

Partnership Transactions

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

Introduction

This section uses a partnership as a case study to illustrate the pertinent accounting concepts. Similar concepts also apply to limited liability corporations, trusts, joint ventures, and other similar entities.

This section does not deal with the legal or investment reasons for using a partnership or similar entity but only with the accounting considerations.

Partnership as the Entity

This document covers accounting for a business entity legally structured as a partnership. In the situation described in this section, a business with several owners or partners is using Financial Navigator to maintain the financial records of the business.

Individual investors often own partnership interests as part of an overall investment portfolio. These interests are tracked with FN as one part of the investors' total balance sheet. In that case, the individual is the entity being tracked with FN. This is not the form of partnership accounting covered by this section.

The XYZ Partnership

The concepts in this section are presented using a sample situation to illustrate the procedures and techniques available in Financial Navigator. The sample entity is called the XYZ Partnership.

Case Study

The XYZ Partnership has three partners: Partner A, Partner B, and Partner C. Under the partnership agreement, Partner A is guaranteed to receive the first \$78,000 of income. The remaining profits are distributed as follows:

- 50% to A
- 25% each to B and C

Financial statements are produced quarterly and so net income for 2000 is to be allocated quarterly. Partner A receives \$19,500 each quarter as guaranteed income. Quarterly cash distributions are also made to the partners based on available cash.

Partnership Data Files

The screens in this section are based on a set of FN data files called the XYZ Partnership. These materials assume those files are installed in a subdirectory called **C:\Fn\Xyz.00**

You can benefit from the material in this guide without loading the XYZ Partnership data onto your computer. However, if you want to look at parts of the data not shown in this book, you need to obtain a copy of those files and load them onto your computer. You can obtain a copy of these data files from:

- **FNI Web Site** — You may download the XYZ Partnership data files from the FNI web site at www.finnav.com.
- **Order from FNI** — You may order a diskette containing these files from Financial Navigator Int'l. There is a nominal fee for the shipping and handling.

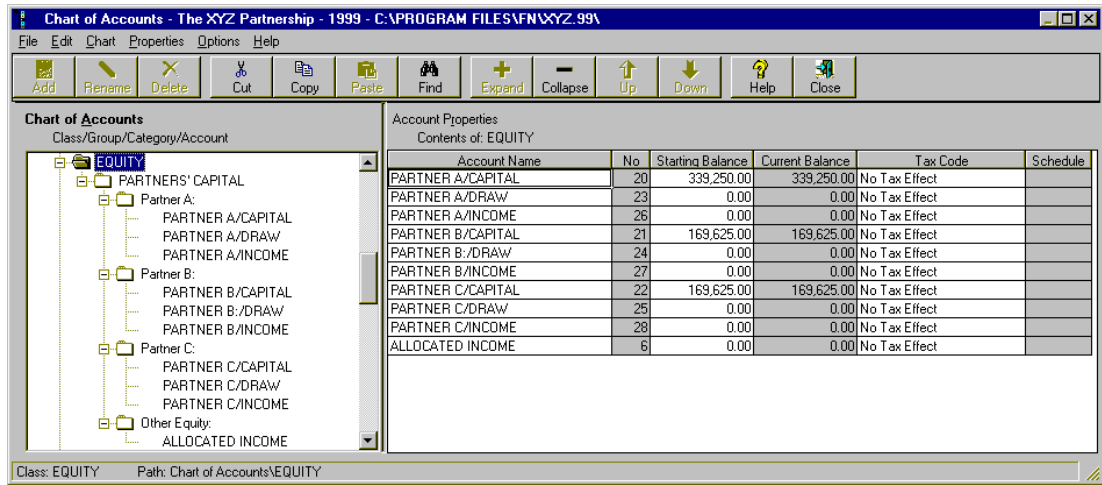
Chart of Accounts - Equity Section

To properly account for partners' interest in the partnership, it is necessary to have the proper capital accounts in the Equity section of the Chart of Accounts. These accounts have already been added into the XYZ Partnership data files.

