

Accounting, Vol. 2, 10e Cdn. Ed. (Horngren)
Chapter 12 Partnerships

Objective 12-1

1) Mutual agency in a partnership means that partnership decisions must be made mutually by both partners.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Understand

2) Accounting for a partnership is similar to accounting for a proprietorship.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

3) A partnership agreement may be oral.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

4) Partners can share in net income or loss in any manner they choose.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.1 Develops or evaluates appropriate accounting policies and procedures

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) A partnership agreement is a contract between the partners, so transactions under the agreement are governed by contract law.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) A partnership has a continuous life.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) The resignation of a partner dissolves the partnership.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.1 Develops or evaluates appropriate accounting policies and procedures

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) In a limited liability partnership, all the partners have limited liability for the debts of the partnership.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

9) One of the events that cause a partnership to dissolve is the death of a partner.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.1 Develops or evaluates appropriate accounting policies and procedures

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

10) A partnership balance sheet will show the ending capital balance for each partner.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

11) Partnerships have tax advantages over proprietorships.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

12) One of the advantages of a partnership is unlimited personal liability.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

13) One of the disadvantages of a partnership is relationships among partners may be fragile.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

14) For income tax purposes the income of the partnership flows through to become the taxable income of each of the partners.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

15) The asset and liability sections on the balance sheet are the same for a proprietorship and a partnership.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Evaluate

16) A partnership is an association of _____ who co-own a business for profit.

A) two persons

B) ten persons

C) 300 persons

D) two or more persons

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

17) To make certain that each partner fully understands how a particular partnership will operate in the future, partners should draw up the:

- A) articles of liability
- B) written partnership agreement
- C) articles of incorporation
- D) articles of partnership

Answer: B

Diff: 1 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

18) Which of the following are items that should be outlined in a partnership agreement?

- A) procedures for settling disputes among partners
- B) method of sharing profits and losses among the partners
- C) procedures for admitting a new partner
- D) All of the above items should be outlined in a partnership agreement.

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

19) All of the following are items that should be outlined in a partnership agreement *except*:

- A) procedures for settling disputes among partners
- B) method of sharing profits and losses among the partners
- C) the chart of accounts for the partnership
- D) procedures for admitting a new partner

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

20) Advantages of a partnership include all of the following *except*:

- A) ease of formation
- B) limited liability
- C) combined resources
- D) combined experience and talent

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

21) A limited partnership:

- A) must have at least two general partners
- B) is illegal in most provinces
- C) must have at least one general partner
- D) pays income taxes

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

22) All of the following are characteristics of a general partnership *except*:

- A) mutual agency
- B) limited liability
- C) limited life
- D) co-ownership of property

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

23) The characteristic of partnerships that states that every partner can bind the business to a contract within the scope of the partnership's regular business operations is called:

- A) limited life
- B) mutual agency
- C) unlimited liability
- D) co-ownership of property

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

24) The profits of a general partnership:

- A) are not taxable to the individual partners
- B) pass through the business to the partners
- C) are not taxable unless the partnership has over \$100,000 in net income
- D) cannot exist unless the partnership has a limited partner

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

25) The partnership characteristic of co-ownership of property states that:

- A) all partnership assets are co-owned by any banks making loans to the partnership
- B) general partners co-own all assets, but limited partners do not
- C) general partners own a larger percentage of the assets of a partnership than do limited partners
- D) any asset a partner invests in the partnership becomes the joint property of all the partners

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

26) An individual partner's signing of a contract to buy coffee for a doughnut shop that the partnership owns and operates falls under which characteristic of partnerships?

- A) unlimited liability
- B) limited life
- C) mutual agency
- D) co-ownership of property

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

27) A partnership balance sheet includes:

- A) a category for assets contributed by each partner
- B) a category for liabilities incurred by each partner
- C) an ending capital account balance for each partner
- D) an ending drawing account balance for each partner

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

28) A partnership income statement includes:

- A) a listing of all of the partners' capital account balances
- B) a listing of all of the partners' drawing account balances
- C) a listing of all revenues and assets
- D) a section showing the division of net income to the partners

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

- 29) Which of the following BEST describes the term *mutual agency*?
- A) When all partners of a partnership share profits equally
 - B) When each partner has the authority to act on behalf of the partnership
 - C) When only one partner has the authority to contractually bind the partnership
 - D) When each partner has the power to draw on the investment accounts of the others

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

- 30) Each partner in a partnership:
- A) has limited liability for the debts of the business
 - B) pays his or her share of the partnership business income tax
 - C) has co-ownership of the assets of the partnership
 - D) shares in a jointly held capital account

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

- 31) Which of the following statements is TRUE about a limited partnership?
- A) The general partner takes on greater liability than the limited partners.
 - B) The partners all share equally in the income or losses of the partnership.
 - C) In a limited partnership, all partners are considered to be limited partners.
 - D) The general partner has first claim on the income of the partnership.

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

32) What is a partnership? List three advantages and three disadvantages of the partnership form of business organization.

Answer: A partnership is a voluntary association of two or more persons to co-own a business for profit.

Advantages: Unlike a corporation, it is easy to form, involving no legal procedures, and it is less expensive to form. It brings together capital, expertise, and labour of two or more individuals. Finally, the income taxes are not paid at the business level, but pass through and are taxed at the individual level.

Disadvantages: Some disadvantages of a partnership are mutual agency, which allows each partner to sign contracts in the name of the partnership, and unlimited liability, which makes each partner individually liable for all the debts of the partnership. Additionally, the limited life of a partnership requires a new agreement whenever there is a change to the existing partnership.

Diff: 2 Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

33) List four of the items that should be covered in a partnership agreement.

Answer: The partnership agreement should include the following points:

- name, location, and nature of the business
- name, capital investment, and duties of each partner
- method of sharing profits and losses among the partners
- withdrawals of assets allowed to the partners
- procedures for settling disputes between the partners
- procedures for admitting new partners
- procedures for settling up with a partner who withdraws from the business
- procedures for liquidating the partnership
- procedures for removing a partner who will not withdraw or retire voluntarily

Diff: 2 Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

34) Most professionals such as doctors, lawyers and public accounting firms in Canada are organized as limited liability partnerships (LLPs). Explain the fundamental concept that governs an LLP.

Answer: An LLP is designed to protect innocent partners from negligence damages that result from another partner's actions. This means that each partner's personal liability for other partners' negligence is limited to a certain dollar amount, although liability for a partner's own negligence is still unlimited.

Diff: 3 Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

35) List four of the characteristics of a partnership.

Answer: Co-ownership; ease of formation; limited life; mutual agency; unlimited liability; no partnership income taxes

Diff: 2 Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

36) Name a partnership characteristic AND describe the characteristic in your own words.

Answer: Answers will vary from student to student. But what follows is a list of characteristics and a key point that should be included in the description. Co-ownership: All assets are joint property of all the partners. Ease of formation: A partnership agreement does not require a formal written partnership agreement; it can be as simple as an oral agreement. Limited Life: The life of the partnership is dependant on the life of the partners and will end when a partner leaves the partnership (including death). Mutual Agency: Each partner can act on behalf of the partnership and his actions are binding upon the other partners. Unlimited Liability: There is no legal separation between a partnership and the partners, so personal items can be ceased to pay off partnership debt. No partnership income taxes: Similar to a sole proprietorship, partnerships do not pay income tax the individual partners pay income tax.

Diff: 2 Type: ES

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

Objective 12-2

1) Contributions to a partnership are entered in the books in the same way that a proprietor's assets and liabilities are recorded.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) A partner cannot invest an asset with an outstanding obligation into a partnership.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

3) When a partner contributes an asset with an outstanding obligation into a partnership, such as a building with a mortgage, the obligation is transferred to the partnership.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

4) When a partnership is formed, each partner's initial investment should be recorded at their agreed-upon value which is often the current market value of the assets.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) The partnership records receipt of the partners' initial investments at their current market values.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) Often partners hire an independent firm to appraise their assets and liabilities at current market value.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) Lucy Roberts and Vera Miles decide to form a partnership. Lucy invests cash of \$5,000 while Vera invests inventory valued at \$7,000 and cash of \$2,000. The balance in Vera's capital account after formation is:

A) \$9,000

B) \$7,000

C) \$5,000

D) \$14,000

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

- 8) Investments of assets into a partnership are recorded at their:
- A) original cost
 - B) book value
 - C) current market value
 - D) original cost plus a percentage adjustment to account for inflation

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

- 9) Brown invests cash of \$20,000 and a building with a cost of \$350,000 and accumulated amortization to date of \$195,000 in the Brown and Winter Partnership. The building has a current market value of \$325,000. A mortgage payable of \$105,000 is outstanding on the building and will be assumed by the partnership. Brown's capital account would be credited for:

- A) \$165,000
- B) \$175,000
- C) \$240,000
- D) \$70,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

- 10) Equipment with a cost of \$100,000 and accumulated amortization of \$30,000 is contributed to a new partnership by Barnes. The current market value of the equipment is \$95,000. The replacement value of the equipment is \$125,000. The equipment would be recorded on the partnership books at:

- A) \$70,000
- B) \$65,000
- C) \$125,000
- D) \$95,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

11) Canfield invests cash of \$20,000 and inventory with a cost of \$60,000 and a current value of \$65,000 in the Canfield and Roose Partnership. In addition, Canfield invests land with a cost of \$75,000, a current market value of \$170,000, and a \$70,000 mortgage on the property assumed by the partnership. Roose invests equipment with a cost of \$100,000 and accumulated amortization of \$40,000. Roose's equipment has a current market value of \$100,000. Roose also invests inventory with a current market value of \$30,000. How much cash must be invested by Roose so that the two partners have equal balances in their capital accounts?

