect of reconciling partners' equity.

You can do this by turning off the Calculate Balances options.

1. Select **Accounts | Investment & Account Options**.
2. Clear the check boxes for **Investment Accounts** and **Executive Stock Options**.
3. Select **OK** to apply the changes and return to the FN desktop.

Contributing Appreciated Property

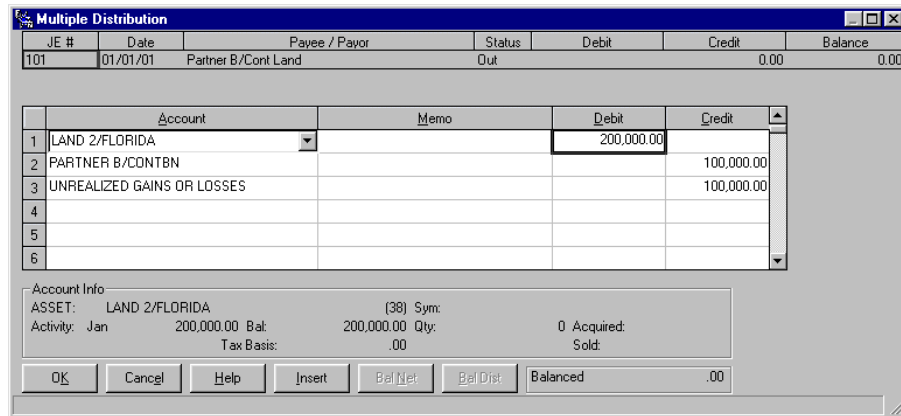
The basis of assets contributed by partners will often be different than the agreed upon value at the time of contribution. Since Financial Navigator tracks cost and tax basis separately, it is possible to enter the basis of an asset separately from the agreed upon value. For the partnership the difference is treated as an unrealized gain or loss.

As an example, assume that Partner B contributes land with a value of \$200,000 and a basis of \$100,000 to XYZ. Partner B had acquired the land on December 1, 1994.

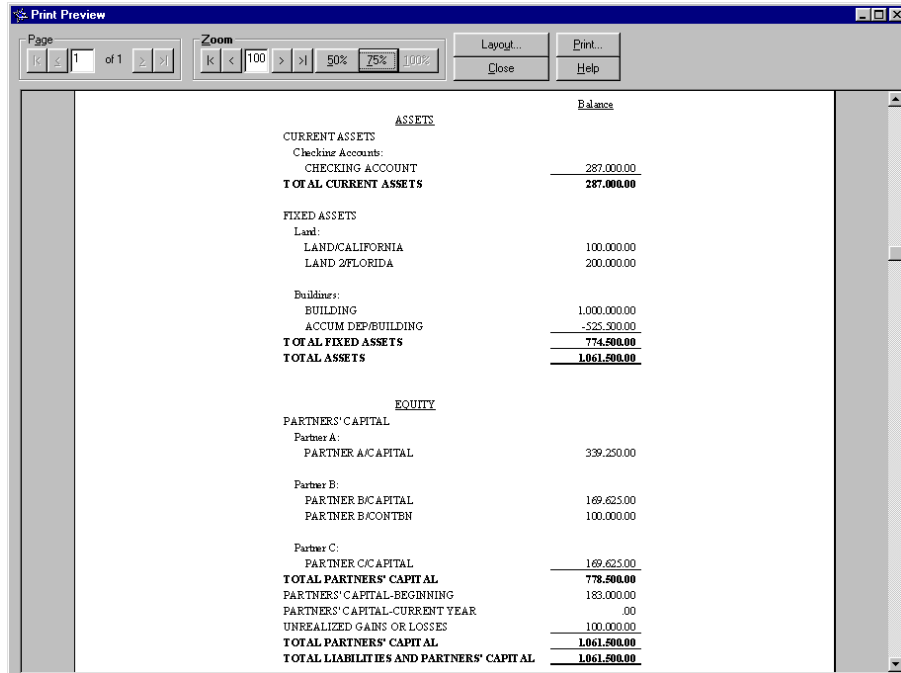
Continue in the **Xyz.01** (2001) data files.