To view the Equity section of the XYZ Partnership's Chart of Accounts:

1. Select **Accounts | Chart of Accounts**.

2. Select the **Equity folder** in the Chart of Accounts frame. This limits the Account Properties frame to the XYZ Partnership's equity accounts. The equity section of the Chart of Accounts appears as follows:



Note: In the above example no accounts have been set up for partners' contributions. These accounts can be added in each partner's category, as needed.

Chart of Accounts

Setting up the chart of accounts is the most important step in effectively accounting for a partnership entity. The most important part of the partnership's chart of accounts is the equity section or capital accounts.

In preparing the partners' capital accounts, you should consider using the following techniques:

- **Partners' capital** — The Group heading "OWNERS EQUITY" has been changed to "PARTNERS' CAPITAL" to improve the appearance of the balance sheet.
- **Category usage in chart of accounts** — A category is created for each partner. This allows the program to generate subtotals for each partner's capital account whenever a balance sheet is printed. This is very useful when capital balances are being reported, such as on a Partner's K-1 as part of the year-end tax return, and is useful when transferring balances into a new year.

Note: As there are only 26 categories available in the Equity section of FN, only 25 investors can be accounted for in this fashion. This allows one category to be reserved for allocated income.

- **Account qualifier** — Each type of partner's account has been given a qualifier so that a report can be generated for a particular type of capital activity for all partners. For example, a detailed trial balance using the account qualifier /DRAW reports all partners withdrawals.

- **Allocated income account** — Notice that the allocated income account balance is zero on January 1. The balance brought forward in each partner's capital account is the net amount of the /CAPITAL, /INCOME, and /DRAW accounts for the pervious year-end.

To change the Equity section headings on reports:

1. Select **Accounts | Equity Name Change**.
2. Enter **Partners' Capital** or other appropriate title as follows:

The screenshot shows a dialog box titled "Equity Name Changes". It contains three text input fields. The first field is labeled "Name for Net Worth or Equity:" and contains the text "PARTNERS' CAPITAL". The second field is labeled "Name for Net Income or Retained Earnings:" and also contains "PARTNERS' CAPITAL". The third field is labeled "Accumulated Prior Years' PARTNERS' CAPITAL:" and contains ".00". At the bottom of the dialog are three buttons: "OK", "Cancel", and "Help".

Note: These names have already been entered in the XYZ Partnership's data files.

3. Select **OK** to apply the changes.

Transactions to Allocate Net Income and Distribute Cash

Note: A few simple income and expense transactions have already been entered for the XYZ Partnership for each quarter in 2000.

To record the necessary transactions at the end of each quarter, you must:

- Allocate the guaranteed income to Partner A.
- Allocate the balance of the income to Partner A, B, & C.
- Distribute cash to the partners for the income earned.

The data in the XYZ Partnership has been set up to show you how these procedures can be automated in Financial Navigator.

Using automatic entries, specialized action codes and periodic transactions, Financial Navigator can simplify the routine entries required to allocate income and calculate cash distributions.

The following automatic entries are used in this procedure:

Type	No	Desc/Payer Name	Exp	Bal	Due Date	F	How Often
Both	18	J E A's Guar Pmt *** Multiple Distribution GUARANTEED PAYMENT (34) PARTNER A/INCOME (26)	A's Guar Pmt Constant Amount Constant Amount Remaining Amount		11		trq 00 19,500.00 Dep
Both	19	J E Alloc Income *** Multiple Distribution ALLOCATED INCOME (6) PARTNER A/INCOME (26) PARTNER B/INCOME (27) PARTNER C/INCOME (28)	Alloc Income Constant Amount Net Income - YTD Balance 2nd Amount x Factor 2nd Amount x Factor Remaining Amount		11		trq 00 Che Dep Dep Dep
Both	20	J E Draw Calc *** Multiple Distribution TRANSFER CLEARING (39) PARTNER A/DRAW (23) PARTNER B/DRAW (24) PARTNER C/DRAW (25)	Draw Calc Constant Amount Enter Amount Constant Amount Remaining Amount x Factor Remaining Amount x Factor Remaining Amount		11		trq 00 Che Dep Che Che Che
Both	21	J E Drawr Liab *** Multiple Distribution TRANSFER CLEARING (39) DUE TO/A PARTNER (29) DUE TO/B PARTNER (29) DUE TO/B PARTNER (30) DUE TO/C PARTNER (31) PARTNERS' CAPITAL (0)	Drawr Liab Constant Amount Enter Amount Constant Amount Remaining Amount x Factor Remaining Amount x Factor Remaining Amount Enter Amount		11		trq 00 Che Che Dep Dep Dep Che
Both	4	Partner A *** Multiple Distribution DUE TO/A PARTNER (29)	Distribution Net Distribution Amount Account Balance		15	Mar 30 00	3 month(s) Che Che 00
Both	5	Partner B *** Multiple Distribution DUE TO/B PARTNER (30)	Distribution Net Distribution Amount Account Balance		15	Mar 30 00	3 month(s) Che Che 00
Both	6	Partner C *** Multiple Distribution DUE TO/C PARTNER (31)	Distribution Net Distribution Amount Account Balance		15	Mar 30 00	3 month(s) Che Che 00

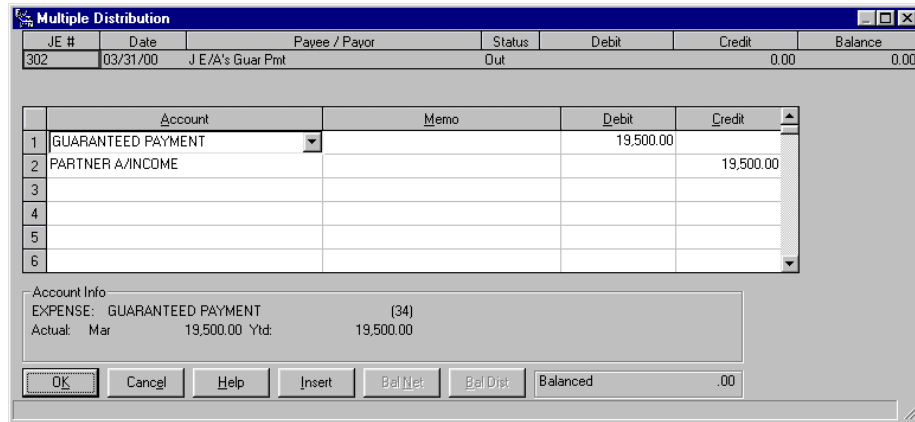
Allocating Guaranteed Share

As described in the introduction, under the partnership agreement, Partner A is guaranteed to receive the first \$78,000 of income. Financial statements are produced quarterly and so net income is to be allocated quarterly. Partner A receives \$19,500 each quarter as guaranteed income.

To enter the transaction to allocate the guaranteed share:

1. Select **Transactions | Transaction Activity**.
2. Select the following from the Function group box:

- Action — **Enter Transactions**
 - Month — **March**
 - Category — **General Journal**
 - Account — **GENERAL JOURNAL**
3. Enter the next JE# and month-end date.
 4. Select the payee **J E/A's Guar Pmt**. The Multiple Distribution screen appears:



Because the journal entry to allocate the guaranteed payment is automatic, the transaction for Partner A's quarterly guaranteed share (\$19,500) appears. It posts the \$19,500 and reduces the net income to be allocated.

5. Select **OK** to record the distribution.
 - Note:** Tax law requires that guaranteed payments to partners be reported separately. Therefore, post the \$19,500 to the expense account **GUARANTEED PAYMENT** so it can be easily identified when preparing the partnership tax return.