- A) \$25,000
- B) \$55,000
- C) \$15,000
- D) \$35,000

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

12) Canfield invests cash of \$20,000 and inventory with a cost of \$60,000 and a current value of \$65,000 in the Canfield and Roose Partnership. In addition, Canfield invests land with a cost of \$75,000, a current market value of \$170,000, and a \$70,000 mortgage on the property assumed by the partnership. Roose invests equipment with a cost of \$100,000 and accumulated amortization of \$40,000. Roose's equipment has a current market value of \$100,000. Roose also invests inventory with a current market value of \$30,000. What is the balance in the capital account of Canfield?

- A) \$155,000
- B) \$85,000
- C) \$185,000
- D) \$180,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

13) Canfield invests cash of \$20,000 and inventory with a cost of \$60,000 and a current value of \$65,000 in the Canfield and Roose Partnership. In addition, Canfield invests land with a cost of \$75,000, a current market value of \$170,000, and a \$70,000 mortgage on the property assumed by the partnership. Roose invests equipment with a cost of \$100,000 and accumulated amortization of \$40,000. Roose's equipment has a current market value of \$100,000. Roose also invests inventory with a current market value of \$30,000. What is the balance in the capital account of Roose?

- A) \$155,000
- B) \$185,000
- C) \$130,000
- D) \$145,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

Table 12-1

Hanna contributes \$55,000 cash, land that she bought for \$195,000, and a building that cost her \$140,000 and has been amortized \$70,000, to the newly formed partnership of H & B Company. The current market value of the building is \$200,000 and has an outstanding mortgage of \$100,000. The current market value of the land is \$390,000.

Barbara contributes \$50,500 cash, equipment with a current market value of \$80,000 with an outstanding note payable of \$15,000, and an automobile with a current market value of \$30,000. Barbara originally paid \$60,000 for the equipment, which has been amortized \$20,000. The partners have agreed to share profits and losses equally.

14) Referring to Table 12-1, the entry to record the investment by Hanna includes a debit to:

- A) building for \$200,000
- B) land for \$195,000
- C) building for \$140,000
- D) cash for \$50,500

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

15) Referring to Table 12-1, the entry to record the investment by Barbara includes a debit to:

- A) equipment for \$65,000
- B) equipment for \$80,000
- C) cash for \$55,000
- D) automobile \$40,000

Answer: B

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

16) Referring to Table 12-1, immediately after the investments by Hanna and Barbara, the balance sheet of H & B Company shows total liabilities of:

- A) \$100,000
- B) \$15,000
- C) \$115,000
- D) \$305,500

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

17) Referring to Table 12-1, the entry to record the investment by Barbara includes a credit to her capital account for:

- A) \$195,500
- B) \$145,500
- C) \$180,500
- D) \$175,500

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

18) Referring to Table 12-1, the entry to record the investment by Hanna includes a credit to her capital account for:

- A) \$545,000
- B) \$390,000
- C) \$485,000
- D) \$500,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

19) Referring to Table 12-1, immediately after the investments by Hanna and Barbara, the balance sheet of H & B Company shows total assets of:

- A) \$620,500
- B) \$505,500
- C) \$690,500
- D) \$580,500

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

20) Carl Alvarez joined a partnership and contributed the following assets:

Cash			\$5,000
Equipment	Original cost:		\$42,000
	Accumulated amortization:		\$20,000
	Current market value:	\$30,000	
Land	Original cost:		\$110,000
	Current market value:	\$200,000	

On the partnership books, the assets will be recorded at a total value of:

- A) \$137,000.
- B) \$157,000.
- C) \$235,000.
- D) \$147,000.

Answer: C

Explanation: C) $\$5,000 + \$30,000 + \$200,000 = \$235,000$

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

21) Mary Cox entered into a partnership and transferred assets and liabilities from her prior business over to the partnership comprised of the following:

Cash		\$10,000
Notes Payable		\$2,000
Inventory	Original cost	\$12,000
	Current market value	\$8,000

On the partnership books, the assets and liabilities will be recorded at a combined net value of:

- A) \$22,000.
- B) \$20,000.
- C) \$32,000.
- D) \$16,000.

Answer: D

Explanation: D) $\$10,000 - \$2,000 + \$8,000 = \$16,000$

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

22) Jack and Will decide to form the JW Partnership. On January 1, 2017, they combine their assets with the following current market values and book values:

	Jack's assets		Will's assets	
	Book value	Market value	Book value	Market value
Cash	\$100,000	\$100,000	\$95,000	\$95,000
Net accounts receivable	39,000	37,000	28,000	23,000
Inventory	60,000	75,000	55,000	72,000
Land	50,000	80,000	75,000	90,000
Buildings	80,000	70,000	90,000	75,000
Accumulated amortization	25,000	----	30,000	----
Accounts payable	18,000	18,000	25,000	25,000

Journalize the entries on January 1, 2017, to record the partners' initial investments.

Answer:

Date	Accounts	Debit	Credit
Jan. 1	Cash	100,000	
	Accounts Receivable	37,000	
	Inventory	75,000	
	Land	80,000	
	Buildings	70,000	
	Accounts Payable		18,000
	Jack, Capital		344,000
1	Cash	95,000	
	Accounts Receivable	23,000	
	Inventory	72,000	
	Land	90,000	
	Buildings	75,000	
	Accounts Payable		25,000
	Will, Capital		330,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

23) Jill and Sue decide to form the JS Partnership. On February 1, 2017, they combine their assets with the following current market values and book values:

	Jill's assets		Sue's assets	
	Book value	Market value	Book value	Market value
Cash	\$40,000	\$40,000	\$50,000	\$50,000
Net accounts receivable	39,500	37,000	28,000	27,000
Inventory	69,000	75,000	55,000	72,000
Land	50,000	85,000	75,000	90,000
Equipment	80,000	70,000	90,000	75,000
Accumulated amortization	25,000	----	30,000	----
Accounts payable	28,000	28,000	-----	----
Notes payable	-----	-----	10,000	10,000

Journalize the entries on February 1, 2017, to record the partners' initial investments.

Answer:

Date	Accounts	Debit	Credit
Feb. 1	Cash	40,000	
	Accounts Receivable	37,000	
	Inventory	75,000	
	Land	85,000	
	Equipment	70,000	
	Accounts Payable		28,000
	Jill, Capital		279,000
1	Cash	50,000	
	Accounts Receivable	27,000	
	Inventory	72,000	
	Land	90,000	
	Equipment	75,000	
	Notes Payable		10,000
	Sue, Capital		304,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

24) Jill and Sue decide to form the JS Partnership. On February 1, 2014, they combine their assets except for the land with the following current market values and book values:

	Jill's assets		Sue's assets	
	Book value	Market value	Book value	Market value
Cash	\$40,000	\$40,000	\$50,000	\$50,000
Net accounts receivable	39,500	37,000	28,000	27,000
Inventory	69,000	75,000	55,000	72,000
Land	50,000	85,000	75,000	90,000
Equipment	80,000	70,000	90,000	75,000
Accumulated amortization	25,000	----	30,000	----
Accounts payable	28,000	28,000	-----	----
Notes payable	-----	-----	10,000	10,000

Journalize the entries on February 1, 2014, to record the partners' initial investments.

Answer:

Date	Accounts	Debit	Credit
Feb. 1	Cash	40,000	
	Accounts Receivable	37,000	
	Inventory	75,000	
	Equipment	70,000	
	Accounts Payable		28,000
	Jill, Capital		194,000
1	Cash	50,000	
	Accounts Receivable	27,000	
	Inventory	72,000	
	Equipment	75,000	
	Notes Payable		10,000
	Sue, Capital		214,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

25) Jack and Will formed the JW Partnership on January 1, 2013, by combining the separate assets of their respective proprietorships. Information relating to their assets and liabilities are as follows:

	Jack's assets		Will's assets	
	Book value	Market value	Book value	Market value
Cash	\$100,000	\$100,000	\$95,000	\$95,000
Net accounts receivable	39,000	37,000	28,000	36,000
Inventory	60,000	75,000	55,000	66,000
Land	50,000	80,000	75,000	82,000
Buildings	80,000	70,000	90,000	90,000
Accumulated amortization	25,000	----	30,000	----
Accounts payable	18,000	18,000	25,000	25,000

Prepare the balance sheet for JW Partnership on January 1, 2013, immediately after the partnership entries are prepared.

