

CHAPTER 16

PARTNERSHIPS: LIQUIDATION

ANSWERS TO QUESTIONS

Q16-1 The major causes of a dissolution are:

- a. Withdrawal or death of a partner
- b. The specified term or task of the partnership has been completed
- c. All partners agree to dissolve the partnership
- d. An individual partner is bankrupt
- e. By court decree:
 - i. the partnership cannot achieve its economic purpose (typically defined as seeking a profit)
 - ii. a partner seriously breaches the partnership agreement that makes it impracticable to continue the partnership business
 - iii. It is not practicable to carry on the partnership in conformity with the terms of the partnership agreement

The accounting implications of a dissolution are to determine each partner's capital balance on the date of dissolution of the partnership and begin the liquidation process.

Q16-2 The UPA 1997 states that a partnership's liabilities to individual partners have the same legal status as liabilities to outside parties. However, as a practical matter, partners often subordinate their loans to the partnership to other debts.

Q16-3 The implications that arise for partners X and Y are that both of the partners may be required to contribute a portion of their capital balances or personal assets to satisfy partnership creditors if there are not sufficient partnership assets to cover the partnership liabilities. Partners X and Y will share this contribution according to their relative loss ratio.

Q16-4 In an "at will" partnership (one without a partnership agreement that states a definite time period or specific undertaking for the partnership), a partner may simply withdraw from the partnership. Many partnerships have a provision in their partnership agreement for a buyout of an "at will" partner who wishes to leave the partnership.

In a partnership that has a definite term or a specific undertaking specified in the partnership agreement, a partner who simply withdraws has committed a wrongful dissociation. If the partnership incurs any damages, the partnership may sue the partner who withdraws for the recovery of those damages.

Q16-5 A lump-sum liquidation of a partnership is one in which all assets are converted into cash within a very short time, creditors are paid, and a single, lump-sum payment is made to the partners for their capital interests. An installment liquidation is one that requires several months to complete and includes periodic, or installment, payments to the partners during the liquidation period.

Q16-6 A deficit in a partner's capital account (relating to an insolvent partner) is eliminated by distributing the deficit to the other solvent partners in their resulting loss ratio.

Q16-7 The DEF Partnership is insolvent because the liabilities of the partnership (\$61,000) exceed the assets of the partnership (\$55,000). The liabilities of the partnership are calculated as follows:

$$\begin{array}{rclcl} \text{Assets} & - & \text{Liabilities} & = & \text{Owners' Equity} \\ \$55,000 & - & \text{Liabilities} & = & \$6,000 + (\$20,000) + \$8,000 \\ & & \text{Liabilities} & = & \$61,000 \end{array}$$

Q16-8 A partnership may not legally engage in unlawful activities. In this example, the new law requires the dissolution and termination of the partnership. The two partners can seek a court decree for the termination of the partnership if the other three partners do not agree to wind up and liquidate the partnership. The partnership's assets will be sold and the partnership's obligations shall be settled. Individual partners are required to remedy any deficits in their capital accounts and any remaining resources will be distributed to the partners in accordance with their rights.

Q16-9 A partner's personal payment to partnership creditors is accounted for by recording a cash contribution to the partnership with an increase in the partner's capital balance. The cash is then used to pay the partnership creditors.

Q16-10 The schedule of safe payments to partners is used to determine the safe payment of cash to be distributed to partners assuming the worst case situations. The payments are "safe" if they leave adequate cash in the partnership to cover partnership liabilities and costs of winding up the partnership.

Q16-11 Losses during liquidation are assigned to the partners' capital accounts using the normal loss ratio. If a different specific ratio for losses during liquidation is provided for in the partnership agreement, then that should be used.

Q16-12 The worst case assumption means that two expectations are followed in computing the payments to partners:

- a. Expect that all noncash assets will be written off as a loss
- b. Expect that deficits created in the capital accounts of partners will be distributed to the remaining partners

Q16-13 The Loss Absorption Potential (LAP) is the maximum loss of a partnership that can be charged to a partner's capital account before extinguishing the account. The LAP is used to determine the least vulnerable partner to a loss. The least vulnerable partner is the first partner to receive any cash distributions after payment of creditors.

Q16-14 Partner B will receive the first payment of cash in an installment liquidation because partner B is least vulnerable to a loss based on the highest LAP, which is calculated as follows:

$$\begin{array}{l} \text{LAP for Partner A} = \$25,000 / .60 = \$41,667 \\ \text{LAP for Partner B} = \$25,000 / .40 = \$62,500 \end{array}$$

Q16-15* The process of incorporating a partnership begins with all partners deciding to incorporate the business. At the time of incorporation, the partnership is terminated and the assets and liabilities are revalued to their market values. The gain or loss on revaluation is allocated to the partners' capital accounts in the profit and loss sharing ratio. Capital stock in the new corporation is then distributed in proportion to the capital accounts of the partners.

SOLUTIONS TO CASES

C16-1 Cash Distributions to Partners

The key issue is that must be resolved in the partnership liquidation is that Bull desires cash to be distributed as it becomes available, while Bear wishes no cash to be distributed until all assets are sold and the liabilities are settled.

Most partnership liquidations are installment liquidations in which cash is distributed during the liquidation. Outside debts should generally be paid before any cash is paid to partners in liquidation of their capital balances. A cash distribution plan or schedules of safe payments should be used to ensure fair distributions.

While outside loans should be paid first, from a practical perspective, partnerships consider the partners' liquidity needs while also providing for the extended time period so the partnership may seek the best price for its assets. T. Bear may desire to hold up cash payments in order to encourage a prompt liquidation of the assets or to ensure that all liabilities are paid. A compromise may be reached to meet the needs of both partners.

An agreement may be used to specify the date or other restrictions under which the assets must be liquidated and the liabilities settled. In addition, the necessary amounts to settle actual, and anticipated, liabilities (including all liquidation costs) may be escrowed with a trustee, such as a local bank. The remaining cash may then be distributed.

C16-2 Cash Distributions to Partners**Assuming strict use of UPA 1997:**

Once a partnership enters liquidation, loans receivable from partners are treated as any other asset of the partnership and partnership loans payable to individual partners are treated as any other liability of the partnership. Thus, these accounts with partners do not have any higher or lower priority in a partnership liquidation. The accountant should prepare a Cash Distribution Plan to show each partner the eventual cash distribution process after all the liabilities, including the loan payable to Bard, are settled.

Adam and Bard Partnership
Cash Distribution Plan

	<u>Loss Absorption Potential</u>		<u>Capital accounts</u>	
	<u>Adam</u>	<u>Bard</u>	<u>Adam</u>	<u>Bard</u>
Loss sharing percentages			50%	50%
Preliquidation capital balances			80,000	40,000
Loss absorption potential (LAP) (capital balance / loss percentage)	160,000	80,000		
Decrease highest LAP to next level:				
Decrease Adam by \$80,000	(80,000)			
(Cash distribution: \$80,000 x 0.50 = \$40,000)			(40,000)	
	<u>80,000</u>	<u>80,000</u>	<u>40,000</u>	<u>40,000</u>
Decrease remaining LAPs by distributing cash in profit and loss sharing percentages	<u>50%</u>	<u>50%</u>		

Summary of Cash Distribution Plan

Step 1: First \$130,000 to creditors, including payment of loan from Bard in the amount of \$100,000.	130,000	
Step 2: Next \$40,000 to Adam	40,000	
Step 3: Any additional distributions in the partners' loss percentages	50%	50%

This schedule shows that the partnership's loan payable to Bard has the same legal status as the liabilities to third parties. Bard will be paid for his loan to the partnership prior to any final distributions to the partners. Adam may be able to negotiate that he will pay the \$10,000 for the partnership's loan receivable with him from other cash received in a distribution from the partnership. However, the partnership, including Bard, can obtain a court decree and judgment against Adam if Adam refuses to pay the partnership the \$10,000 to settle the loan he received from the partnership. After the liabilities are provided for, any remaining cash is paid as shown in the cash distribution plan above, with Adam receiving the first \$40,000 and then additional distributions will be made in the partners' loss sharing ratio.

C16-2 (continued)**Assuming a practical approach:**

Although UPA 1997 specifically states that partnership debt is considered equal to outside debt, most loans from partners are subordinated to outside debt. Typically this is done at the request of the outside creditors. In addition, loans to/from partners are treated as an extension of their capital accounts. Given these assumptions, the following is a cash distribution plan for the partnership:

Adam and Bard Partnership Cash Distribution Plan				
	<u>Loss Absorption Potential</u>		<u>Capital accounts</u>	
	<u>Adam</u>	<u>Bard</u>	<u>Adam</u>	<u>Bard</u>
Loss sharing percentages			50%	50%
Preliquidation capital balances			80,000	40,000
Loan to (from) partner			<u>(10,000)</u>	<u>100,000</u>
Total			70,000	140,000
Loss absorption potential (LAP) (capital balance / loss percentage)	140,000	280,000		
Decrease highest LAP to next level:				
Decrease Bard by \$140,000		(140,000)		
(Cash distribution: \$140,000 x 0.50 = \$70,000)				<u>(70,000)</u>
	<u>140,000</u>	<u>140,000</u>	<u>70,000</u>	<u>70,000</u>
Decrease remaining LAPs by distributing cash in profit and loss sharing percentages	<u>50%</u>	<u>50%</u>		
<u>Summary of Cash Distribution Plan</u>				
Step 1: First \$30,000 to creditors;			\$30,000	
Step 2: Next \$70,000 to Bard (applied first to loan)			70,000	
Step 3: Any additional distributions in the partners' loss percentages			50%	50%

C16-3* Incorporation of a Partnership

a. Comparison of balance sheets

The partnership's balance sheet will report the assets and liabilities at their book values while the corporation's balance sheet will report the fair values of these items at the point of incorporation. The incorporation of the partnership results in a new accounting entity, for which fair values are appropriate. One of the assets on the corporation's balance sheet will be goodwill that is created as part of the acquisition of the partnership. This goodwill must be tested annually for impairment in accordance with **ASC 350**.