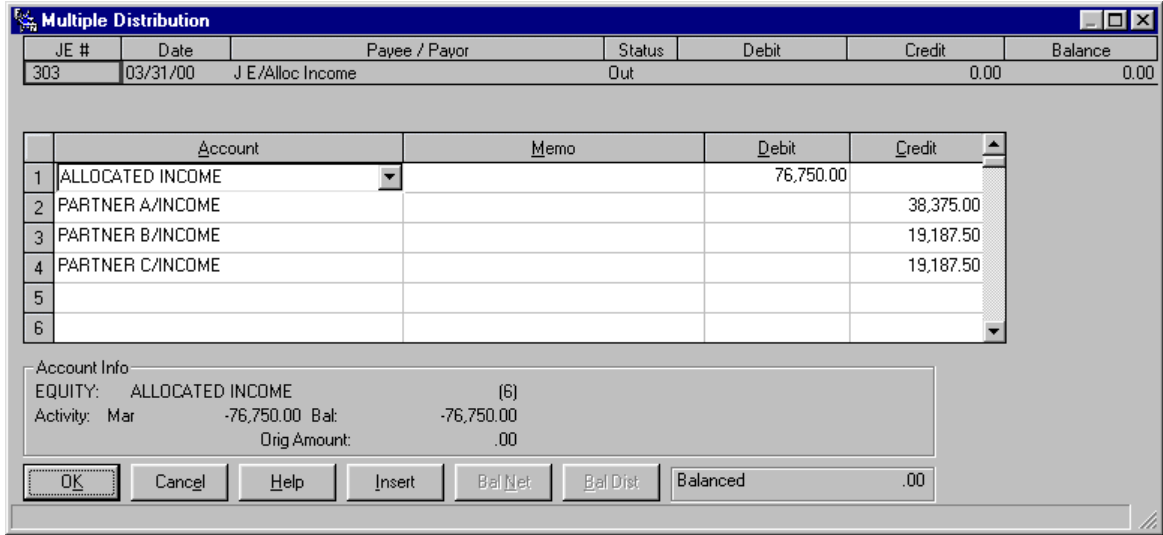
Allocating Remaining Income

Under the partnership agreement, Partner A is guaranteed to receive the first \$78,000 of income. The remaining profits are distributed as follows:

- 50% to A
- 25% each to B and C

To enter the transaction to allocate the remaining net income:

1. Return to the General Journal for March.
2. Enter the next JE# and month-end date.
3. Select the payee **J E/Alloc Income**. The distribution to allocate the income appears:



4. Select **OK** to record the distribution.
5. Move to the next transaction.

Distributing Funds

Under the XYZ partnership agreement, Partner A receives a quarterly guaranteed distribution. Remaining profits are distributed to Partner B and Partner C. Quarterly cash distributions are also made to the partners based on available cash.

To enter the draw liability to the partners, we use two entries:

Note: The *TRANSFER CLEARING* account is used here to facilitate the automatic calculation of complex entries where amounts need to be computed for both the debit and credit components of the transaction.

1. Enter the next JE# and month-end date.
2. Select the payee **J E/Draw Calc**. The Multiple Distribution screen appears as follows:

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
304	03/31/00	J E/Draw Calc	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	TRANSFER CLEARING			0.00
2	PARTNER A/DRAW		19,500.00	
3	PARTNER A/DRAW		0.00	
4	PARTNER B:/DRAW		0.00	
5	PARTNER C/DRAW		0.00	
6				

Account Info

ASSET: TRANSFER CLEARING (39)
 Activity: Mar .00 Bal: .00
 Orig Amount: .00

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, To Credit 19,500.00

- On the first line of the distribution, credit **\$95,000** to the **TRANSFER CLEARING** account and move to the next line. The distribution now appears as follows:

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
304	03/31/00	J E/Draw Calc	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	TRANSFER CLEARING			95,000.00
2	PARTNER A/DRAW		19,500.00	
3	PARTNER A/DRAW		37,750.00	
4	PARTNER B:/DRAW		18,875.00	
5	PARTNER C/DRAW		18,875.00	
6				

Account Info

EQUITY: PARTNER A/DRAW (23)
 Activity: Mar -57,250.00 Bal: -57,250.00
 Orig Amount: .00

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

The automatic entry enters the guaranteed payment, then calculates each partner's share of the remaining amount. In the Account Info box, note that the PARTNER A/DRAW account balance is \$57,250. This includes both the guaranteed and percentage shares.