Answer:

JW Partnership
Balance Sheet
January 1, 2013

Assets		Liabilities	
Current assets		Current liabilities	
Cash	\$195,000	Accounts payable	\$43,000
Accounts receivable	73,000		
Inventory	<u>141,000</u>	Capital	
Total current assets	\$409,000	Jack, capital	\$344,000
		Will, capital	<u>344,000</u>
Property, plant and equipment		Total capital	<u>688,000</u>
Land	\$162,000		
Buildings	<u>160,000</u>	Total liabilities	
Total Property, plant and equipment	<u>322,000</u>	and capital	<u>\$731,000</u>
Total assets	<u>\$731,000</u>		

Diff: 3 Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

26) Tracy and Jack formed the TJ Partnership on March 1, 2014 by combining the separate assets of their respective proprietorships. Information relating to their assets and liabilities are as follows:

	Tracy's assets		Jack's assets	
	Book value	Market value	Book value	Market value
Cash	\$10,000	\$10,000	\$85,000	\$85,000
Net accounts receivable	39,000	37,000	28,000	23,000
Inventory	60,000	75,000	55,000	72,000
Land	50,000	90,000	75,000	90,000
Buildings	80,000	70,000	90,000	75,000
Accumulated amortization	25,000	----	30,000	----
Accounts payable	18,000	18,000	25,000	25,000

Prepare the balance sheet for TJ Partnership on March 1, 2014, immediately after the partnership entries are prepared.

Answer: TJ Partnership
Balance Sheet
March 1, 2014

Assets		Liabilities	
Current assets		Current liabilities	
Cash	\$95,000	Accounts payable	\$43,000
Accounts receivable	60,000		
Inventory	<u>147,000</u>	Capital	
Total current assets	\$302,000	Tracy, capital	\$264,000
		Jack, capital	<u>320,000</u>
Property, plant and equipment		Total capital	<u>584,000</u>
Land	\$180,000		
Buildings	<u>145,000</u>		
Total Property, plant and equipment	<u>325,000</u>	Total liabilities and capital	<u>\$627,000</u>
Total assets	<u>\$627,000</u>		

Diff: 3 Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-12

On January 1, 2017, Ruben Ho and Clay Runnerup formed the Ruben and Clay Partnership by investing the following assets and liabilities in the business:

	Ruben's Book value	Clay's Book value
Cash	\$12,000	\$18,500
Equipment	38,000	53,500
Accumulated amort.-equipment	8,200	9,900
Buildings	84,000	95,000
Accumulated amort.-buildings	25,000	35,000
Land	60,000	66,000
Accounts payable	35,000	35,000
Note payable	17,000	29,000

An independent appraiser believes that Ruben's equipment has a market value of \$29,000 and Clay's equipment has a market value of \$47,500. The appraiser indicates Ruben's building has a current market value of \$90,000 and Clay's building has a current market value of \$110,000. The appraiser further indicates that Ruben's land has a current market value of \$78,000 and Clay's land has a current market value of \$80,000. Ruben and Clay agree to share profits and losses in a 40:60 ratio respectively. During the first year of operations, the business net income income of \$47,000. Each partner withdrew \$20,000 cash.

27) a) Refer to Table 12-12. Prepare the journal entries to record the initial investments in the business by Ruben and Clay.

b) Refer to Table 12-12. Prepare a balance sheet dated January 1, 2017, after the completion of the initial journal entries.

Answer: a)

General Journal

Date	Accounts	Debit	Credit
Jan. 1	Cash	12,000	
	Equipment	29,000	
	Buildings	90,000	
	Land	78,000	
	Accounts Payable		35,000
	Note Payable		17,000
	Ruben Ho, Capital		157,000
Jan. 1	Cash	18,500	
	Equipment	47,500	
	Buildings	110,000	
	Land	80,000	
	Accounts Payable		35,000
	Note Payable		29,000
	Clay Runnerup, Capital		192,000

b)

Ruben and Clay Partnership
Balance Sheet
January 1, 2017

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	\$30,500	Accounts payable	\$70,000
		Note payable	<u>46,000</u>
		Total current liabilities	<u>\$116,000</u>
 Property Plant and Equipment		 Capital	
Equipment	\$76,500	Ruben Ho, capital	\$157,000
Buildings	200,000	Clay Runnerup, capital	<u>192,000</u>
Land	<u>158,000</u>	Total capital	<u>349,000</u>
Total Property, plant and equipment	<u>434,500</u>	Total liabilities and capital	<u>\$465,000</u>
Total assets	<u>\$465,000</u>		

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

28) On June 30, William Tellman, Wendy Carlos, and David Wu started a partnership. Their investments were as follows:

- W. Tellman: Land valued at \$200,000
- W. Carlos: Cash of \$180,000
- D. Wu: Inventory valued at \$240,000, Accounts payable of \$50,000

Please use the format below to prepare a balance sheet at June 30.

Assets			Liabilities	
			Owners' Equity	

Answer:

Assets			Liabilities	
Cash	\$180,000		Accounts payable	\$50,000
Inventory	240,000			
Land	200,000		Owners' Equity	
			Tellman, capital	200,000
			Carlos, capital	180,000
			Wu, capital	190,000
			Total equity	\$570,000
Total assets	<u>\$620,000</u>		Total liabilities & owners' equity	<u>\$620,000</u>

Diff: 1 Type: SA

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

Objective 12-3

1) If the partnership agreement specifies a method for allocating profits but not losses, then losses are shared in the same proportion as profits.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) It is not possible to share partnership income purely on the basis of a partner's service to the partnership.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

3) It is not possible to share partnership income purely on the basis of a partner's investments.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

4) The balance in the partner's capital account consists of the partner's initial investment less the partner's share of partnership net income plus the partner's withdrawals.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

5) Partnership agreements typically do not allow partners to withdraw assets from the business.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) It is not possible for the withdrawals account of a partner to be nil before closing entries.

Answer: FALSE

Diff: 3 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

7) Partnership profits and losses may be allocated based on capital investments and/or on service.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) Unless the partnership agreement specifically indicates an income ratio, partnership net income or loss is not allocated to the partners.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

9) When a partner receives an allocation for service as part of their share of the income the partner has status both as a partner and as an employee.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

10) The balance in the partner's capital account consists of the partner's initial investment plus the partner's share of partnership net income minus the partner's withdrawals.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

11) The journal entry to close a partner's withdrawals account involves a debit to the partner's capital account.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

12) John and Mary share profits and losses in a 6:9 ratio, respectively. Mary's share of a \$60,000 profit would be \$24,000.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

13) Assume the partnership agreement specifies net income is to be divided as follows: \$30,000 to A and \$40,000 to B for service with any remaining profit or loss divided equally between the partners. If net income for the current year is \$85,000, A's distributive share of net income would be:

A) \$27,500

B) \$37,500

C) \$30,000

D) \$40,000

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

14) Assume the partnership agreement specifies net income is to be divided as follows: \$30,000 to A and \$40,000 to B for service with any remaining profit or loss divided equally between the partners. If net loss for the current year is \$85,000, A's distributive share of net loss would be:

A) \$37,500

B) \$47,500

C) \$30,000

D) \$40,000

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

15) Jen, Brad, and George formed a partnership with Jen contributing \$50,000, Brad contributing \$60,000 and George investing \$90,000. Their partnership agreement called for the net income division to be based on the ratio of capital investments. If the partnership net income for the first year of operations was \$75,000, what amount of net income would be credited to Jen's capital account?

A) \$18,750

B) \$22,500

C) \$37,500

D) \$43,500

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

16) Hugh and Liz formed a partnership with capital contributions of \$80,000 and \$120,000, respectively. Their partnership agreement called for 1) Hugh to receive \$10,000 for service, 2) each partner to receive 10% of their initial capital contributions, and 3) the remaining income or loss to be divided equally. If net income for the current year is \$70,000, what amount is credited to Hugh's capital account?

- A) \$27,000
- B) \$43,000
- C) \$38,000
- D) \$18,750

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

17) Hugh and Liz formed a partnership with capital contributions of \$80,000 and \$120,000, respectively. Their partnership agreement called for 1) Hugh to receive a \$20,000 for service, 2) each partner to receive 10% of their initial capital contributions, and 3) the remaining income or loss to be divided equally. If net loss for the current year is \$44,000, what amount is debited to Hugh's capital account?

- A) \$30,000
- B) \$14,000
- C) \$22,000
- D) \$43,000

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

18) Hugh and Liz formed a partnership with capital contributions of \$80,000 and \$120,000, respectively. Their partnership agreement called for 1) Hugh to receive a \$20,000 for service, 2) each partner to receive 10% of their initial capital contributions, and 3) the remaining income or loss to be divided in a ratio of 5:3. If net income for the current year is \$54,000, what amount is credited to Hugh's capital account?