The partnership's balance sheet will report a partnership's capital section that shows the amount of capital for the partners. For partnerships in which there are only a few partners, the balance sheet often will report the amount of capital for each partner, as well as the total partnership capital. The corporation's balance sheet will report a section on stockholders' equity including both the preferred and common stock. At the point of incorporation, there will not be any retained earnings.

b. Comparison of income statements

According to GAAP, a partnership's income statement should not include distributions to the partners as expenses. These distributions include interest on partners' capitals, salaries to partners, bonuses to partners, and any residual distributions made as part of the profit distribution agreement. Flexibility is allowed for partnerships to prepare non-GAAP financial statements if the partners feel the non-GAAP statements provide for more useful information. For example, some partnerships include profit distribution items, such as salaries to partners and interest on the partners' capital balances, in their income statements in order to determine the residual profit after the allocations for salaries, etc., because the partners feel these allocated items are necessary operating items to allow the partnership to function. However, again, it is important to note that GAAP income statements do not include profit distributions to partners as part of the determination of income. In accounting theory, this would be comparable to including dividends to stockholders as an expense on a corporation's income statement.

The corporation's income statement would include salaries and bonuses to management as part of the operating expenses of the entity. The corporate form of organization is a separate business entity, set apart from the owners of the corporation. Also, the corporation's income statement would include any impairment losses of the goodwill recognized as part of the acquisition of the partnership's net assets.

C16-4 Sharing Losses during Liquidation

a. Liquidation loss allocation procedures in the Uniform Partnership Act of 1997:
Section 401 of the Uniform Partnership Act of 1997 specifies that “Each partner is entitled to an equal share of the partnership profits and is chargeable with a share of the partnership losses in proportion to the partner’s share of the profits.”

In the absence of a partnership agreement for the sharing of profits, and for the sharing of losses, all partners have equal rights in the management and conduct of the business. In the case, it is not clear that the partners intend to share losses in the same 4:3:2 ratio used to share profits. A court may decide that the 4:3:2 ratio should be used, or alternatively, in the absence of a specific partnership agreement, that the UPA’s equal provision should be used. This uncertainty should increase the partners’ willingness to agree among themselves at the beginning of the partnership how losses should be shared.

b. Assessment of each partner’s position:
Hiller may feel it is best not to get into “negative” types of discussion when the partnership is attempting to get under way. However, if the partners are not able to agree at this point in time, it may be best not to move forward with the formation of the partnership. Simply putting off an important issue is not going to eliminate its possible importance later in time. While not discussing the issue now removes a possibly contentious issue from the discussion, it does not solve the problem.

Luna’s argument of equality for responsibility of a failure of the partnership is humanistic, but may not be true. Often, a partnership fails because of the failure of one of its partners. Other partners may be working very hard to make the partnership a success, but an act by an individual partner may cause the liquidation of a partnership. This act may be intentional, unintentional, legal, or illegal. It is impossible to predict in advance whether or not the partnership will be successful. Therefore, it is important to specify the rights of each of the partners should liquidation become necessary.

Welsh argues that the amount of capital in a partner’s capital account should be the basis of allocation of liquidation losses. While this does recognize a partner’s financial capacity to bear losses, it may also result in partners making withdrawals in anticipation of liquidation, which is a time in the life of a business in which capital may be essential for continued success. Furthermore, this method would be disadvantageous to a partner who leaves capital accumulations in the partnership.

c. Another method of allocating losses:
The partners could agree to share all profits and losses in the 4:3:2 ratio or select a specific loss sharing ratio in the event of liquidation. The important point is that the partners should agree, before a possible liquidation, on the allocation process to be used in the case of liquidation. When a partnership fails, emotions will be high and that is not the best time to attempt to reach agreements. If the partners do not agree beforehand, then many of these types of cases wind up in litigation that involves additional costs and time. Again, the partners should be encouraged to consider the processes to be used in the event of liquidation as part of the partnership formation agreement.

Finally, if the partners cannot agree, the accountant for the partnership does not have any legal stature to make a unilateral decision. This must be a decision made by all partners, or by a court.

C16-5 Analysis of a Court Decision on a Partnership Liquidation

This case asks questions about the *Mattfield v Kramer Brothers* court case decided by the Montana Supreme Court on May 31, 2005. The court case is a really interesting presentation of some of the major types of problems that can occur in a family partnership. Students may obtain a copy of the court decision by several alternatives as presented in the case information in the textbook. **For the instructor's benefit, a copy of the court's decision is provided at the end of the solutions for this chapter.**

Faculty might decide to make copies for the students or place copies on reserve in the library used by the accounting students in their advanced accounting classes. Court cases are within the public domain and can be printed verbatim without requesting permission. Answers to the questions posed in the textbook's C16-5 are presented in the following paragraphs.

a. *Summary of history of Kramer Brothers Co-Partnership.* The partnership began in the early 1980s with the father, Raymond Kramer, Sr., providing the initial capital, land, and cattle. The four brothers were Don, Douglas, William and Ray. In 1985, Bill stated his desire to dissociate from the partnership. The other three brothers continued the partnership, but Don was limited as a result of a car accident. In July 1994, Don left Montana but returned in 1995. In 1997, Raymond Sr. (the father) died which resulted in the four brothers, including Don, discussing the distribution of their father's interest in the partnership. On December 9, 1998, Ray and Doug offered to purchase Don's interest in the partnership but Don rejected the offer. On May 23, 2000, Don filed a suit demanding a formal accounting of the partnership, liquidation of its assets, and distribution of real property held by the partners as tenants in common. From that point, a number of suits and motions went back and forth between Doug, Ray, Lydia (their mother), and Don. On August 30, 2002, the District Court decided in favor of Doug, Ray, and Lydia, but only for those claims accruing before May 23, 1995, the five-year period covered by the statute of limitations. On October 17, 2002, the parties agreed to a buyout of Don's share of the partnership's interest in real property for \$487,500. Don's legal representative, Greg Mattfield and Clinton Kramer, the Guardians for Don, filed a motion seeking to reopen the period of time prior to May 23, 1995. This motion was rejected by the court, setting up the appeal to Montana's Supreme Court.

b. *Type of partnership.* The four brothers and their father had an oral agreement to form the farming operation. This typically evidences an at-will partnership because there is no written agreement for a definite term or a specific undertaking. The ensuing difficulties of the partnership indicate that a formal, written agreement might have avoided some of the problems. A written agreement could specify a term of existence; might include the procedures to be used if a partner wished to dissociate; the process of determining a dissociated partner's partnership buyout price, perhaps involving a neutral valuation and arbitration expert, and other matters the family felt were important based on past events and experiences among the family. For a business of this apparent size, it is also recommended that they seek advice from an attorney who has experience in preparing partnership agreements. Working out the issues before forming a partnership, and getting these resolutions into a formal agreement, can really help minimize and, perhaps even avoid future problems.

C16-5 (continued)

c. *Bill Kramer's economic interest in partnership.* Bill dissociated from the partnership in 1985, soon after it was formed. The information presented in the court's decision does not state if Bill received a buyout from the partnership. In addition, Bill received a partial interest from the estate of his father. The appeal motion included Bill as one of the defendants. Thus, it seems clear from the information given that Bill did have a continuing economic interest as of the time the motion was filed on June 23, 2004.

d. *Legal recourse of other partners at time Don dissociated.* Don's dissociation appeared to be wrongful for which the other partners could seek damages, and to assure that the dissociated partner is obligated for his or her share of the partnership's liabilities at the time of the dissociation. This normally requires a scheduling of all liabilities as of the dissociation date, something accountants can provide for the partnership. In addition to filing a revised Statement of Partnership Authority with the Secretary of State and the local court clerk, the remaining partners should also ensure that creditors and other third-party vendors with the partnership are given notice that the dissociated partner no longer has the authority to bind the partnership. The remaining partners could also have a new partnership agreement, this time in writing, to provide written evidence that they are continuing the business. The important thing is that the remaining partners have sufficient documentation and evidence of Don's partnership interest as of the date he dissociated.

e. *Request for Ray's and Doug's personal tax returns.* This was probably an effort to determine the profit or loss of the partnership from the date the partnership was formed to July 1994, when Don left Montana. In addition, Don's attorney also asked for the accounting records for that same time period. The stated reason for this request was to "accomplish an accurate accounting" of the partnership and to determine the amount the partnership owed Don. Under the partnership form of business, the partners recognize their share of the partnership's profit or loss on their personal income tax returns. The partnership is not a separate taxable entity. The request for the personal tax returns of Ray and Doug may also have been made to try to gain leverage in negotiating Don's buyout offer. Nevertheless, this request indicates the intertwining of a partnership and its individual partners.

f. *Two major things learned.* Many students will state the need for a written partnership agreement, but there are other interesting items in the court case. Students are probably not aware of the five-year statute of limitations on claims. The court's decision that Don's relocation to San Francisco in July 1994 was a wrongful dissociation is interesting because, as a result of a car accident, Don was not able to fully participate in the partnership. The issue of when the five-year statute of limitations period began is interesting because this shows the importance of the accountant having an accurate record of a partner's interest in the partnership as of specific, important times in the history of the partnership that may serve as records of evidence in future legal actions. A great class discussion can be generated from this question.