- Select **OK** to record the distribution.
- Move to the next transaction.
- Enter the next JE# and month-end date.
- Select the payee **J E/Draw Liab**. The Multiple Distribution screen appears as follows:

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
305	03/31/00	J E/Draw Liab	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	TRANSFER CLEARING		0.00	
2	DUE TO/A PARTNER			19,500.00
3	DUE TO/A PARTNER			0.00
4	DUE TO/B PARTNER			0.00
5	DUE TO/C PARTNER			0.00
6				

Account Info
 ASSET: TRANSFER CLEARING (39)
 Activity: Mar -95,000.00 Bat -95,000.00
 Orig Amount: .00

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, To Debit 19,500.00

- On the first line of the distribution, debit **\$95,000** to the **TRANSFER CLEARING** account and move to the next line. The distribution now appears as follows:

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
305	03/31/00	J E/Draw Liab	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	TRANSFER CLEARING		95,000.00	
2	DUE TO/A PARTNER			19,500.00
3	DUE TO/A PARTNER			37,750.00
4	DUE TO/B PARTNER			18,875.00
5	DUE TO/C PARTNER			18,875.00
6				

Account Info
 ASSET: TRANSFER CLEARING (39)
 Activity: Mar .00 Bat .00
 Orig Amount: .00

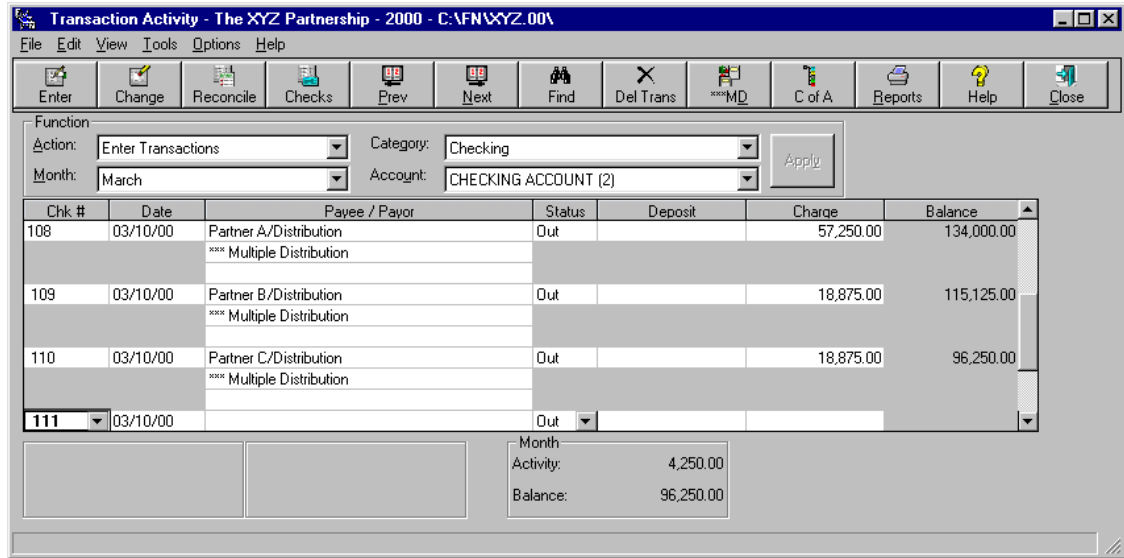
Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

This entry sets up amounts to be distributed for each partner in the liability accounts and nets the TRANSFER CLEARING ACCOUNT to zero.

The entries to disperse the funds to partners can be made at the same time as the month-end entries or at some later time.