- A) \$27,000
- B) \$17,250
- C) \$36,750
- D) \$20,250

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

19) Assume the partnership agreement specifies net income is to be divided in the ratio of capital investments. A's capital account has a balance of \$50,000 and B's capital account has a balance of \$60,000. If net income for the current year is \$25,000, B's distributive share of net income would be:

- A) \$13,636
- B) \$11,364
- C) \$12,500
- D) \$20,500

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

20) Assume the partnership agreement states that net income is to be divided as follows: 20% interest on investments with the remaining net income divided in a 3:2 ratio. C has a capital balance of \$55,000 and D has a capital balance of \$75,000. If net income for the current year is \$10,000, partner D's share would be:

- A) \$8,600
- B) \$6,400
- C) \$1,400
- D) \$15,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

21) If A's share of net income is \$25,000 and B's share of net income is \$40,000, the closing entry would involve a:

- A) credit to A's capital account for \$40,000
- B) credit to B's capital account for \$25,000
- C) debit to A's capital account for \$25,000
- D) debit to Income Summary for \$65,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

22) If a net loss of \$25,000 is divided equally between Candy Kane and Brandy Brown, the closing entry would involve a:

- A) debit to Income Summary for \$25,000
- B) credit to Kane's capital account for \$12,500
- C) debit to Brown's capital account for \$12,500
- D) credit to Cash for \$25,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

23) If Sybil Thorton has withdrawn \$60,000 cash and Amy Brown has withdrawn \$75,000 cash from the partnership during the year, then the closing entry would involve a:

- A) debit to Thorton's withdrawals account for \$60,000
- B) credit to cash for \$135,000
- C) debit to Brown's withdrawals account for \$75,000
- D) credit to Thorton's withdrawals account for \$60,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

24) If the partnership agreement does not state how profits and losses will be divided, then by law, partners must share profits and losses:

- A) equally
- B) in the ratio of their capital balances
- C) based on a ratio of time devoted to the business
- D) in the same proportion as their initial investments

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

25) If the partnership agreement specifies a method for sharing profits but not losses, then losses are:

- A) shared equally
- B) in the ratio of their capital balances
- C) in the same method for sharing profits as specified in the partnership agreement
- D) in the ration of their initial investments

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Factual

Cognitive Taxon: Remember

26) Ross, Joey, Chandler, and Brad formed a partnership, agreeing to divide profits and losses in a 2:3:4:1 relationship, respectively. Assuming that the business earned a profit of \$165,000, Ross's share is _____ and Brad's share is _____.

- A) \$33,000, \$49,500
- B) \$49,500, \$16,500
- C) \$60,000, \$33,000
- D) \$33,000, \$16,500

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

27) Brittney and Cheryl formed a partnership and agreed to share profits and losses 1/3 to Brittney and 2/3 to Cheryl. If the business incurred a loss of \$45,500, then the entry to close out the income summary account would include a:

- A) credit to Brittney, Capital for \$15,167
- B) debit to Brittney, Capital for \$15,167
- C) debit to Brittney, Capital for \$30,333
- D) credit to Brittney, Capital for \$30,333

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

28) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2014, the business earned \$40,000. Grant's share of the income is:

- A) \$13,333
- B) \$10,000
- C) \$16,000
- D) \$16,667

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

29) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2014, the business experienced a loss of \$40,000. Grant's share of the loss is:

- A) \$(13,333)
- B) \$(10,000)
- C) \$(16,000)
- D) \$(16,667)

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

30) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2014, the business experienced a loss of \$40,000. Chabot's share of the loss is:

- A) \$(13,333)
- B) \$(10,000)
- C) \$(16,000)
- D) \$(16,667)

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

Table 12-2

Tic, Tac, and Toe have year-end capital balances, before closing entries, of \$202,000, \$182,000, and \$116,000, respectively. They have agreed to share profits and losses in the ratio of their capital balances.

31) Refer to Table 12-2. Assuming the business earns a profit of \$72,500, the amount allocated to Tic is:

- A) \$29,290
- B) \$26,390
- C) \$24,167
- D) \$16,820

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

32) Refer to Table 12-2. Assuming the company earns a profit of \$146,500, the balance of Tac's capital account after closing out the income summary account is:

- A) \$235,326
- B) \$348,833
- C) \$348,500
- D) \$149,988

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

33) Refer to Table 12-2. Assuming the business incurs a loss of \$87,000, Toe's share of the loss is:

- A) \$35,148
- B) \$20,184
- C) \$29,000
- D) \$31,668

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

34) Refer to Table 12-2. Assuming the partnership incurs a loss of \$105,000, the balance in Tic's capital account after closing out the income summary account is:

- A) \$159,580
- B) \$42,420
- C) \$139,580
- D) \$73,580

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

Table 12-3

Mariah and Brittney have formed a partnership and invested \$140,000 and \$160,000, respectively. They have agreed to share profits as follows:

- 1) The first \$30,000 is to be allocated according to their original capital contributions to the partnership.
- 2) Mariah is to receive \$40,000 and Brittney is to receive \$45,000 for service.
- 3) The remainder is to be allocated 5:3, respectively.

35) Refer to Table 12-3. If the business earns a net income of \$118,000, Mariah's share is:

- A) \$62,125
- B) \$61,000
- C) \$55,875
- D) \$54,000

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

36) Refer to Table 12-3. Assuming the business incurs a net loss of \$36,000, Brittney's capital account will be:

- A) debited for \$56,625
- B) debited for \$94,375
- C) credited for \$4,375
- D) credited for \$40,375

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

37) Refer to Table 12-3. If the partnership incurred a loss of \$18,000, Mariah's capital account would be _____, and Brittney's capital account would be _____.

- A) debited for \$83,125, debited for \$49,875
- B) credited for \$49,875, debited for \$83,125
- C) debited for \$29,125, credited for \$11,125
- D) unaffected, unaffected

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

Table 12-4

Jana Jones, Jill Jacks, and Carolle Cann formed a partnership by investing \$250,000, \$200,000, and \$150,000, respectively. They agreed to share profits as follows:

- 1) An annual allocation for the service each partner contributes to the partnership: \$40,000 to Jana, \$20,000 to Jill, and \$30,000 to Carolle.
- 2) Interest on their original capital balances of 10%.
- 3) Any remainder equally.

38) Refer to Table 12-4. If the partnership earns a profit of \$150,000 its first year, then Jana's capital account would be credited for:

- A) \$40,000
- B) \$45,000
- C) \$65,000
- D) \$42,000

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

39) Refer to Table 12-4. Assuming the business has income of \$60,000 during its first year, the amount allocated to Jill is:

- A) \$20,000
- B) \$15,000
- C) \$35,000
- D) \$10,000

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

40) Refer to Table 12-4. If during the first year of business, the company incurs a net loss of \$20,000, the capital account of Carolle would:

- A) increase \$56,667
- B) increase \$11,667
- C) decrease \$56,667
- D) decrease \$11,667

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

41) The net income agreement for Crosby and Stills states net income and net loss shall be divided in a ratio of 4:6, respectively. The net loss for the current year is \$50,000. On January 1 of the current year, the capital balances were as follows: Crosby, \$55,000; and Stills, \$65,000. During the current year Crosby withdrew \$40,000 and Stills withdrew \$25,000. Compute the capital balances as of December 31 of the current year.

A)

Crosby, capital	Stills, capital
debit of \$5,000	credit of \$10,000

B)

Crosby, capital	Stills, capital
credit of \$35,000	credit of \$70,000

C)

Crosby, capital	Stills, capital
credit of \$5,000	credit of \$10,000

D)

Crosby, capital	Stills, capital
debit of \$35,000	credit of \$5,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

42) The net income agreement for Crosby and Stills states net income and net loss shall be divided in a ratio of beginning capital balances. The net loss for the current year is \$50,000. On January 1 of the current year, the capital balances were as follows: Crosby, \$55,000; and Stills, \$65,000. During the current year Crosby withdrew \$40,000 and Stills withdrew \$25,000. Compute the capital balances as of December 31 of the current year.