SOLUTIONS TO EXERCISES**E16-1 Multiple-Choice Questions on Partnership Liquidations**

- | | | | | | | |
|----|--|---|-----------------|-----------------|-----------------|------------------|
| 1. | c – | | <u>Joan</u> | <u>Charles</u> | <u>Thomas</u> | <u>Total</u> |
| | Profit ratio | | 40% | 50% | 10% | 100% |
| | Prior capital | | 160,000 | 45,000 | 55,000 | 260,000 |
| | Loss on sale of inventory | | <u>(24,000)</u> | <u>(30,000)</u> | <u>(6,000)</u> | <u>(60,000)</u> |
| | | | <u>136,000</u> | <u>15,000</u> | <u>49,000</u> | <u>200,000</u> |
| 2. | a – | | | | | |
| | Prior capital | | 160,000 | 45,000 | 55,000 | 260,000 |
| | Loss on sale of inventory | | <u>(72,000)</u> | <u>(90,000)</u> | <u>(18,000)</u> | <u>(180,000)</u> |
| | | | 88,000 | (45,000) | 37,000 | 80,000 |
| | Allocate Charles' capital deficit: | | | 45,000 | | |
| | Joan = 0.40/0.50 | | (36,000) | | | |
| | Thomas = 0.10/0.50 | | | | (9,000) | |
| | | | <u>52,000</u> | <u>-0-</u> | <u>28,000</u> | <u>80,000</u> |
| 3. | d – | | | | | |
| | Prior capital | | 160,000 | 45,000 | 55,000 | 260,000 |
| | Loss on sale of inventory | | <u>(24,000)</u> | <u>(30,000)</u> | <u>(6,000)</u> | <u>(60,000)</u> |
| | | | 136,000 | 15,000 | 49,000 | 200,000 |
| | Possible loss of remaining inventory | | <u>(64,000)</u> | <u>(80,000)</u> | <u>(16,000)</u> | <u>(160,000)</u> |
| | | | 72,000 | (65,000) | 33,000 | 40,000 |
| | Allocate Charles' potential capital deficit: | | <u>(52,000)</u> | <u>65,000</u> | <u>(13,000)</u> | |
| | | | <u>20,000</u> | <u>-0-</u> | <u>20,000</u> | <u>40,000</u> |
| 4. | d – | The safe payments computations include consideration of the partners' loss absorption potential and the priority of intervening cash distributions before the last cash distribution. | | | | |
| 5. | c – | The loan payable to Adam has the same legal status as the partnership's other liabilities according to the UPA of 1997, but is likely subordinated to the partnership's outside liabilities. After payment of the accounts payable, the deficit balance in Adam's capital account needs to be remedied either through cash contribution or setoff against the loan. If Adam were to contribute additional cash to eliminate his deficit, answer "a" would be correct. However, since the problem does not mention a cash contribution, setoff is the only remedy for the deficit and answer "c" is the best solution. | | | | |
| 6. | d – | Partnership creditors have first claim to partnership assets | | | | |
| 7. | a – | After the settlement of accounts, partners are required to make additional contributions to the partnership to satisfy partnership obligations. | | | | |

E16-2 Multiple-Choice Questions on Partnership Liquidation [AICPA Adapted]

1. a –	<u>Casey</u>	<u>Dithers</u>	<u>Edwards</u>
Profit and loss ratio	5	3	2
Beginning capital	80,000	90,000	70,000
Actual loss on assets	(15,000)	(9,000)	(6,000)
Potential loss on other assets	<u>(50,000)</u>	<u>(30,000)</u>	<u>(20,000)</u>
Balances	15,000	51,000	44,000
Safe payments	<u>(15,000)</u>	<u>(51,000)</u>	<u>(44,000)</u>

2. b –

3. d –	<u>Art</u>	<u>Blythe</u>	<u>Cooper</u>
Profit and loss ratio	40%	40%	20%
Capital balances	<u>37,000</u>	<u>65,000</u>	<u>48,000</u>
Loss absorption potential	92,500	162,500	240,000
Loss to reduce C to B: (77,500 x 0.20 = 15,500)			<u>(77,500)</u>
Balances	92,500	162,500	162,500
Loss to reduce B & C to A: (B: 70,000 x 0.40 = 28,000) (C: 70,000 x 0.20 = 14,000)		(70,000)	<u>(70,000)</u>
Balances	<u>92,500</u>	<u>92,500</u>	<u>92,500</u>

Cash of \$20,000 after settlement of liabilities: Cooper receives first \$15,500; remaining \$4,500 split 2/3 to Blythe and 1/3 to Cooper.

4. d – Cash of \$17,000: Cooper receives first \$15,500; remaining \$1,500 split 2/3 to Blythe and 1/3 to Cooper.

5. a – If all partners received cash after the second sale, then the remaining \$12,000 is distributed in the loss ratio.

6. a –	<u>Arnie</u>	<u>Bart</u>	<u>Kurt</u>
Profit and loss ratio	40%	30%	30%
Capital balances	40,000	180,000	30,000
Loss of \$100,000	<u>(40,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>
Remaining equities	<u>-0-</u>	<u>150,000</u>	<u>-0-</u>

Arnie will receive nothing; the entire \$150,000 will be paid to Bart.

E16-3 Computing Alternative Cash Distributions to Partners

	Capital Balances		
	Bracken 40%	Louden 30%	Menser 30%
a Capital balances before sale of equipment	25,000	5,000	10,000
Equipment sold for \$30,000;			
allocation of \$10,000 loss	<u>(4,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>
Capital balances after sale	<u>21,000</u>	<u>2,000</u>	<u>7,000</u>
Final distribution of cash	<u>(21,000)</u>	<u>(2,000)</u>	<u>(7,000)</u>
b Capital balances before sale of equipment	25,000	5,000	10,000
Equipment sold for \$21,000;			
allocation of \$19,000 loss	<u>(7,600)</u>	<u>(5,700)</u>	<u>(5,700)</u>
Capital balances after sale	17,400	(700)	4,300
Allocate capital deficit of Loudon:		700	
4/7 x \$700	(400)		
3/7 X \$700			<u>(300)</u>
Capital balances after allocation of Loudon's deficit	<u>17,000</u>	<u>-0-</u>	<u>4,000</u>
Final distribution of cash	<u>(17,000)</u>	<u>-0-</u>	<u>(4,000)</u>
c Capital balances before sale of equipment	25,000	5,000	10,000
Equipment sold for \$7,000;			
allocation of \$33,000 loss	<u>(13,200)</u>	<u>(9,900)</u>	<u>(9,900)</u>
Capital balances after sale	11,800	(4,900)	100
Allocate capital deficit of Loudon:		4,900	
4/7 x \$4,900	(2,800)		
3/7 X \$4,900			<u>(2,100)</u>
Capital balances after allocation of Loudon's deficit	9,000	-0-	(2,000)
Allocate capital deficit of Menser:			2,000
4/4 x \$2,000	<u>(2,000)</u>		
Capital balances after allocation of Menser's deficit	<u>7,000</u>	<u>-0-</u>	<u>-0-</u>
Final distribution of cash	<u>(7,000)</u>	<u>-0-</u>	<u>-0-</u>

E16-4 Lump-Sum Liquidation

a.

BG Land Development Company
Statement of Partnership Realization and Liquidation
Lump-Sum Distribution

					Capital Balances		
	<u>Cash +</u>	<u>Noncash Assets =</u>	<u>Accounts Payable +</u>	<u>Mitchell, Loan +</u>	<u>Matthews 50% +</u>	<u>Mitchell 30% +</u>	<u>Michaels 20%</u>
Balances	20,000	150,000	30,000	10,000	80,000	36,000	14,000
Sale of assets at a \$40,000 loss	<u>110,000</u>	<u>(150,000)</u>			<u>(20,000)</u>	<u>(12,000)</u>	<u>(8,000)</u>
	130,000	-0-	30,000	10,000	60,000	24,000	6,000
Payment to creditors							
Outside Creditors	(30,000)		(30,000)				
Mitchell	<u>(10,000)</u>			<u>(10,000)</u>			
	90,000	-0-	-0-	-0-	60,000	24,000	6,000
Payment to partners	<u>(90,000)</u>				<u>(60,000)</u>	<u>(24,000)</u>	<u>(6,000)</u>
Balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

E16-4 (continued)

b. (1)	Cash	110,000	
	Matthews, Capital	20,000	
	Mitchell, Capital	12,000	
	Michaels, Capital	8,000	
	Noncash Assets		150,000
	Sell noncash assets at a loss of \$40,000.		
(2)	Accounts Payable	30,000	
	Mitchell, Loan	10,000	
	Cash		40,000
	Pay creditors, including Mitchell.		
(3)	Matthews, Capital	60,000	
	Mitchell, Capital	24,000	
	Michaels, Capital	6,000	
	Cash		90,000
	Final lump-sum distribution to partners.		

E16-5 Schedule of Safe Payments**Based on strict observance of UPA 1997**

Kitchens Just For You
Schedule of Safe Payments to Partners

	Terry (30%)	Phyllis (50%)	Connie (20%)
Capital balances, September 1, 20X9	12,000	36,000	54,000
Write-off of \$28,000 in goodwill	(8,400)	(14,000)	(5,600)
Write-off of \$12,000 of receivables	(3,600)	(6,000)	(2,400)
Loss of \$4,000 on sale of \$24,000 of inventory (one-half of \$48,000 book value)	(1,200)	(2,000)	(800)
Capital balances, September 30, 20X9 (* = deficit)	(1,200)*	14,000	45,200
Possible loss of \$19,000 for remaining receivables (including \$9,000 receivable from Terry) and \$24,000 for remaining inventory	(12,900)	(21,500)	(8,600)
Possible liquidation costs of \$6,000	(1,800)	(3,000)	(1,200)
Balances (* = potential deficit)	(15,900)*	(10,500)*	35,400
Distribute Terry's and Phyllis' potential deficits to Connie, the only partner with a capital credit	15,900	10,500	(26,400)
Safe payments to partners, September 30, 20X9	<u>-0-</u>	<u>-0-</u>	<u>9,000</u>

Of the \$73,000 in cash at the end of September, \$58,000 will be required to liquidate the debts to creditors, including the \$15,000 to Connie, and \$6,000 must be held in reserve to pay possible liquidation costs. Thus, a total of \$9,000 in cash can be safely distributed to Connie as of September 30, 20X9. An interesting observation is that the newest partner, Connie, will receive the most cash in the partnership liquidation because of the recognition of so much goodwill at the time of her admission and because of her loan to the partnership.