- Select the following from the Function group box:
 - Category — **Checking**
 - Account — **CHECKING ACCOUNT**
- Move to the next available transaction.
- Select **Tools | Invoke Periodic**.
- Enter an End Date of **Mar 31 00**.

5. Enter From Set #15 and To Set #15. Select **OK**. The system displays the first distribution.
6. Press **Enter** until all three transactions are complete. The system records each distribution and transaction as they are completed. The finished Transaction Activity screen appears as follows:

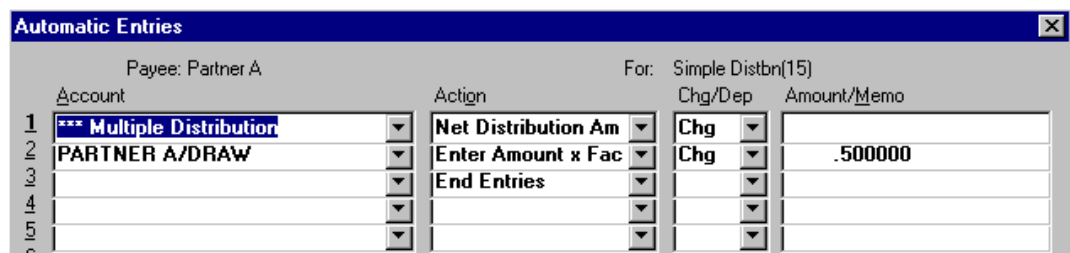


Checks can now be printed. To practice these procedures, repeat the transactions to allocate net income and distribute cash for the second quarter, distributing \$90,000.

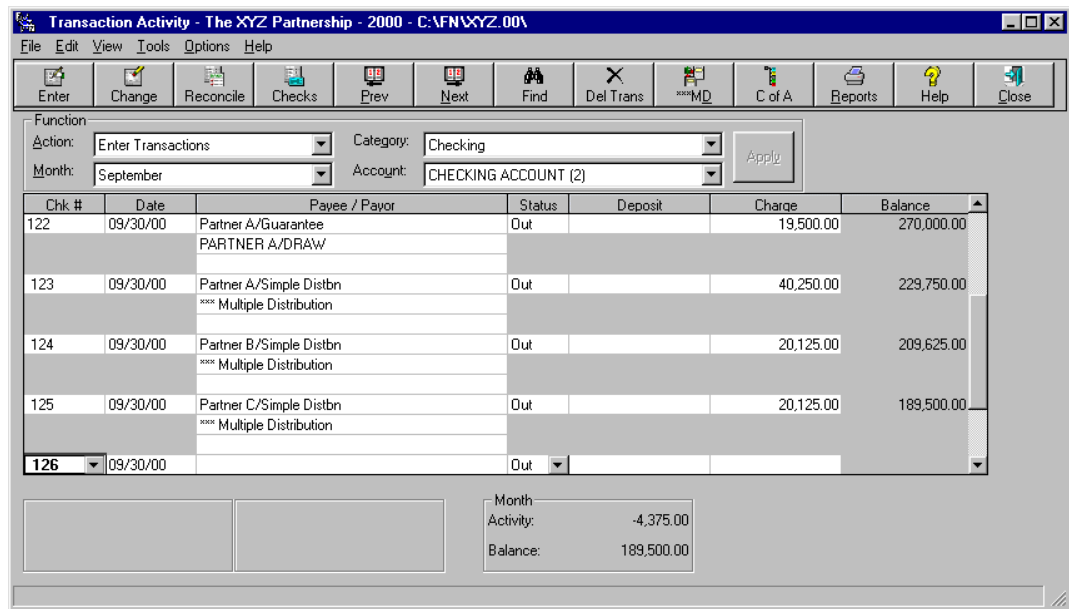
Distributions – Alternative Method

For September, make the journal entries to record the guaranteed payment and to allocate net income. As an alternative, it is possible to make a distribution using the following technique

Use the following automatic entry for Partner A/Simple Distbn, which uses a factor in the calculation of the amount:



1. Select **Transactions | Transaction Activity**.
2. In the Functions group box, select:
 - Month — **September**
 - Category — **Checking**
 - Account — **CHECKING ACCOUNT**
3. In the next available transaction, enter a charge for the payee **Partner A/Guarantee**.
4. Record the transaction and move to the next available transaction.
 Select **OK** to record the transaction and exit Transaction Activity. You must exit to "register" this transaction before proceeding with allocation.
5. Enter a charge to payee **Partner A/Simple Dist**. The system prompts for an amount.
6. Enter **\$80,500**. The program calculates the distribution. Select **OK** to record the distribution.
7. Repeat steps 4 and 5 for Partner B and Partner C. When complete, the Transaction Activity screen appears as follows:



8. Select **File | Close** to save all transactions and return to the FN desktop.

Note: One automatic entry is needed for each partner. Once one entry has been set up, additional entries can be made using the Copy To command button in Automatic Entries. Then change the entry as needed for each partner.

Multiple Income Allocations – Alternative Method

If a partnership has multiple allocations of income, then multiple income allocation journal entries can be prepared. This method can be used for a partnership with multiple assets when partners share the profits from such assets in different percentages.

In the following example assume that \$47,250 of profits is allocated as above and the remaining \$47,250 is allocated through the Zinc Allocation payee as follows:

- 66% to A
- 10% to B
- 24% to C

The automatic entry for this allocation appears as follows:

Automatic Entries		Payee/Payor: Zinc Allocation		For: (16)	
Account	Action	Chg/Dep	Amount/Memo		
1 *** Multiple Distribution	Net Distribution Am	Chg			
2 ALLOCATED INCOME	Net Income - YTD	Chg	.00		
3 PARTNER A/INCOME	2nd Amount x Facto	Dep	.660000		
4 PARTNER B/INCOME	2nd Amount x Facto	Dep	.100000		
5 PARTNER C/INCOME	Remaining Amount	Dep			
6	End Entries				
7					
8					

To make multiple allocations of profits:

- In Transaction Activity, select the following from the Function group box:
 - Month — **December**
 - Category — **General Journal**
 - Account — **GENERAL JOURNAL**
- Enter the next JE# and month-end date.
- Select the payee **J E/Alloc Income**. The distribution screen appears.
- On the first line of the distribution, change the debit to the **ALLOCATED INCOME** account to **\$47,250**. The distribution now appears as follows:

Multiple Distribution

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
1202	12/31/00	J E/Alloc Income	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	ALLOCATED INCOME		47,250.00	
2	PARTNER A/INCOME			23,625.00
3	PARTNER B/INCOME			11,812.50
4	PARTNER C/INCOME			11,812.50
5				
6				

Account Info
 EQUITY: ALLOCATED INCOME (6)
 Activity: Dec -47,250.00 Bal: -124,000.00
 Orig Amount: .00

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

The amount allocated to each partner is changed to reflect the new amount.

8. Select **OK** to record the distribution. Move to the next transaction.
9. Enter the next JE# and month-end date.
10. Select the payee **Zinc Allocation**. The distribution screen appears.
11. On the first line of the distribution, change the debit to the **ALLOCATED INCOME** account to **\$47,250**. The distribution now appears as follows:

Multiple Distribution

JE #	Date	Payee / Payor	Status	Debit	Credit	Balance
1203	12/31/00	Zinc Allocation	Out		0.00	0.00

	Account	Memo	Debit	Credit
1	ALLOCATED INCOME		47,250.00	
2	PARTNER A/INCOME			31,185.00
3	PARTNER B/INCOME			4,725.00
4	PARTNER C/INCOME			11,340.00
5				
6				

Account Info
 EQUITY: ALLOCATED INCOME (6)
 Activity: Dec -94,500.00 Bal: -171,250.00
 Orig Amount: .00

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

The amount allocated to each partner is changed to reflect the new amount.

12. Select **OK** to record the distribution.

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