A)

Crosby, capital	Stills, capital
debit of \$7,917	debit of \$12,917

B)

Crosby, capital	Stills, capital
credit of \$7,917	credit of \$12,917

C)

Crosby, capital	Stills, capital
debit of \$7,917	credit of \$12,917

D)

Crosby, capital	Stills, capital
debit of \$12,917	credit of \$7,917

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

43) Roger and Reese have agreed to share profits in a 3:2 ratio, respectively. Assuming the business incurred a loss of \$70,000, Roger's share of the loss is:

A) the same as Reese's share of the loss

B) \$42,000

C) \$28,000

D) \$28,000 to each and balance split evenly

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

44) B. Lincoln, R. Stallings, and J. Savoie formed a partnership. The partnership agreement specified that the profits and losses will be shared in a ratio of 3:1:1, respectively. At the end of the first year of operations, the partnership had \$400,000 of revenue and \$320,000 of expenses. The amount that will be credited to R. Stallings' capital account is:

- A) \$12,000
- B) \$16,667
- C) \$48,000
- D) \$16,000

Answer: D

Explanation: D) $\$400,000 - \$320,000 = \$80,000$

$\$80,000 \times (1/5) = \$16,000$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

45) A partnership is formed with 4 partners named Wells, Bates, McCollum and hang. The partnership agreement specifies that profits and losses are shared in a ratio of 1:1:2:4, respectively. At the end of the first year, the partnership earned net income of \$290,000. What amount will be credited to the capital account for Wells?

- A) \$145,000
- B) \$ 32,222
- C) \$ 72,500
- D) \$ 36,250

Answer: D

Explanation: D) $\$290,000 \times (1/8) = \$36,250$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

46) B. Jones and R. Tate began a partnership in 2014. Jones would do a larger portion of the partnership work, and Tate would make a larger cash contribution, and so the partnership agreement specified a profit split to recognize that situation. Profits will be split in a two-step allocation. The first step will allocate partnership profits based on 5% of each partner's capital balance. The second step will allocate remaining amounts in a ratio of 4:1 respectively. Data at the end of the first year are as follows:

Partnership profits to allocate:	\$24,000
Jones's capital balance:	\$36,000
Tate's capital balance:	\$120,000

How much of the partnership income will be allocated to Jones?

- A) \$12,960
- B) \$24,000
- C) \$12,900
- D) \$14,760

Answer: D

Explanation: D)

	<u>Jones</u>	<u>Tate</u>	<u>Total</u>
Total to be allocated			\$24,000
Capital balance	\$36,000	\$120,000	
times 5%	5%	5%	
first allocation	\$1,800	\$6,000	<u>\$7,800</u>
Remainder			\$16,200
second allocation	80%	20%	
	<u>\$12,960</u>	<u>\$3,240</u>	
Total allocated	<u>\$14,760</u>	<u>\$9,240</u>	<u>\$24,000</u>

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

47) W. Bell and C. Quirk started a partnership in 2014. Because Bell contributed a larger amount toward the partnership at inception, the partnership agreement specified the following split of profits and losses in a two-phase allocation. The first allocation would split profits and losses in proportion to the partners' relative capital balances up to 20% of those balances. The remainder would be split evenly. At the end of the first year, the partnership had a net loss of \$40,000. Partners' capital balances were as follows:

W. Bell: \$102,000 C. Quirk: \$18,000

How much of the net loss was allocated to W. Bell?

- A) (\$20,400)
- B) (\$28,400)
- C) (\$20,000)
- D) (\$26,900)

Answer: B

Explanation: B)

	<u>Bell</u>	<u>Quirk</u>	<u>Total</u>
Capital balance	\$102,000	\$18,000	\$120,000
			<u>20%</u>
Amt to be alloc - 1st phase			\$24,000
1st phase allocation *	(\$20,400)	(\$3,600)	(\$24,000)
Amt to be alloc - 2nd phase			(\$16,000)
times 20%	<u>50%</u>	<u>50%</u>	
2nd phase allocation	(\$8,000)	(\$8,000)	(\$16,000)
<u>Total allocated</u>	<u>(\$28,400)</u>	<u>(\$11,600)</u>	<u>(\$40,000)</u>
* Capital balance	\$102,000	\$18,000	\$120,000
Relative %	85.0%	15.0%	100%

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-12

On January 1, 2017, Ruben Ho and Clay Runnerup formed the Ruben and Clay Partnership by investing the following assets and liabilities in the business:

	Ruben's Book value	Clay's Book value
Cash	\$12,000	\$18,500
Equipment	38,000	53,500
Accumulated amort.-equipment	8,200	9,900
Buildings	84,000	95,000
Accumulated amort.-buildings	25,000	35,000
Land	60,000	66,000
Accounts payable	35,000	35,000
Note payable	17,000	29,000

An independent appraiser believes that Ruben's equipment has a market value of \$29,000 and Clay's equipment has a market value of \$47,500. The appraiser indicates Ruben's building has a current market value of \$90,000 and Clay's building has a current market value of \$110,000. The appraiser further indicates that Ruben's land has a current market value of \$78,000 and Clay's land has a current market value of \$80,000. Ruben and Clay agree to share profits and losses in a 40:60 ratio respectively. During the first year of operations, the business net income income of \$47,000. Each partner withdrew \$20,000 cash.

48) Refer to Table 12-12. Determine the capital balances of Ruben Ho and Clay Runnerup, on December 31, 2017, after the completion of their first year of operations.

Answer: Ruben Ho, capital balance on December 31, 2017

$$\$157,000 + \$18,800 - \$20,000 = \underline{\$155,800}$$

Clay Runnerup, capital balance on December 31, 2017

$$\$192,000 + \$28,200 - \$20,000 = \underline{\$200,200}$$

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

49) Copps, Rock, and Grey have recently formed a partnership by investing \$50,000, \$70,000, and \$40,000, respectively. They are considering several methods of allocating income and losses.

Compute the partners' shares of profits and losses under each of the following plans:

- a) Net income is \$90,000 and the partners could not agree on a plan for net income/loss division.
- b) The net loss is \$42,000 and the partners agreed to share in the profits based on a 2:1:2 ratio. The agreement did not address losses.
- c) Net income is \$105,000 and the partners agreed to share profits based on the relationship of their initial capital balances.
- d) The net loss is \$60,000 and the partners agreed to share profits and losses based on 50% to Copps, 15% to Rock, and 35% to Grey.

Round all answers to the nearest whole dollar.

Answer:

Item	Copps	Rock	Grey	Total
a)	\$30,000	\$30,000	\$30,000	\$90,000
b)	\$(16,800)	\$(8,400)	\$(16,800)	\$(42,000)
c)	\$32,813*	\$45,937*	\$26,250	\$105,000
d)	\$(30,000)	\$(9,000)	\$(21,000)	\$(60,000)

* rounded

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

50) The Scott Stewart and Rick Smith Partnership earned a net income of \$90,000 for the current year. Beginning capital balances were \$70,000 for Stewart and \$140,000 for Smith. Prepare the closing entries to transfer net income to the partners' capital accounts based on the following independent net income agreements.

- a) No mention of net income agreement.
- b) Interest on beginning capital balances of 12%, balance divided in a ratio of 3:2, respectively.
- c) Interest on beginning capital balances of 10%, secondly \$45,000 to Stewart and \$50,000 to Smith based on service and the balance divided equally.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Income Summary	90,000	
	Scott Stewart, Capital		45,000
	Rick Smith, Capital		45,000
b)	Income Summary	90,000	
	Scott Stewart, Capital		47,280
	Rick Smith, Capital		42,720
c)	Income Summary	90,000	
	Scott Stewart, Capital		39,000
	Rick Smith, Capital		51,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

51) The Clancy and Flanagan Partnership incurred a net loss of \$40,000 for the current year. The beginning capital balances of the partners were respectively, \$35,000 and \$45,000. Prepare journal entries to transfer the net loss to the partners' capital accounts based on the following agreements.

- a) No mention of net income/loss agreement.
- b) \$30,000 to Clancy and \$10,000 to Flanagan based on service, then the remaining balance divided in the ratio of 3:2.
- c) Interest of 10% on beginning capital balances, balance divided in the ratio of 2:3.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Clancy Capital	20,000	
	Flanagan Capital	20,000	
	Income Summary		40,000
b)	Clancy Capital	18,000	
	Flanagan Capital	22,000	
	Income Summary		40,000
c)	Clancy Capital	15,700	
	Flanagan Capital	24,300	
	Income Summary		40,000

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-13

Burns and Allan have formed a partnership and invested \$40,000 and \$60,000, respectively. They have agreed to share profits as follows:

- 1) An annual allocation to Burns of \$20,000 and to Allan of \$10,000 based on service
- 2) The next \$15,000 is to be allocated according to their original capital contributions to the partnership.
- 3) The remainder is to be allocated 5:4 respectively

52) Refer to Table 12-13. Assuming that the business earns \$35,000, allocate the income to Burns and Allan.

Answer:

	<u>Burns</u>	<u>Allan</u>	<u>Total</u>
Total income to be allocated			35,000
Service allocation	20,000	10,000	<u>(30,000)</u>
			5,000
Interest on capital accounts	6,000	9,000	<u>(15,000)</u>
			(10,000)
Balance divided 5:4 ratio:	<u>(5,556)</u>	<u>(4,444)</u>	<u>10,000</u>
	<u>20,444</u>	<u>14,556</u>	

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

53) Refer to Table 12-13. Assuming that the business earns \$135,000, allocate the income to Burns and Allan.