E16-5 (continued)**Based on practical approach:**

Kitchens Just For You
Schedule of Safe Payments to Partners

	Terry (30%)	Phyllis (50%)	Connie (20%)
Capital balances, September 1, 20X9	12,000	36,000	54,000
Loans to (from) partner	<u>(9,000)</u>	<u> </u>	<u>15,000</u>
Total	3,000	36,000	69,000
Write-off of \$28,000 in goodwill	(8,400)	(14,000)	(5,600)
Write-off of \$12,000 of receivables	(3,600)	(6,000)	(2,400)
Loss of \$4,000 on sale of \$24,000 of inventory (one-half of \$48,000 book value)	<u>(1,200)</u>	<u>(2,000)</u>	<u>(800)</u>
Capital balances, September 30, 20X9 (* = deficit)	(10,200)*	14,000	60,200
Possible loss of \$19,000 for remaining receivables (including \$9,000 receivable from Terry) and \$24,000 for remaining inventory	(12,900)	(21,500)	(8,600)
Possible liquidation costs of \$6,000	<u>(1,800)</u>	<u>(3,000)</u>	<u>(1,200)</u>
Balances (* = potential deficit)	(24,900)*	(10,500)*	50,400
Distribute Terry's and Phyllis' potential deficits to Connie, the only partner with a capital credit	<u>24,900</u>	<u>10,500</u>	<u>(35,400)</u>
Safe payments to partners, September 30, 20X9	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>15,000</u></u>

Of the \$73,000 in cash at the end of September, \$58,000 will be required to liquidate the debts to creditors. Thus, a total of \$15,000 in cash can be safely distributed to Connie as of September 30, 20X9. An interesting observation is that the newest partner, Connie, will receive the most cash in the partnership liquidation because of the recognition of so much goodwill at the time of her admission and because of her loan to the partnership.

E16-6 Schedule of Safe Payments to Partners

Maness and Joiner Partnership
Combined Statement of Realization and Schedule of Safe Payments

	<u>Cash +</u>	<u>Inventory=</u>	<u>Accounts Payable+</u>	<u>Capital</u> <u>Maness 80% +</u>	<u>Joiner 20%</u>
Balances	25,000	120,000	15,000	65,000	65,000
Sale of inventory	40,000	(60,000)		(16,000)	(4,000)
Payment to creditors	<u>(10,000)</u>		<u>(10,000)</u>		
	55,000	60,000	5,000	49,000	61,000
Payments to partners (Schedule 1)	<u>(50,000)</u>			<u>(1,000)</u>	<u>(49,000)</u>
	5,000	60,000	5,000	48,000	12,000
Sale of inventory	30,000	(60,000)		(24,000)	(6,000)
Payment to creditors	<u>(5,000)</u>		<u>(5,000)</u>		
	30,000	-0-	-0-	24,000	6,000
Payments to partners	<u>(30,000)</u>			<u>(24,000)</u>	<u>(6,000)</u>
Balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

Schedule 1 Safe payments at end of first month:

	<u>Maness 80%</u>	<u>Joiner 20%</u>
Capital balances	49,000	61,000
Potential loss of \$60,000 on remaining inventory	<u>(48,000)</u>	<u>(12,000)</u>
Safe payments to partners	<u>1,000</u>	<u>49,000</u>

Note that the \$5,000 cash remaining after safe payments at the end of the first month is the amount required to liquidate the remaining accounts payable. Using just the partners' capital balances to compute safe payments indirectly includes both the assets and the liabilities of the partnership.

E16-7 Alternative Profit and Loss Sharing Ratios in a Partnership Liquidation

	Nelson	Osman	Peters	Quincy
Capital balances at beginning of liquidation	<u>15,000</u>	<u>75,000</u>	<u>75,000</u>	<u>30,000</u>
a. Partnership ratio of 3:3:2:2 equals percentages of:	30%	30%	20%	20%
Allocation of \$90,000 loss on sale of noncash assets	<u>(27,000)</u>	<u>(27,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>
Capital balances after allocation of loss	(12,000)	48,000	57,000	12,000
Distribution of deficit of insolvent partner:	12,000			
Osman: $30/70 \times \$12,000$		(5,143)		
Peters: $20/70 \times \$12,000$			(3,428)	
Quincy: $20/70 \times \$12,000$				(3,429)
Capital balances after distribution of Nelson deficit	-0-	42,857	53,572	8,571
Payment to partners	<u>-0-</u>	<u>(42,857)</u>	<u>(53,572)</u>	<u>(8,571)</u>
b. Partnership ratio of 3:1:3:3 equals percentages of:	30%	10%	30%	30%
Allocation of \$90,000 loss on sale of noncash assets	<u>(27,000)</u>	<u>(9,000)</u>	<u>(27,000)</u>	<u>(27,000)</u>
Capital balances after allocation of loss	(12,000)	66,000	48,000	3,000
Distribution of deficit of insolvent partner:	12,000			
Osman: $10/70 \times \$12,000$		(1,714)		
Peters: $30/70 \times \$12,000$			(5,143)	
Quincy: $30/70 \times \$12,000$				(5,143)
Capital balances after distribution of Nelson deficit	-0-	64,286	42,857	(2,143)
Distribution of deficit of insolvent partner:				(2,143)
Osman: $10/40 \times \$2,143$		(536)		
Peters: $30/40 \times \$2,143$			(1,607)	
Capital balances after distribution of Quincy deficit	-0-	63,750	41,250	-0-
Payment to partners	<u>-0-</u>	<u>(63,750)</u>	<u>(41,250)</u>	<u>-0-</u>
c. Partnership ratio of 3:1:2:4 equals percentages of:	30%	10%	20%	40%
Allocation of \$90,000 loss on sale of noncash assets	<u>(27,000)</u>	<u>(9,000)</u>	<u>(18,000)</u>	<u>(36,000)</u>
Capital balances after allocation of loss	(12,000)	66,000	57,000	(6,000)
Distribution of deficits of two insolvent partners:	12,000			6,000
Osman: $10/30 \times \$18,000$		(6,000)		
Peters: $20/30 \times \$18,000$			(12,000)	
Capital balances after distribution of capital deficits	-0-	60,000	45,000	-0-
Payment to partners	<u>-0-</u>	<u>(60,000)</u>	<u>(45,000)</u>	<u>-0-</u>

In case c. both Nelson and Quincy are personally insolvent so their capital deficits resulting from the allocation of the loss can be added together and distributed to the two solvent partners. However, if Quincy had been personally solvent, then he would be required to remedy any capital deficit, including one that was distributed to him because of the insolvency of another partner, as from the distribution of Nelson's capital deficit in case b.

E16-8 Cash Distribution Plan

Based on strict observance of UPA 1997:

APB Partnership Cash Distribution Plan						
	<u>Loss Absorption Potential</u>			<u>Capital Accounts</u>		
	<u>Adams</u>	<u>Peters</u>	<u>Blake</u>	<u>Adams</u>	<u>Peters</u>	<u>Blake</u>
Profit and loss percentages				20%	30%	50%
Preliquidation capital balances				55,000	75,000	70,000
Loss absorption potential (Capital balances / Loss percentage)	275,000	250,000	140,000			
Decrease highest LAP to next highest: Adams (\$25,000 x 0.20)	<u>(25,000)</u>			<u>(5,000)</u>		
	250,000	250,000	140,000	50,000	75,000	70,000
Decrease LAPs to next highest: Adams (\$110,000 x 0.20)	(110,000)			(22,000)		
Peters (\$110,000 x 0.30)		(110,000)			(33,000)	
	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>28,000</u>	<u>42,000</u>	<u>70,000</u>

Summary of Cash Distribution Plan

	<u>Adams</u>	<u>Peters</u>	<u>Blake</u>
First \$50,000 to creditors			
Next \$5,000	100%		
Next \$55,000	40%	60%	
Any additional	20%	30%	50%

Note that the receivable from Adams is not included in the Cash Distribution Plan. The UPA 1997 does not include any offsets of receivables from partners against capital accounts. Thus, the partnership should treat the receivable from Adams as any other partnership asset.

If the partnership were to prepare a schedule of safe payments, it would include a provision for a possible loss on any unpaid loan receivables with partners just as with other unrealized partnership assets.

E16-8 (continued):**Based on practical approach:**

APB Partnership Cash Distribution Plan						
	Loss Absorption Potential			Capital Accounts		
	Adams	Peters	Blake	Adams	Peters	Blake
Profit and loss percentages				20%	30%	50%
Preliquidation capital balances				55,000	75,000	70,000
Loan to Adams				(10,000)		
Total				45,000	75,000	70,000
Loss absorption potential (Capital balances / Loss percentage)	225,000	250,000	140,000			
Decrease highest LAP to next highest: Adams (\$25,000 x 0.20)	<u>225,000</u>	<u>(25,000)</u> 225,000	<u>140,000</u>	<u>45,000</u>	<u>(7,500)</u> 67,500	<u>70,000</u>
Decrease LAPs to next highest: Adams (\$110,000 x 0.20)	(85,000)			(17,000)		
Peters (\$110,000 x 0.30)		<u>(85,000)</u> 140,000	<u>140,000</u>	<u>28,000</u>	<u>(25,500)</u> 42,000	<u>70,000</u>

Summary of Cash Distribution Plan

	Adams	Peters	Blake
First \$50,000 to creditors			
Next \$7,500		100%	
Next \$42,500	40%	60%	
Any additional	20%	30%	50%

16-9 Confirmation of Cash Distribution Plan**Based on strict observance of UPA 1997:**

APB Partnership Statement of Partnership Realization and Liquidation <u>Installment Liquidation</u>							
	<u>Cash+</u>	<u>Adams, Loan +</u>	<u>Noncash Assets =</u>	<u>Liabilities+</u>	<u>Adams, 20% +</u>	<u>Capital Peters, 30% +</u>	<u>Blake, 50%</u>
Balances	40,000	10,000	200,000	50,000	55,000	75,000	70,000
Sale of assets	65,000		(85,000)		(4,000)	(6,000)	(10,000)
Payment to creditors	<u>(21,000)</u>			<u>(21,000)</u>			
	84,000	10,000	115,000	29,000	51,000	69,000	60,000
Payment to partners (Sch. 1)	<u>(55,000)</u>				<u>(25,000)</u>	<u>(30,000)</u>	<u>-0-</u>
	29,000	10,000	115,000	29,000	26,000	39,000	60,000
Sale of assets	79,000		(115,000)		(7,200)	(10,800)	(18,000)
Collection of Adams' loan	10,000	(10,000)					
Payment to creditors	<u>(29,000)</u>			<u>(29,000)</u>			
	89,000	-0-	-0-	-0-	18,800	28,200	42,000
Payment to partners	<u>(89,000)</u>				<u>(18,800)</u>	<u>(28,200)</u>	<u>(42,000)</u>
Balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