To record the contribution of the asset and effect on the capital asset:

1. In the Chart of Accounts, insert the following account with Partner B's equity accounts:
PARTNER B/CONTBN
2. Record the following transaction in the GENERAL JOURNAL account:



The Balance Sheet appears as follows:



Note: Partner B's capital account has increased only by \$100,000, his basis of the contribution. The total partners' capital has increased by \$200,000, the value of the land contributed. Even though his capital account shows only \$100,000, his allocation percentage may still reflect the \$200,000 value of his capital contribution.

- Go to the Asset and Liability Info screen for the **LAND 2/FLORIDA** account. Enter the following information to show the cost of the land as \$200,000 (to reflect market value as of date of contribution), but a tax basis of \$100,000:

When the land is sold, Financial Navigator correctly calculates the gain on the sale and makes the necessary entries to close out the Unrealized Gains and Loss Account.

Assume the land is sold on January 31, 2001 for \$195,000.

To record the land sale transaction:

- Select the following from the Function group box:
 - Action — **Enter Transactions**
 - Month — **January**

- Category — **Checking**
 - Account — **CHECKING ACCOUNT**
5. Enter **Dep** and **Jan 31 99**.
 6. Enter the payee **Florida Land Sale**.
 7. Enter a deposit amount of **\$195,000**.
 8. Select the **LAND 2/FLORIDA** account. The system prompts:
Sold Investment?
 9. Select **Yes**. The distribution appears as follows:

Chk #	Date	Payee / Payer	Status	Deposit	Charge	Balance
Dep	01/31/01	Florida Land Sale	Out	195,000.00		482,000.00

Date Sold: Jan 31 01 **Quantity Sold:** 100 **Tax Basis:** Tax Basis 100,000.00

	Account	Memo	Charge	Deposit
1	LAND 2/FLORIDA			200,000.00
2	CAPITAL GAINS- LONG TERM			95,000.00
3	UNREALIZED GAINS OR LOSSES		100,000.00	
4				
5				
6				

Account Info:
 ASSET: LAND 2/FLORIDA (38) Sym:
 Activity: Jan .00 Bal: .00 Qty: 100 Acquired: Dec 1 94
 Tax Basis: 100,000.00 Sold: Jan 31 01

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced, .00

10. Select **OK** to record the distribution.
11. Review the tax Schedule D. If the Asset & Liability information was recorded correctly for LAND 2/FLORIDA, this report correctly reflects the partnership's gain from the sale of the land.

Note: When cost and tax basis differ, it is important to remember that investment reports show cost, not tax basis. It is important to ensure that the tax basis has been properly taken into consideration when reviewing reports from Financial Navigator.

Effective Presentation of Reports

Often the most important aspect of Financial Navigator is the presentation of the financial information. Therefore, it is helpful to know how to use the best techniques to present partnership information.

Balance Sheets

A partnership may have many partners requiring many accounts. Because of all the equity accounts and the subtotals for each partner's capital account, the detailed Balance Sheet Analysis reports can become very long.

It is usually more effective to use the Summary Balance Sheet report since it shows only the category subtotal and not the detail accounts. If more detail is needed, create a schedule as described below and attach it to the Balance Sheet.

Equity Account Analysis

To report on the status of the capital accounts, use the information presented in the equity section of the Balance Sheet Analysis report.

To create an equity account analysis schedule:

1. Display the Balance Sheet Analysis report on the screen.
2. Select the first row of the Equity section.
3. Press the **Shift** key and select the last row of the Equity section.
4. Select **Copy**.
5. In a word processor or spreadsheet document, select **Edit | Paste**.
6. Continue formatting in the word processor or spreadsheet document.

If additional calculations are needed, paste the information into a spreadsheet and add rows and columns as needed. Attach the final report to the Balance Sheet.

Handling Multiple Investment Entities

Often partnership accounting can involve a large number of entities.

Entity Per Partnership

It is possible to consolidate multiple investment entities in one set of data files. You can then use account qualifiers to produce statements for different entities.

Although this does save purchasing additional entities, this approach is known to cause account miscoding. Also, non-technical personnel may have trouble understanding this approach.

In general it is easier to have a separate entity for each tax return.

Template Entity

If you use a template to create a standardized Chart of Accounts, it is possible to consolidate entities using a spreadsheet program such as Excel or Lotus 1-2-3. For example, in Excel you can use the Data Consolidate functions to combine entities.

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