Answer:

	<u>Burns</u>	<u>Allan</u>	<u>Total</u>
Total income to be allocated			135,000
Service allocation	20,000	10,000	<u>(30,000)</u>
			105,000
Interest on capital accounts	6,000	9,000	<u>(15,000)</u>
			90,000
Balance divided 5:4 ratio:	<u>50,000</u>	<u>40,000</u>	<u>90,000</u>
	<u>76,000</u>	<u>59,000</u>	

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

54) Refer to Table 12-13. Assuming that the business had a loss of \$9,000, allocate the loss to Burns and Allan.

Answer:

	<u>Burns</u>	<u>Allan</u>	<u>Total</u>
Total income to be allocated			(9,000)
Service allocation	20,000	10,000	<u>(30,000)</u>
			(39,000)
Interest on capital accounts	6,000	9,000	<u>(15,000)</u>
			(54,000)
Balance divided 5:4 ratio:	<u>(30,000)</u>	<u>(24,000)</u>	<u>54,000</u>
	<u>(4,000)</u>	<u>(5,000)</u>	

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

55) Refer to Table 12-13. Assuming that the business earns \$135,000:

1) allocate the income to Burns and Allan.

2) calculate the balance of each partner's capital account.

Answer:

	<u>Burns</u>	<u>Allan</u>	<u>Total</u>
Total income to be allocated			135,000
Service allocation	20,000	10,000	<u>(30,000)</u>
			105,000
Interest on capital accounts	6,000	9,000	<u>(15,000)</u>
			90,000
Balance divided 5:4 ratio:	<u>50,000</u>	<u>40,000</u>	<u>90,000</u>
	76,000	59,000	
Opening capital account balances	<u>40,000</u>	<u>60,000</u>	
Ending capital account balances	<u>116,000</u>	<u>119,000</u>	

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

56) Refer to Table 12-13. Assuming that the business earns \$135,000 and that each partner withdrew \$1,000 per month during the year:

1) allocate the income to Burns and Allan.

2) calculate the balance of each partner's capital account.

Answer:	<u>Burns</u>	<u>Allan</u>	<u>Total</u>
Total income to be allocated			135,000
Service allocation	20,000	10,000	<u>(30,000)</u>
			105,000
Interest on capital accounts	6,000	9,000	<u>(15,000)</u>
			90,000
Balance divided 5:4 ratio:	<u>50,000</u>	<u>40,000</u>	<u>90,000</u>
	76,000	59,000	
Opening capital account balances	<u>40,000</u>	<u>60,000</u>	
	116,000	119,000	
Less withdrawals during the year	<u>12,000</u>	<u>12,000</u>	
Ending capital account balances	<u>104,000</u>	<u>107,000</u>	

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

57) Describe the methods that partnerships can use to allocate profits and losses.

Answer: Common sharing agreements base the profit-and-loss ratio on a stated fraction, partners' capital investments, and/or their service to the partnership. Another allocation of partnership method is based on what is called "salaries" and "interest" which, despite their names, are not expenses of the business.

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

58) If the partnership experiences a net loss and the partnership agreement only states how to share profits, then describe how the net loss is shared.

Answer: The net loss will be shared using the same method that profits are shared. This will result in the loss being shared to get larger but the final step of allocation will rectify the situation. As the amounts allocated can be viewed as an over allocation, which increase the loss, then in the final step the loss plus the overallocation is taken away from the amounts allocated in the previous steps.

To illustrate: say the partnership agreement states that profit is to be shared by partner A receiving \$40,000 and partner B receiving \$50,000 based on service, the remainder being divided equally and the partnership experiences a loss of \$20,000. Then the loss would be allocated in the following manner:

	<u>Partner A</u>	<u>Partner B</u>	<u>Total</u>
Total Loss to be allocated			(20,000)
Service allocation	40,000	50,000	<u>(90,000)</u>
			(110,000)
Balanced divided equally	<u>(55,000)</u>	<u>(55,000)</u>	<u>110,000</u>
	(15,000)	(5,000)	

In this example the profit sharing agreement was followed.

Diff: 3 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Understand

59) On August 1, 2017, Larry Goldstein and Rafi Hassan created a partnership to produce software for online advertising. Goldstein was a lawyer and would handle all the legal matters, but Hassan was the technical whiz and would do all of the production and sales. Because most of the work would be done by Hassan, the partnership agreement specified that the yearly income would be split in a two-phase allocation. The first \$100,000 of annual income would be split among Goldstein and Hassan in a 1:4 ratio (one part to Goldstein, four parts to Hassan). Any income above \$100,000 would be split evenly. At the onset, both men contributed \$200,000 to the partnership and made no draws during 2017. At the end of 2017, the partnership earned \$175,000 of net income. At the end of 2017, after the year's income was distributed, what was the balance in owners' capital accounts?

Answer:

1st phase allocation			\$100,000
2nd phase allocation			\$75,000
Total income			\$175,000
	<u>Goldstein</u>	<u>Hassan</u>	<u>Total</u>
Capital balance	\$200,000	\$200,000	\$400,000
Amt to be alloc - 1st phase	20%	80%	100%
1st phase allocation	\$20,000	\$80,000	\$100,000
Amt to be alloc - 2nd phase			
times 20%	50%	50%	
2nd phase allocation	\$37,500	\$37,500	\$75,000
Total allocated	\$57,500	\$117,500	\$175,000
<u>Ending capital balance</u>	<u>\$257,500</u>	<u>\$317,500</u>	<u>\$575,00</u>

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Objective 12-4

1) Prior to the admission of a new partner, the new partner's capital account is nil.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) Admitting a new partner dissolves the old partnership and begins a new one.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) A bonus may result when a new partner is admitted by making an investment directly into the partnership.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

4) If there is no bonus on the admission of a new partner, this means that there is no cash changing hands.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

5) A new partner may be admitted to a partnership by purchasing an existing partner's interest.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) A bonus paid to the old partners by a new partner increases the old partners' capital accounts.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

7) An outside person may become a partner by purchasing a current partner's interest or by investing in the partnership.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

8) When there is an admission of a new partner and a bonus is given to the old partners, cash is always obtained by the old partners at the admission of the new partner.

Answer: FALSE

Diff: 3 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

9) Williams and Creech agree to admit Kelley to their partnership. Kelley will purchase one-half of Williams' interest directly from him for \$110,000. The current balance in Williams' capital account is \$200,000. Williams' capital account will be debited for \$110,000.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

10) Williams and Creech agree to admit Kelley to their partnership. Kelley will purchase one-half of Williams' interest directly from him for \$110,000. The current balance in Williams' capital account is \$200,000. Williams' capital account will be debited for \$100,000.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

11) When a new partner investing in a partnership receives an equity interest greater than the size of their investment the assets of the partnership must be adjusted upward.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

12) An equity bonus awarded to a new partner is reflected by reductions in the existing partner capital accounts.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

13) Red, White, and Blue have capital balances immediately after closing entries of \$80,000, \$100,000, and \$135,000, respectively. They have agreed to share all profits equally. Blue is selling his interest to Black for \$140,000 cash. The entry on the accounting records of the partnership to record this event includes a:

- A) debit to Cash for \$140,000
- B) debit to Black, Capital for \$135,000
- C) credit to Black, Capital for \$135,000
- D) credit to Black, Capital for \$140,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-5

Jim and Joe are partners agreeing to share profits and losses in a 2:6 ratio, respectively. Business has been profitable and they have decided to admit Jewel to the partnership for a cash investment. The balances in Jim and Joe's capital accounts are presently \$240,000 and \$260,000, respectively.

14) Refer to Table 12-5. If Jewel is given a 20% interest in the partnership in exchange for \$90,000 cash, the entry to record her investment includes a:

- A) credit to Jim, Capital for \$7,000
- B) credit to Cash for \$90,000
- C) credit to Jewel, Capital for \$90,000
- D) credit to Jewel, Capital for \$118,000

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

15) Refer to Table 12-5. If Jewel is given a 20% interest in the partnership in exchange for \$90,000 cash, the entry to record her investment includes a:

- A) debit to Jim, Capital for \$7,000
- B) credit to Joe, Capital for \$21,000
- C) credit to Jewel, Capital for \$90,000
- D) debit to Cash for \$118,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

Table 12-5

Jim and Joe are partners agreeing to share profits and losses in a 2:6 ratio, respectively. Business has been profitable and they have decided to admit Jewel to the partnership for a cash investment. The balances in Jim and Joe's capital accounts are presently \$240,000 and \$260,000, respectively.