E16-9 (continued)

Schedule 1:

APB Partnership
Schedule of Safe Payments to Partners

	Adams 20%	Peters 30%	Blake 50%
Capital balances, end of first month	51,000	69,000	60,000
Possible loss of \$125,000 on noncash assets (\$10,000 loan and \$115,000 other)	<u>(25,000)</u> 26,000	<u>(37,500)</u> 31,500	<u>(62,500)</u> (2,500)
Allocate Blake's potential deficit:			2,500
20/50 x \$2,500	(1,000)		
30/50 x \$2,500		<u>(1,500)</u>	
Safe payment to partners	<u><u>(25,000)</u></u>	<u><u>(30,000)</u></u>	<u><u>-0-</u></u>

E16-9 (continued)**Based on practical approach:**

APB Partnership Statement of Partnership Realization and Liquidation <u>Installment Liquidation</u>							
	<u>Cash +</u>	<u>Adams, Loan +</u>	<u>Noncash Assets=</u>	<u>Liabilities+</u>	<u>Adams, 20% +</u>	<u>Capital Peters, 30% +</u>	<u>Blake, 50%</u>
Balances	40,000	10,000	200,000	50,000	55,000	75,000	70,000
Adam's loan write-off		(10,000)			(10,000)		
Sale of assets	65,000		(85,000)		(4,000)	(6,000)	(10,000)
Payment to creditors	(21,000)			(21,000)			
	<u>84,000</u>	<u>-0-</u>	<u>115,000</u>	<u>29,000</u>	<u>41,000</u>	<u>69,000</u>	<u>60,000</u>
Payment to partners (Sch. 1)	(55,000)				18,000	34,500	2,500
	<u>29,000</u>	<u>-0-</u>	<u>115,000</u>	<u>29,000</u>	<u>23,000</u>	<u>34,500</u>	<u>57,500</u>
Sale of assets	79,000		(115,000)		(7,200)	(10,800)	(18,000)
Payment to creditors	(29,000)			(29,000)			
	<u>79,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>15,800</u>	<u>23,700</u>	<u>39,500</u>
Payment to partners	(79,000)				(15,800)	(23,700)	(39,500)
Balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

E16-9 (continued)

Schedule 1:

APB Partnership
Schedule of Safe Payments to Partners

	Adams <u>20%</u>	Peters <u>30%</u>	Blake <u>50%</u>
Capital balances, end of first month	41,000	69,000	60,000
Possible loss of \$115,000 on assets	<u>(23,000)</u>	<u>(34,500)</u>	<u>(57,500)</u>
	18,000	34,500	2,500
Safe payment to partners	<u><u>(18,000)</u></u>	<u><u>(34,500)</u></u>	<u><u>(2,500)</u></u>

E16-10* Incorporation of a Partnershipa. Partnership's Books

(1)	Alice, Capital (\$11,200 x 0.60)	6,720	
	Betty, Capital (\$11,200 x 0.40)	4,480	
	Accounts Receivable		800
	Inventory		3,200
	Equipment		7,200

To record revaluation of assets.

(2)	Investment in A & B Corporation Stock	85,200	
	Accounts Payable	17,200	
	Cash		8,000
	Accounts Receivable		21,600
	Inventory		32,800
	Equipment		40,000

To record transfer of net assets to A & B corporation.

(3)	Alice, Capital (\$62,400 - \$6,720)	55,680	
	Betty, Capital (\$34,000 - \$4,480)	29,520	
	Investment in A & B Corporation Stock		85,200

To record distribution of stock to prior partners.

b. A & B Corporation's Books

	Cash	8,000	
	Accounts Receivable	21,600	
	Inventory	32,800	
	Equipment	40,000	
	Accounts Payable		17,200
	Common Stock		71,000
	Additional Paid-In Capital		14,200

To record receipt of net assets from partnership.

1. b

3. a – 10,000 shares x (\$25 - \$10) = \$150,000 options fair value
x 0.65 net-of-tax rate
\$ 97,500 value, net-of-tax
+400,000 pre-option net worth
\$497,500 net worth

5. a

7. b

8. c

9. **d** – $95,500 + 3,400 = 98,900$

10. b

11. **d** – $125,000 - 50,000 = 75,000$

E16-12A Personal Financial Statements

Leonard and Michelle
Statement of Changes in Net Worth
For the Year Ended August 31, 20X3

Realized increases in net worth:		
Salaries	\$ 44,300	
Farm income	6,700	
Dividends and interest income	<u>1,400</u>	
	<u>\$ 52,400</u>	
Realized decreases in net worth:		
Income taxes	\$ 11,400	
Personal expenditures	43,500	
Loss on sale of marketable securities	300	(1)
Interest expense	<u>4,600</u>	(2)
	<u>\$(59,800)</u>	
Net realized decrease in net worth	<u>\$ (7,400)</u>	
Unrealized increases in net worth:		
Residence	\$ 7,300	
Investment in Farm	<u>9,300</u>	(3)
	<u>\$ 16,600</u>	
Unrealized decreases in net worth:		
Marketable securities	\$ 400	(1)
Increase in estimated income taxes on the difference between the estimated current values of assets and liabilities and their tax bases	<u>3,200</u>	
	<u>\$ 3,600</u>	
Net unrealized increase in net worth	<u>\$ 13,000</u>	
Net increase in net worth:		
Realized and unrealized changes in net worth	\$ 5,600	
Net worth at beginning of period	<u>60,800</u>	
Net worth at end of period	<u>\$ 66,400</u>	
(1) Realized loss: \$11,000 - \$10,700 = \$300		
Unrealized loss on remaining securities:		
(\$16,300 - \$11,000) - \$4,900 = \$400		
(2) Mortgage payable: \$76,000 - \$71,000 = \$5,000 principal payment		
\$9,000 paid - \$5,000 = \$4,000 interest payment		
Life insurance loan: \$4,000 x 0.15 = \$600 interest payment		
(3) Unrealized holding gain on farm land	\$9,900	
Unrealized holding loss on net farm equipment		
(\$22,400 - \$9,000) - \$14,000	<u>(600)</u>	
	<u>\$9,300</u>	

SOLUTIONS TO PROBLEMS**P16-13 Lump-Sum Liquidation**

a.

CDG Partnership
Statement of Realization and Liquidation
Lump-sum Liquidation on December 10, 20X6

				Capital Balances		
	Cash +	Noncash Assets =	Liabilities+	Carlos 20% +	Dan 40% +	Gail 40%
Preliquidation balances	25,000	475,000	270,000	120,000	50,000	60,000
Sale of assets and distribution of \$215,000 loss	<u>260,000</u>	<u>(475,000)</u>		<u>(43,000)</u>	<u>(86,000)</u>	<u>(86,000)</u>
	285,000	-0-	270,000	77,000	(36,000)	(26,000)
Cash contributed by Gail to extent of positive net worth	<u>25,000</u>					<u>25,000</u>
	310,000	-0-	270,000	77,000	(36,000)	(1,000)
Distribution of deficit of insolvent partner:						1,000
20/60(\$1,000)				(333)		
40/60(\$1,000)					(667)	
	<u>310,000</u>	<u>-0-</u>	<u>270,000</u>	<u>76,667</u>	<u>(36,667)</u>	<u>-0-</u>
Contribution by Dan to remedy deficit	<u>36,667</u>				<u>36,667</u>	
	346,667	-0-	270,000	76,667	-0-	-0-
Payment to creditors	<u>(270,000)</u>		<u>(270,000)</u>			
	76,667	-0-	-0-	76,667	-0-	-0-
Payment to partner	<u>(76,667)</u>			<u>(76,667)</u>		
Postliquidation balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

P16-13 (continued)

b.

CDG Partnership Net Worth of Partners December 10, 20X6			
	<u>Carlos</u>	<u>Dan</u>	<u>Gail</u>
Personal assets, excluding partnership capital interests	250,000	300,000	350,000
Personal liabilities	<u>(230,000)</u>	<u>(240,000)</u>	<u>(325,000)</u>
Personal net worth, excluding partnership capital interests, Dec. 1, 20X6	20,000	60,000	25,000
Contribution to partnership		(36,667)	(25,000)
Liquidating distribution from partnership	<u>76,667</u>	<u>-0-</u>	<u>-0-</u>
Net worth, December 10, 20X6	<u><u>96,667</u></u>	<u><u>23,333</u></u>	<u><u>-0-</u></u>

This computation assumes that no other events occurred in the 10-day period that changed any of the partners' personal assets and personal liabilities. In practice, the accountant must be sure that a computation of net worth is current and timely.

The table shows the effects of the transactions between the partnership and each partner. A presumption of this table is that the personal creditors of Dan or Gail would not seek court action to block the settlement transactions with the partnership. Upon winding up and liquidation, the partnership does not have any priority to the partner's personal assets. Thus, the personal creditors may seek to block the transactions with the partnership in order to provide more resources from which they can be paid. A partner who fails to remedy his or her deficit can be sued by the other partners who had to make additional contributions or even by a partnership creditor if the failed partner is liable to the partnership creditor. But those claims are not superior to the other claims to the partner's individual assets.

When accountants provide professional services to partnerships and to its partners, the accountant should expect, at some time, legal suits involving the partnership and/or individual partners. A strong and thorough understanding of the legal and accounting foundations of partnerships will be very important to that accountant.

