

Prior to adjustment at the end of the fiscal year December 31, 2003, for Smark, Lark and Dark, Barristers & Solicitors, the accounts showed the following:

<u>Partner</u>	<u>Drawings</u>	<u>Capital</u>
Smark	\$0	\$12,000
Lark	5,000	17,000
Dark	9,000	18,000

The capital balance represents each partner's capital investment; neither income nor loss nor drawings have been closed to the accounts and there has been no change in capital during the year.

The partnership reported a net income of \$10,000.

All partners are allowed interest of 20% on beginning capital balances and the remainder is shared equally.

### **Instructions**

- (a) Prepare a schedule showing the division of net income.
- (b) Prepare the journal entry to record the division of net income for the year.
- (c) Prepare a statement of partners' capital for the year.

### **Action Plan**

- Journalizing the division of net income is a closing entry.
- Allocate the provision for interest before allocating the remainder.
- The Statement of Partners' Capital shows changes in individual capital accounts resulting from investments, drawings, and net income or net loss.