16) Refer to Table 12-5. If Jewel is given a 25% interest in the partnership in exchange for \$200,000, the entry to record her investment includes a:

- A) credit to Jim, Capital for \$6,250
- B) debit to Joe, Capital for \$18,750
- C) credit to Jewel, Capital for \$200,000
- D) debit to Jewel, Capital for \$175,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

17) Refer to Table 12-5. If Jewel is given a 15% interest in the partnership in exchange for \$100,000, the entry to record her investment includes a:

- A) credit to Jewel, Capital for \$100,000
- B) debit to Jim, Capital for \$6,250
- C) credit to Jim, Capital for \$6,250
- D) credit to Joe, Capital for \$7,500

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-6

Donna, Rick, and Daisy are partners sharing profits in a 3:3:4 ratio, respectively. They have been overwhelmed by the amount of work recently and have agreed to admit Bud to the partnership for a cash investment. The current balances in their capital accounts are \$60,000, \$80,000, and \$120,000, respectively.

18) Refer to Table 12-6. Assuming Bud is given a 12.5% interest in the partnership for a \$60,000 cash investment, the entry to record his investment includes a:

- A) credit to Bud, Capital for \$40,000
- B) debit to Donna, Capital for \$6,000
- C) credit to Rick, Capital for \$8,000
- D) credit to Bud, Capital for \$60,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

19) Refer to Table 12-6. Assuming Bud is given a 20% interest in the partnership for an \$80,000 cash investment, the entry to record his investment includes a:

- A) credit to Bud, Capital for \$80,000
- B) debit to loss on sale of partnership interest for \$12,000
- C) debit to Daisy, Capital for \$4,800
- D) credit to Donna, Capital for \$3,600

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

20) Refer to Table 12-6. Assuming Bud is given a 15% interest in the partnership for a \$70,000 cash investment, the entry to record his investment includes a:

- A) credit to Donna, Capital for \$6,150
- B) credit to Bud, Capital for \$70,000
- C) debit to Rick, Capital for \$6,150
- D) credit to gain on sale of partnership interest for \$20,500

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-7

Bill, Bob, and Bo, are partners in the Trendy Company, a retailer of inexpensive kids' wear. They share profits and losses in a 1:4:5 ratio and have decided to expand their business territory. They have agreed to admit Burt to the partnership for a cash investment. Their capital balances are currently \$60,000, \$100,000, and \$140,000, respectively.

21) Refer to Table 12-7. Assuming Burt contributes \$80,000 for a 20% interest, the entry to record his investment in the partnership includes a:

- A) credit to Burt, Capital for \$76,000
- B) debit to Bill, Capital for \$2,000
- C) debit to Bob, Capital for \$8,000
- D) credit to Bo, Capital, for \$10,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

22) Refer to Table 12-7. Burt has been offered a 25% interest in the firm for \$60,000 cash investment. Assuming Burt takes the offer, the entry to record his investment in the partnership includes a:

- A) debit to Cash for \$75,000
- B) debit to loss on sale of partnership interest for \$46,000
- C) credit to Bill, Capital for \$1,500
- D) debit to Bob, Capital for \$12,000

Answer: D

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

23) Refer to Table 12-7. Burt has been offered a 15% interest in the firm for \$130,000. Assuming Burt takes the offer, the entry to record his investment in the partnership includes a:

- A) credit to gain on sale of partnership interest for \$85,000
- B) debit to Burt, Capital for \$45,000
- C) credit to Burt, Capital for \$45,000
- D) debit to Cash for \$130,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

24) Frank Evans and Barbara Baker have a partnership that splits profits equally and that has become very successful. They are considering admitting a new partner, Pete Zhang, for an equal share - a 1/3 interest in the new partnership. Based on the value of the partnership's success, they have negotiated an amount of \$118,000, which Zhang will invest to obtain a 1/3 share. The balances in the existing partner capital accounts are:

Evans	\$60,000
Baker	\$62,000

What journal entry would be made for Zhang's investment and admittance to the new partnership?

- A) debit Cash \$118,000; credit Zhang, Capital \$118,000
- B) debit Evans, Capital \$59,000; debit Baker, Capital \$59,000; credit Zhang, Capital \$118,000
- C) debit Zhang, Capital \$38,000; credit Evans, Capital \$18,000; credit Baker, Capital \$19,000
- D) debit Cash \$118,000; credit Evans, Capital \$19,000; credit Baker, Capital \$19,000; credit Zhang, Capital \$80,000

Answer: D

Explanation: D) $\$60,000 + \$62,000 + \$118,000 = \$240,000$

$\$240,000/3 = \$80,000$

$\$118,000 - \$80,000 = \$38,000$

$\$38,000/2 = \$19,000$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

25) Ricardo Ruiz and Thomas Mann have a partnership that shares profits equally. They have approached Shinichi Kumura to join their partnership as an equal partner due to his diplomatic and business contacts. Based on Kumura's value to the business, they have agreed that he will invest \$40,000 for a 1/3 share. What journal entry is required to record the transaction? The balances in the existing partner capital accounts are:

Ruiz	\$100,000
Mann	\$112,000

- A) debit Cash \$40,000; credit Kumuru, Capital \$40,000
- B) credit Cash \$40,000; debit Kumuru, Capital \$40,000
- C) debit Ruiz, Capital \$20,000; debit Mann, Capital \$20,000; credit Kumuru, Capital \$40,000
- D) debit Cash \$40,000; debit Ruiz, Capital \$22,000; debit Mann, Capital \$22,000; credit Kumuru, Capital \$84,000

Answer: D

Explanation: D) $\$100,000 + \$112,000 + \$40,000 = \$252,000$

$\$252,000/3 = \$84,000$

$\$84,000 - \$40,000 = \$44,000$

$\$44,000/2 = \$22,000$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

26) Cornell and Roberts are partners who agree to admit Stanley to their partnership. Cornell has a capital balance of \$80,000 and Roberts has a capital balance of \$120,000. Cornell and Roberts share net income in the ratio of 7:3 respectively. Prepare journal entries to admit Stanley to the partnership based on the following independent agreements. Round all amounts to the nearest dollar.

- a) Stanley invests \$150,000 cash into the partnership for a 20% interest.
- b) Stanley invests \$150,000 cash into the partnership for a 45% interest.
- c) Stanley purchases one-quarter of Cornell's capital for \$35,000.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Cash	150,000	
	Cornell, Capital		56,000
	Roberts, Capital		24,000
	Stanley, Capital		70,000
b)	Cash	150,000	
	Cornell, Capital	5,250	
	Roberts, Capital	2,250	
	Stanley, Capital		157,500
c)	Cornell, Capital	20,000	
	Stanley, Capital		20,000

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

27) Monica Turner and Anna Frost have capital balances of \$200,000 and \$250,000, respectively and have no net income/net loss agreement. On January 1, 2017, they agree to admit Emma Brown into their partnership and give her a 30% interest in the business.

Determine the balance in each partners' capital account immediately following the admission of Emma in each of the following independent cases:

- Emma contributes \$250,000 cash to the business.
- Emma contributes equipment valued at \$275,000 to the business.
- Emma contributes land valued at \$180,000 to the business.

Answer:

Item	Turner, Capital	Frost, Capital	Brown, Capital
a)	\$220,000	\$270,000	\$210,000
b)	\$228,750	\$278,750	\$217,500
c)	\$195,500	\$245,500	\$189,000

- $\$200,000 + \$250,000 + \$250,000 = \$700,000$
 $\$700,000 \times 0.30 = \$210,000$
 $\$250,000 - \$210,000 = \$40,000$ bonus to current partners
 $\$40,000/2 = \$20,000$ bonus to each current partner
 Turner = $\$200,000 + \$20,000 = \$220,000$
 Frost = $\$250,000 + \$20,000 = \$270,000$
 Brown = $\$210,000$
- $\$200,000 + \$250,000 + \$275,000 = \$725,000$
 $\$725,000 \times 0.30 = \$217,500$
 $\$275,000 - \$217,500 = \$57,500$ bonus to current partners
 $\$57,500/2 = \$28,750$ bonus to each current partner
- $\$200,000 + \$250,000 + \$180,000 = \$630,000$
 $\$630,000 \times 0.30 = \$189,000$
 $\$180,000 - \$189,000 = (\$9,000)$ bonus to new partner
 $(\$9,000)/2 = (\$4,500)$ bonus from each current partner to new partner
 Turner = $\$200,000 - \$4,500 = \$195,500$
 Frost = $\$250,000 - \$4,500 = \$245,500$
 Brown = $\$189,000$

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Apply

28) Sandra Budd and Frank Elm have a partnership that splits profits equally and that has become very successful. They are considering admitting a new partner, Sally Lee, for an equal share — a 1/3 interest in the new partnership. Based on the value of the partnership's business, they have negotiated an amount of \$10,000, which Lee will invest to obtain a 1/3 share. The balances in the existing partner capital accounts are:

Budd	\$40,000
Elm	\$70,000

What journal entry would be made for Lee's investment and admittance to the new partnership?