P16-14 Installment Liquidation [AICPA Adapted]

ABC Partnership
Statement of Partnership Realization and Liquidation
For the period from January 1, 20X1, through March 31, 20X1

				Capital Balances		
	Cash +	Other Assets =	Accounts Payable +	Art 50% +	Bru 30% +	Chou 20%
Balances before liquidation, January 1, 20X1	18,000	307,000	53,000	88,000	110,000	74,000
January transactions:						
1. Collection of accounts receivable at a loss of \$15,000	51,000	(66,000)		(7,500)	(4,500)	(3,000)
2. Sale of inventory at a loss of \$14,000	38,000	(52,000)		(7,000)	(4,200)	(2,800)
3. Liquidation expenses paid	(2,000)			(1,000)	(600)	(400)
4. Share of credit memorandum			(3,000)	1,500	900	600
5. Payments to creditors	(50,000)		(50,000)			
	55,000	189,000	-0-	74,000	101,600	68,400
Safe payments to partners (Schedule 1)	(45,000)				(26,600)	(18,400)
	10,000	189,000	-0-	74,000	75,000	50,000
February transactions:						
6. Liquidation expenses paid	(4,000)			(2,000)	(1,200)	(800)
	6,000	189,000	-0-	72,000	73,800	49,200
Safe payments to partners (Schedule 2)	-0-			-0-	-0-	-0-
	6,000	189,000	-0-	72,000	73,800	49,200
March transactions:						
8. Sale of M&Eq. at a loss of \$43,000	146,000	(189,000)		(21,500)	(12,900)	(8,600)
9. Liquidation expenses paid	(5,000)			(2,500)	(1,500)	(1,000)
	147,000	-0-	-0-	48,000	59,400	39,600
10. Payments to partners	(147,000)			(48,000)	(59,400)	(39,600)
Balances at end of liquidation, March 31, 20X1	-0-	-0-	-0-	-0-	-0-	-0-

P16-14 (continued)

ABC Partnership
Schedules of Safe Payments to Partners

	Art <u>50%</u>	Bru <u>30%</u>	Chou <u>20%</u>
<u>Schedule 1: January 31, 20X1</u>			
Capital balances	74,000	101,600	68,400
Possible loss:			
Other assets (\$189,000) and possible liquidation costs (\$10,000)	<u>(99,500)</u> (25,500)	<u>(59,700)</u> 41,900	<u>(39,800)</u> 28,600
Absorption of Art's potential deficit balance	25,500		
Bru: $(\$25,500 \times 3/5 = \$15,300)$		(15,300)	
Chou: $(\$25,500 \times 2/5 = \$10,200)$			<u>(10,200)</u>
Safe payment, January 31, 20X1	<u><u>-0-</u></u>	<u><u>26,600</u></u>	<u><u>18,400</u></u>
 <u>Schedule 2: February 27, 20X1</u>			
Capital balances	72,000	73,800	49,200
Possible loss:			
Other assets (\$189,000) and possible liquidation costs (\$6,000)	<u>(97,500)</u> (25,500)	<u>(58,500)</u> 15,300	<u>(39,000)</u> 10,200
Absorption of Art's potential deficit balance:	25,500		
Bru: $(\$25,500 \times 3/5 = \$15,300)$		(15,300)	
Chou: $(\$25,500 \times 2/5 = \$10,200)$			<u>(10,200)</u>
Safe payment, February 27, 20X1	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>

Note that the computation of safe payments on February 27, 20X1, resulted in no payments to partners. This is due to the large book value of Other Assets still unrealized and the reservation of the \$6,000 cash on hand for possible future liquidation expenses.

P16-15 Cash Distribution Plan

PET Partnership
Cash Distribution Plan
June 30, 20X1

	<u>Loss Absorption Potential</u>			<u>Capital Accounts</u>		
	<u>Pen</u>	<u>Evan</u>	<u>Torves</u>	<u>Pen</u>	<u>Evan</u>	<u>Torves</u>
Profit and loss percentages			-	50%	30%	20%
Preliquidation capital balances				55,000	45,000	24,000
Loss absorption potential (Capital balances / Loss percent)	110,000	150,000	120,000			
Decrease highest LAP to next highest: Evan (\$30,000 x 0.30)		<u>(30,000)</u>			<u>(9,000)</u>	
	110,000	120,000	120,000	55,000	36,000	24,000
Decrease LAPs to next highest: Evan (\$10,000 x 0.30)		(10,000)			(3,000)	
Torves (\$10,000 x 0.20)			<u>(10,000)</u>			<u>(2,000)</u>
	<u>110,000</u>	<u>110,000</u>	<u>110,000</u>	<u>55,000</u>	<u>33,000</u>	<u>22,000</u>

Summary of Cash Distribution
(If Offer of \$100,000 is Accepted)

		<u>Accounts Payable</u>	<u>Pen 50%</u>	<u>Evan 30%</u>	<u>Torves 20%</u>
Cash available	\$106,000				
First	(17,000)	\$17,000			
Next	(9,000)			\$ 9,000	
Next	(5,000)			3,000	\$ 2,000
Additional paid in P&L ratio	<u>(75,000)</u>		<u>\$37,500</u>	<u>22,500</u>	<u>15,000</u>
	<u>\$ -0-</u>	<u>\$17,000</u>	<u>\$37,500</u>	<u>\$34,500</u>	<u>\$17,000</u>

P16-16 Installment Liquidation

PET Partnership						
Statement of Partnership Liquidation and Realization						
From July 1, 20X1, through September 30, 20X1						
				Capital		
	Cash +	Noncash Assets =	Accounts Payable +	Pen 50% +	Evan 30% +	Torves 20%
Preliquidation balances	<u>6,000</u>	<u>135,000</u>	<u>17,000</u>	<u>55,000</u>	<u>45,000</u>	<u>24,000</u>
July:						
Assets Realized	26,500	(36,000)		(4,750)	(2,850)	(1,900)
Paid liquidation costs	(1,000)			(500)	(300)	(200)
Paid creditors	<u>(17,000)</u>		<u>(17,000)</u>			
	14,500	<u>99,000</u>	-0-	<u>49,750</u>	<u>41,850</u>	<u>21,900</u>
Safe Payments (Sch. 1)	<u>(6,500)</u>				<u>(6,500)</u>	
	8,000	<u>99,000</u>	-0-	<u>49,750</u>	<u>35,350</u>	<u>21,900</u>
August:						
Equipment withdrawn (allocate \$6,000 gain)		(4,000)		3,000	1,800	(8,800)
Paid liquidation costs	<u>(1,500)</u>			<u>(750)</u>	<u>(450)</u>	<u>(300)</u>
	6,500	<u>95,000</u>	-0-	<u>52,000</u>	<u>36,700</u>	<u>12,800</u>
Safe Payments (Sch. 2)	<u>(4,000)</u>				<u>(4,000)</u>	
	2,500	<u>95,000</u>	-0-	<u>52,000</u>	<u>32,700</u>	<u>12,800</u>
September:						
Assets Realized	75,000	(95,000)		(10,000)	(6,000)	(4,000)
Paid liquidation costs	<u>(1,000)</u>			<u>(500)</u>	<u>(300)</u>	<u>(200)</u>
	76,500	-0-	-0-	<u>41,500</u>	<u>26,400</u>	<u>8,600</u>
Payments to partners	<u>(76,500)</u>			<u>(41,500)</u>	<u>(26,400)</u>	<u>(8,600)</u>
Postliquidation balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

P16-16 (continued)

PET Partnership
Schedules of Safe Payments to Partners

<u>Schedule 1: July 31, 20X1</u>	<u>Pen 50%</u>	<u>Evan 30%</u>	<u>Torves 20%</u>
Capital balances	49,750	41,850	21,900
Possible loss on noncash assets (\$99,000)	(49,500)	(29,700)	(19,800)
Cash retained (\$8,000)	<u>(4,000)</u>	<u>(2,400)</u>	<u>(1,600)</u>
	(3,750)	9,750	500
Absorption of Pen's potential deficit	3,750		
Evan: \$3,750 x 0.30/0.50		(2,250)	
Torves: \$3,750 x 0.20/0.50			(1,500)
	<u>-0-</u>	<u>7,500</u>	<u>(1,000)</u>
Absorption of Torves' potential deficit			1,000
Evan: \$1,000 x 0.30/0.30		<u>(1,000)</u>	
Safe payment	<u><u>-0-</u></u>	<u><u>6,500</u></u>	<u><u>-0-</u></u>

Schedule 2: August 31, 20X1

Capital balances	52,000	36,700	12,800
Possible loss on noncash assets (\$95,000)	(47,500)	(28,500)	(19,000)
Cash retained (\$2,500)	<u>(1,250)</u>	<u>(750)</u>	<u>(500)</u>
	3,250	7,450	(6,700)
Absorption of Torves' potential deficit			6,700
Pen: \$6,700 x 0.50/0.80	(4,188)		
Evan: \$6,700 x 0.30/0.80		<u>(2,512)</u>	
	<u>(938)</u>	<u>4,938</u>	<u>-0-</u>
Absorption of Pen's potential deficit	938		
Evan: \$938 x 0.30/0.30		<u>(938)</u>	
Safe payment	<u><u>-0-</u></u>	<u><u>4,000</u></u>	<u><u>-0-</u></u>

P16-17 Installment Liquidation

DSV Partnership
Statement of Partnership Realization and Liquidation — Installment Liquidation
From July 1, 20X5, through September 30, 20X5

	Cash +	Noncash Assets=	Liabilities+	Capital Balances		
				D 50% +	S 30% +	V 20%
Preliquidation balances, June 30	50,000	670,000	405,000	100,000	140,000	75,000
July, 20X5: Sale of assets and distribution of \$120,000 loss	390,000	(510,000)		(60,000)	(36,000)	(24,000)
	440,000	160,000	405,000	40,000	104,000	51,000
Liquidation expenses	(2,500)			(1,250)	(750)	(500)
	437,500	160,000	405,000	38,750	103,250	50,500
Payment to creditors	(405,000)		(405,000)			
	32,500	160,000	-0-	38,750	103,250	50,500
Safe payments to partners (Sch. 1)	(22,500)				(22,500)	
	10,000	160,000	-0-	38,750	80,750	50,500
August, 20X5: Sale of assets and distribution of \$13,000 loss	22,000	(35,000)		(6,500)	(3,900)	(2,600)
	32,000	125,000	-0-	32,250	76,850	47,900
Liquidation expenses	(2,500)			(1,250)	(750)	(500)
	29,500	125,000	-0-	31,000	76,100	47,400
Safe payments to partners (Sch. 2)	(19,500)				(13,700)	(5,800)
	10,000	125,000	-0-	31,000	62,400	41,600
September, 20X5: Sale of assets and distribution of \$70,000 loss	55,000	(125,000)		(35,000)	(21,000)	(14,000)
	65,000	-0-	-0-	(4,000)	41,400	27,600
Allocate D's deficit to S and V				4,000	(2,400)	(1,600)
	65,000	-0-	-0-	-0-	39,000	26,000
Liquidation expenses	(2,500)				(1,500)	(1,000)
	62,500	-0-	-0-	-0-	37,500	25,000
Payments to partners	(62,500)			-0-	(37,500)	(25,000)
Postliquidation balances	-0-	-0-	-0-	-0-	-0-	-0-

P16-17 (continued)

DSV Partnership
Schedule of Safe Payments to Partners

	D <u>50%</u>	S <u>30%</u>	V <u>20%</u>
<u>Schedule 1, July 31, 20X5:</u>			
Capital balances, July 31, Before cash distribution	38,750	103,250	50,500
Assume full loss of \$160,000 on remaining noncash assets and \$10,000 in possible future liquidation expenses	<u>(85,000)</u> (46,250)	<u>(51,000)</u> 52,250	<u>(34,000)</u> 16,500
Assume D's potential deficit must be absorbed by S and V: 30/50 x \$46,250 20/50 x \$46,250	46,250 <u>-0-</u>	 (27,750) <u>24,500</u>	 <u>(18,500)</u> (2,000)
Assume V's potential deficit must be absorbed by S completely	<u>-0-</u>	<u>(2,000)</u>	<u>2,000</u>
Safe payments to partners on July 31, 20X5	<u><u>-0-</u></u>	<u><u>22,500</u></u>	<u><u>-0-</u></u>

Schedule 2, August 31, 20X5:

Capital balances, August 31, before cash distribution	31,000	76,100	47,400
Assume full loss of \$125,000 on remaining noncash assets and \$10,000 in possible liquidation expenses	<u>(67,500)</u> (36,500)	<u>(40,500)</u> 35,600	<u>(27,000)</u> 20,400
Assume D's potential deficit must be absorbed by S and V: 30/50 x \$36,500 20/50 x \$36,500	36,500 <u>-0-</u>	 (21,900) <u>13,700</u>	 <u>(14,600)</u> <u>5,800</u>
Safe payments to partners	<u><u>-0-</u></u>	<u><u>13,700</u></u>	<u><u>5,800</u></u>

P16-18 Cash Distribution Plan

a.

DSV Partnership Cash Distribution Plan June 30, 20X5						
	Loss Absorption Potential			Capital Accounts		
	D	S	V	D	S	V
Profit and loss sharing ratio				50%	30%	20%
Preliquidation capital balances				100,000	140,000	75,000
Loss absorption potential (LAP) capital accounts / loss sharing percentage	200,000	466,667	375,000			
Decrease highest LAP to next highest LAP:						
Decrease S by \$91,667		(91,667)				
(Cash distribution: \$91,667 x 0.30)					(27,500)	
	<u>200,000</u>	<u>375,000</u>	<u>375,000</u>	<u>100,000</u>	<u>112,500</u>	<u>75,000</u>
Decrease LAP to next highest level:						
Decrease S by \$175,000		(175,000)				
(Cash distribution: \$175,000 x 0.30)					(52,500)	
Decrease V by \$175,000			(175,000)			
(Cash distribution: \$175,000 x 0.20)						(35,000)
	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>100,000</u>	<u>60,000</u>	<u>40,000</u>
Decrease LAPs by distributing cash in the P/L sharing ratio	50%	30%	20%			

P16-18 (continued)

Summary of Cash Distribution Plan (Estimated on June 30, 20X5)					
	<u>Creditors</u>	<u>Liquidation Expenses</u>	<u>D</u>	<u>S</u>	<u>V</u>
1. First \$405,000	100%				
2. Next \$10,000		100%			
3. Next \$27,500				100%	
4. Next \$87,500				60%	40%
5. Any additional distributions in the partners' profit and loss ratio			50%	30%	20%

b. Confirmation of cash distribution plan

DSV Partnership Capital Account Balances June 30, 20X5, through September 30, 20X5			
	<u>D</u>	<u>S</u>	<u>V</u>
Profit and loss ratio	50%	30%	20%
Preliquidation balances, June 30	100,000	140,000	75,000
July loss of \$120,000 on disposal of assets and \$2,500 paid in liquidation costs	(61,250)	(36,750)	(24,500)
	38,750	103,250	50,500
July 31 distribution of \$22,500 of available cash to partners (Sch. 1)			
First \$22,500 of \$27,500 layer: 100% to S		(22,500)	
	38,750	80,750	50,500
August loss of \$13,000 on disposal of assets and \$2,500 paid in liquidation costs	(7,750)	(4,650)	(3,100)
	31,000	76,100	47,400
August 31 distribution of \$19,500 of available cash to partners (Sch. 2)			
Remaining \$5,000 of \$27,500 layer of which \$22,500 paid on July 31: 100% to S		(5,000)	
Next \$14,500 of \$87,500 layer: 60% to S		(8,700)	
40% to V			(5,800)
	31,000	62,400	41,600
September loss of \$70,000 on disposal of assets and \$2,500 paid in liquidation costs	(36,250)	(21,750)	(14,500)
	(5,250)	40,650	27,100
Distribution of D's deficit	5,250	(3,150)	(2,100)
	-0-	37,500	25,000
September 30 distribution of \$62,500 of available cash to partners (Sch. 3)			
Next \$62,500 of \$87,500 layer of which \$14,500 paid on August 31: 60% to S		(37,500)	
40% to V			(25,000)
Postliquidation balances	-0-	-0-	-0-

P16-18 (continued)

Schedule 1, July 31, 20X5: Computation of \$22,500 of cash available to be distributed to partners on July 31, 20X5:

Cash balance, July 1, 20X5	\$ 50,000
Cash from sale of noncash assets	390,000
Less: Payment of actual liquidation expenses	(2,500)
Less: Payments to creditors	(405,000)
Less: Amount held for possible future liquidation expenses	<u>(10,000)</u>
Cash available to partners, July 31, 20X5	<u>\$ 22,500</u>

Schedule 2, August 31, 20X5: Computation of \$19,500 of cash available to be distributed to partners on August 31, 20X5:

Cash balance, August 1, 20X5	\$10,000
Cash from sale of noncash assets	22,000
Less: Payment of actual liquidation expenses	(2,500)
Less: Amount held for possible future liquidation expenses	<u>(10,000)</u>
Cash available to partners, August 31, 20X5	<u>\$ 19,500</u>

Schedule 3, September 30, 20X5: Computation of \$62,500 of cash available to be distributed to partners on September 30, 20X5:

Cash balance, September 1, 20X5	\$10,000
Cash received from sale of noncash assets	55,000
Less: Payment of actual liquidation expenses	<u>(2,500)</u>
Cash available to partners, September 30, 20X5	<u>\$62,500</u>

P16-19 Matching

1. G
2. D
3. A
4. J
5. K
6. C
7. E
8. B
9. H
10. I

P16-20 Partnership Agreement Issues [AICPA Adapted]

Part A:

1. Y The admission of a new partner requires the consent of all existing partners.
2. Y The withdrawal of a partner causes the dissolution of the partnership. But a termination and liquidation can be avoided by having the other partners agree to continue the partnership and buy out Coke's partnership interest.
3. Y A third-party beneficiary is not a party to a contract, but is a beneficiary of it.
4. N The liability of a withdrawing partner may be limited by an agreement between the partners, but that agreement is not binding on third parties unless they join in on the agreement.
5. Y A partner may retire at any time if there is no specified term of existence or undertaking for the partnership.

Part B:

6. Y A new partner is *personally* liable for all partnership debts incurred subsequent to entry into the partnership.
7. Y Continuation of the partnership does not release the partnership from the liabilities existing prior to the admission of the new partner.
8. Y White is liable for debts prior to his admission only to the extent of his capital contribution.
9. N As in item 8, White is liable for pre-existing debts only to the extent of his capital contribution.
10. N A partner may dissociate at any time there is no specified term of existence for the partnership, and there is no minimum time period before a partner is subject to personal liability for the partnership's obligations incurred while a partner.

Case 16-5: Mattfield v. Kramer Brothers 2005 MT 126 N

A copy of the Montana Supreme Court's decision is on the following eight pages. Supreme Court cases are within the public domain and can be printed verbatim without requesting permissions. The decision of the court includes a summary of the disputes and lower court decisions.

Your students can obtain the case via an internet search. Alternatively, the case may be obtained, along with the legal briefs from each side, at the State Law Library of Montana site: <http://courts.mt.gov/library> and then click on Cases to get to case number 03-796 or use the text term of Mattfield. The State of Montana is continually revising its libraries of legal documents so doing a Google search may be the most efficient method for your students.

No. 03-796

IN THE SUPREME COURT OF THE STATE OF MONTANA

2005 MT 136N

GREG MATTFIELD and CLINTON KRAMER, as Permanent
Full Co-Conservators of the Person and Estate of DONALD D.
KRAMER, an Incapacitated and Protected Person,

Plaintiffs and Appellants,

v.

KRAMER BROTHERS CO-PARTNERSHIP; WILLIAM KRAMER,
Co-Partner; RAYMOND KRAMER, Co-Partner; DOUGLAS
KRAMER, Co-Partner; WILLIAM KRAMER, RAYMOND KRAMER,
and DOUGLAS KRAMER, as Co-Personal Representatives of the
ESTATE OF RAYMOND KRAMER, and LYDIA KRAMER, Individually,

Defendants and Respondents.

APPEAL FROM: District Court of the Twenty-Second Judicial District,
In and For the County of Carbon, Cause No. DV 2000-40,
Honorable Blair Jones, Presiding Judge

COUNSEL OF RECORD:

For Appellants:

Floyd A. Brower, Brower Law Firm, Roundup, Montana

For Respondents:

Philip P. McGimpsey, McGimpsey Law Firm, Billings, Montana

William Kramer, pro se, Laurel, Montana

Submitted on Briefs: June 23, 2004

Decided: May 31, 2005

Filed:

Clerk

Justice Jim Rice delivered the Opinion of the Court.

¶1 Pursuant to Section I, Paragraph 3(c), of the Montana Supreme Court 1996 Internal Operating Rules, the following decision shall not be cited as precedent. It shall be filed as a public document with the Clerk of the Supreme Court and shall be reported by case title, Supreme Court cause number, and result to the State Reporter Publishing Company and to West Group in the quarterly table of noncitable cases issued by this Court.

¶2 Donald D. Kramer (Don) appeals from the summary judgment entered on August 21, 2003, in the Twenty-Second Judicial District Court, Carbon County, in favor of the Kramer Brothers Co-Partnership (Partnership), and also challenges the order entered by the court on August 30, 2002, dismissing Don's claims accruing prior to July 23, 1995, as time barred. We affirm.

¶3 We restate the issue on appeal as follows:

¶4 Did the District Court err in granting summary judgment to the Kramer Brothers Co-Partnership?

FACTUAL AND PROCEDURAL BACKGROUND

¶5 In the early 1980s, the Kramer brothers, Don, Douglas (Doug), William (Bill), and Raymond (Ray), and their father, Raymond Kramer, Sr. (Raymond), orally formed a farming

¶6 operation partnership, with Raymond furnishing the initial capital, real estate, and head of cattle.

¶7 In 1985 Bill determined to dissociate from the Partnership, and requested distribution of his interest under the Revised Uniform Partnership Act (RUPA).^a Thereafter, Raymond, Doug, Ray, and Don, albeit limited in his management responsibilities due to a neuropsychological functioning impairment resulting from a car accident in 1984, continued under the original partnership agreement until July 1994, when Don left Montana to reside in San Francisco. Don returned to Montana in 1995, but did not associate with the Partnership, nor did he initially seek any remedy as a dissociated partner as set forth under the RUPA. In fact, Don would not file an action against the Partnership until May 23, 2000, after many failed attempts to negotiate a buy-out offer of his interest in the Partnership with Ray and Doug.

¶8 In 1997 Raymond died, and the Kramer brothers discussed distribution of their father's assets, including distribution of Raymond's interest in the Partnership property. This was the first time Don had any contact with the Partnership since his return from San Francisco. Don had previously consulted with attorney Floyd A. Brower (Brower) regarding his interest in the Partnership as a dissociated partner, and requested Brower's assistance in representing him in the distribution of his father's personal estate and interest in the Partnership.

^aAlthough the 1993 Legislature did not amend the title of the Uniform Partnership Act, it adopted the changes embodied within the Revised Uniform Partnership Act ("RUPA") and, therefore, we shall refer to the act throughout this opinion as "RUPA." See *McCormick v. Brevig*, 2004 MT 179, ¶ 37 n.1, 322 Mont. 112, ¶ 37 n.1, 96 P.3d 697, ¶ 37 n.1.

¶9 On February 27, 1998, Brower requested copies of the Partnership's accounting records from the date of its inception until July 1994, when Don departed to San Francisco, and copies of Ray's and Doug's personal tax returns, from attorney Carol Hardy (Hardy), who represented the Partnership. Brower stated in his letter that Hardy's compliance with his request was crucial, as this information was necessary to "accomplish an accurate accounting" of the Partnership's records to determine any monies owed to Don, and indicated that he would file suit against the

¶10 Partnership if the request was not honored within ten days. Hardy did not respond to Brower's letter until March 9, 1998, but Brower did not then file a complaint.

¶11 On December 9, 1998, Ray and Doug offered to purchase Don's interest in the Partnership. Under the offer, Don was to receive ninety head of cattle for the assignment of his interest in the Partnership's brand name. However, Don rejected the offer, and thereafter, the parties continued to negotiate, with no resolution.

¶12 However, it was not until May 23, 2000, that Don filed suit, demanding a formal accounting of the Partnership, liquidation of the Partnership's assets, and division of the real property held by partners as tenants in common. Ray and Doug responded by filing a motion seeking joinder of the Estate of Raymond Kramer (Raymond's Estate) as a necessary party, because Raymond had held an interest in the Partnership's real property as a co-tenant. The court ordered Don to join the necessary parties, and on August 10, 2000, Don filed an amended complaint naming Raymond's Estate and Lydia Kramer (Lydia), mother of the four Kramer

¶13 brothers who was married to Raymond until his death.

¶14 On December 18, 2001, Doug, Ray, and Lydia filed a motion to dismiss Don's claims under the RUPA as time barred under the general five-year limitation provision, § 27-2-231, MCA, which motion was joined by Bill. In response, Greg Mattfield (Mattfield), who had been previously appointed as Don's temporary full guardian and conservator, moved for leave to amend Don's amended complaint to substitute himself for Don as the real party in interest pursuant to Rule 17, M.R.Civ.P., and to raise the affirmative defenses of waiver, laches, and equitable estoppel, arguing that he had no opportunity to respond to the statute of limitations defense raised by the Defendants in their motion to dismiss.

¶15 On August 30, 2002, the District Court granted the Defendants' motion to dismiss, but only as to those claims accruing prior to May 23, 1995. The court concluded that Don's relocation to San Francisco in July 1994 constituted a wrongful withdrawal from the Partnership, and that the five-year statute of limitations period on his partnership claims began to run at that time, requiring an action to be filed by July 1999. Don had filed his action on May 23, 2000, and the District Court therefore concluded that Don's claims were time barred, unless it could be demonstrated that a claim had accrued after May 23, 1995, five years prior to the filing of this action. The court denied Mattfield's motion for leave to amend the complaint. The District Court then set a scheduling conference to address any remaining claims which had survived its order applying the time bar.

¶16 On October 17, 2002, the parties entered into a mutual release, settlement and exchange agreement regarding the real property held by the parties as tenants in common and the real property which the parties owned as partners. Pursuant to the agreement, Ray and Doug purchased Don's share of the Partnership's interest in real property for \$487,500.00, to be paid to

¶17 Don's conservatorship.

¶18 On November 15, 2002, Lydia and Raymond's Estate requested an order dismissing them as defendants in the matter upon the court's approval of the real property settlement agreement. Mattfield and Clinton Kramer (Guardians), who by then had been appointed as Don's permanent limited co-guardians and permanent full co-conservators, responded by filing a motion again asserting the affirmative defenses of waiver, laches, and equitable estoppel, and requesting the District Court to reconsider its August 2002 order. They argued that a guardianship proceeding conducted subsequent to the entry of the August 2002 order had determined the extent and severity of Don's mental incapacity, which should retroactively toll the five-year statute of limitations period enforced by the District Court's August 2002 order. Ray and Doug then filed a motion for judgment on the pleadings and a motion to dismiss the Guardians' motion raising defenses and seeking reconsideration. They asserted that Don failed to file an action within 120 days of their initial buy-out offer as required by § 35-10-619(5), MCA, of the RUPA, and thus, any of Don's claims that had accrued after May 23, 1995, were also time barred under this provision.

¶19 On January 28, 2003, the District Court granted the motion filed by Lydia and Raymond's Estate to dismiss them as parties to the action. On January 30, 2003, Lydia and Raymond's Estate filed a notice of entry of judgment on both the January 2003 and August 2002 orders.

¶20 On June 18, 2003, the District Court issued an order converting Ray and Doug's motion for judgment on the pleadings and their motion to dismiss the Guardians' motion raising defenses to a motion for summary judgment pursuant to Rule 12(b) and (c), M.R.Civ.P. Further, the District Court denied the Guardians' motion for reconsideration of its August 2002 order, and

¶21 reserved a determination on their motion raising defenses, pending further proceedings.

¶22 On August 21, 2003, the District Court granted Ray and Doug's motion for summary judgment on Don's remaining claims, including an accounting of the Partnership's records from 1994 through 1997, the Partnership's failure to properly buy out his interest, or any other claim he could have raised as a dissociated partner under the RUPA. Don appeals therefrom.

STANDARD OF REVIEW

¶23 Our review of a summary judgment order is de novo. *R.C. Hobbs Enter., LLC v. J.G.L. Distrib., Inc.*, 2004 MT 396, ¶ 20, 325 Mont. 277, ¶ 20, 104 P.3d 503, ¶ 20. We review summary judgment to determine if the district court correctly determined no genuine issue of material facts existed and if it applied the law correctly. *R.C. Hobbs Enter.*, ¶ 20.

DISCUSSION

¶24 **Did the District Court err in granting summary judgment to the Kramer Brothers Co-Partnership?**

¶25 As a preliminary matter, we must determine whether Don's appeal is properly before the Court. The Partnership contends that Don's claims were disposed of by the District Court's August 2002 order, which concluded that claims accruing prior to May 23, 1995, were time barred, and are not properly before this Court for determination. The Partnership notes that Don was given notice of the entry of judgment on the August 2002 order dismissing his claims on January 30, 2003, but did not appeal until September 17, 2003, eight months later. We observe that the appeal was taken following the District Court's summary judgment order on August 21, 2003, which purportedly disposed of any remaining claims. Thus, the appeal was taken within thirty days, pursuant to Rule 5(a)(1), M.R.App.P., after the summary judgment order, but eight months after the notice of entry of judgment on the court's August 2002 order dismissing claims. We agree with the Partnership. Although further proceedings were conducted following the District Court's August 2002 order, the purpose of those proceedings was to determine whether any claims had survived the application of the time bar. The District Court had concluded in its August 2002 order that Don expressly withdrew from the Partnership upon his relocation to San Francisco in July 1994, and therefore, his right to maintain an action for an accounting, distribution, or any other claim under the RUPA accrued at that time. Although the District Court addressed several motions after the August 2002 order, the only substantive question which remained was whether Don had any claims for which he could still maintain an action. In

¶26 its summary judgment order of August 21, 2003, the court, although addressing the parties' new arguments, concluded that none of Don's asserted claims had survived its August 2002 order applying the five-year statute of limitations—essentially a restatement of its earlier holding. Thus, any right to an accounting or distribution of the Partnership's assets that may have existed

¶27 outside the issues settled by the parties' October 2002 settlement agreement had been resolved by the earlier order, from which appeal was not timely taken.

¶28 We affirm the judgment entered by the District Court.

/S/ JIM RICE

We Concur:

/S/ KARLA M. GRAY

/S/ JOHN WARNER

/S/ W. WILLIAM LEAPHART