Answer:

Cash	10,000	
Budd, capital	15,000	
Elm, capital	15,000	
Lee, capital		40,000

Calculations:

$$\$60,000 + \$70,000 + \$10,000 = 120,000$$

$$\$120,000/3 = \$40,000$$

$$\$10,000 - \$40,000 = \$30,000$$

$$\$30,000/2 = \$15,000$$

Diff: 2 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Objective 12-5

1) When a partner withdraws from the partnership, his capital account is always debited for the amount of cash taken.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

2) A partner can only withdraw from a partnership at the end of the partnership's fiscal year.

Answer: FALSE

Diff: 1 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) When a partner withdraws from a partnership, it is possible that he may receive assets worth more than the book value of his equity.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

4) If a partner leaves the partnership in the middle of the fiscal year, he must wait until the year end to determine his capital account balance.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) At the withdrawal of a partner where a bonus is paid to the withdrawing partner, cash must be paid personally by the remaining partners.

Answer: FALSE

Diff: 3 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

6) The entry to record a withdrawal of a partner from the firm when payment is made from partners' personal assets affects only partners' capital accounts.

Answer: TRUE

Diff: 3 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Remember

7) When a partner withdraws from the partnership during the year they will lose their entitlement of the profits for that portion of the year.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

Table 12-8

Jimmy, Johnny, and Joey are partners in the 3J Company sharing profits and losses equally. Joey has decided to leave the partnership. After all accounts have been updated, the capital balances of the partners are currently \$90,000, \$120,000, and \$70,000, respectively.

8) Refer to Table 12-8. Assume Joey takes \$50,000 in cash and a promissory note for \$20,000. The entry to record his withdrawal includes a:

- A) credit to Joey, Capital for \$70,000
- B) debit to Joey, Capital for \$50,000
- C) credit to Joey, Capital for \$50,000
- D) debit to Joey, Capital for \$70,000

Answer: D

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

9) Refer to Table 12-8. Assume Joey takes \$50,000 in cash and a promissory note for \$30,000. The entry to record his withdrawal would NOT include:

- A) debit to Joey, Capital for \$70,000
- B) debit to Jimmy, Capital for \$5,000
- C) credit to Note Payable for \$30,000
- D) credit to Joey, Capital for \$10,000

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

10) Refer to Table 12-8. Assume Joey takes \$100,000 in cash. The entry to record his withdrawal from the partnership includes a:

- A) debit to Jimmy, Capital for \$30,000
- B) credit to Johnny, Capital for \$15,000
- C) debit to Johnny, Capital for \$15,000
- D) debit to Joey, Capital for \$100,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-9

Wally, Willie, and Watson formed a partnership several years ago. Wally has decided to withdraw from the partnership. The current capital balances are: Wally, capital, \$50,000; Willie, capital, \$65,000; and Watson, capital, \$100,000. Prior to the withdrawal of Wally, the partners agree to revalue some of the partnership assets. Inventory with a cost of \$120,000 has a current market value of \$150,000; land with a cost of \$50,000 has a current market value of \$125,000. Wally, Willie, and Watson share net income and losses in a 3:3:4 ratio. Willie and Watson will share net income in a 3:4 ratio.

11) Refer to Table 12-9. What is the balance in Wally's capital account after revaluing the assets?

- A) \$81,500
- B) \$18,500
- C) \$92,000
- D) \$8,000

Answer: A

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

12) Refer to Table 12-9. The journal entry to record the revaluation of the partnership's assets would include:

- A) debit to Land of \$75,000
- B) debit to Inventory of \$30,000
- C) credit to Watson, Capital of \$42,000
- D) All of these would be included

Answer: D

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

13) Refer to Table 12-9. What is total capital for the partnership after revaluing the assets?

- A) \$215,000
- B) \$320,000
- C) \$110,000
- D) \$275,000

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

14) Refer to Table 12-9. Wally withdraws from the partnership and accepts \$100,000 cash. Assuming the assets have been properly revalued, the entry to withdraw Wally from the partnership includes a (rounded to the nearest dollar):

- A) debit to Wally, Capital for \$100,000
- B) debit to Willie, Capital for \$7,929
- C) credit to Willie, Capital for \$7,929
- D) debit to Watson, Capital for \$7,929

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

15) Refer to Table 12-9. Wally withdraws from the partnership and accepts \$80,000 cash. Assuming the assets have been properly revalued, the entry to withdraw Wally from the partnership includes a:

- A) debit to Wally, Capital for \$80,000
- B) credit to Watson, Capital for \$857
- C) debit to Watson, Capital for \$857
- D) debit to Willie, Capital for \$643

Answer: B

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

16) Refer to Table 12-9. Wally withdraws from the partnership and accepts \$60,000 cash. Assuming the assets have been properly revalued, the entry to withdraw Wally from the partnership would include a debit to:

- A) Wally, Capital for \$60,000
- B) Willie, Capital for \$9,214
- C) Wally, Capital for \$81,500
- D) Watson, Capital for \$12,286

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

17) Krishnamurti, Patel, and Hamilton had a long-standing partnership with equal profit sharing. Patel desired to withdraw from the partnership. Partnership assets were revalued and the partners' capital accounts were adjusted. Afterwards, the partner balances were:

Krishnamurti	\$250,000
Patel	\$290,000
Hamilton:	\$220,000

Due to legal complications, the partners agreed that Patel would withdraw for an amount that was less than book value. The agreed cash payment was \$200,000. The journal entry for this transaction would be:

A) debit Patel, Capital \$200,000; debit Krishnamurti, Capital \$45,000; debit Hamilton, Capital \$45,000; credit Cash \$290,000.

B) debit Patel, Capital \$290,000; credit Cash \$200,000, credit Krishnamurti, Capital \$45,000; credit Hamilton, Capital \$45,000.

C) debit Patel, Capital \$200,000; credit Cash \$200,000.

D) debit Patel, Capital \$290,000; credit Krishnamurti, Capital \$145,000; credit Hamilton, Capital \$145,000.

Answer: B

Explanation: B) $\$290,000 - 200,000 = 90,000$.

$90,000/2 = 45,000$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

18) Abraham, Bland, and Ahmadi have a partnership and share profits equally. All partnership assets are financial assets and are carried on the books at their market value. At the end of the year, Ahmadi announces that he will retire and withdraw from the partnership. Partnership data are as follows:

Net assets of partnership:	\$620,000
Abraham, capital balance:	280,000
Bland, capital balance:	200,000
Ahmadi, capital balance:	140,000

The partnership will make a final cash settlement with Ahmadi at book value. Which of the following is the correct entry?

A) Debit Cash \$140,000; credit Ahmadi, Capital \$140,000

B) Debit Ahmadi, Capital \$140,000; credit Abraham, Capital \$140,000

C) Debit Ahmadi, Capital \$140,000; credit Cash \$140,000

D) Debit Abraham, Capital \$70,000; debit Bland, Capital \$70,000; credit Cash \$140,000

Answer: C

Diff: 1 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

19) Glass, Falk, and Fayed had a partnership that splits profits and losses equally. Fayed declared his intention to withdraw from the partnership. Partnership assets were revalued and partner capital balances were adjusted to the following amounts:

Glass	\$100,000
Falk	\$115,000
Fayed	\$ 90,000

Due to a set of unusual legal circumstances, it was mutually agreed that the partnership would settle with Fayed for a cash payment of \$100,000. Which of the following statements accurately describes the transaction?

- A) The remaining partners' capital accounts were credited \$5,000 each.
- B) The withdrawing partner's capital account was credited for \$90,000.
- C) The withdrawing partner's account was debited for \$100,000.
- D) The remaining partners' capital accounts were debited for \$5,000 each.

Answer: D

Explanation: D) $\$100,000 - \$90,000 = \$10,000$

$\$10,000/2 = \$5,000$

Diff: 2 Type: MC

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

20) Glass, Falk, and Fayed had a partnership that splits profits and losses equally. Fayed declared his intention to withdraw from the partnership. Partnership assets were revalued and partner capital balances were adjusted to the following amounts:

Glass	\$100,000
Falk	\$115,000
Fayed	\$ 90,000

Due to a set of unusual legal circumstances, it was mutually agreed that the partnership would settle with Fayed for a cash payment of \$100,000. Are the remaining partners receiving a bonus? Explain.

Answer: Fayed is receiving a cash payment that is \$10,000 higher than his equity in the partnership. This means that the partner leaving, Fayed, is receiving a bonus of \$10,000 not the remaining partners Glass and Falk. In fact the remaining partners pay for the partnership by equally reducing their equity by \$5,000 each.

Diff: 2 Type: ES

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

21) Dowker, Cross, and Rowe are partners in the DCR Company. They share profits and losses in a 3:5:2 ratio and have just closed their books for the period. The current balances in their capital accounts are \$63,000, \$49,000, and \$94,000, respectively. Dowker has decided to withdraw from the partnership. The partners agreed, prior to the withdrawal of Dowker, that the assets needed to be revalued. Land with a cost of \$55,000 has a current market value of \$75,000. Inventory with a cost of \$75,000 has a current market value of \$70,000. Cross and Rowe have agreed to share net income in a 2:3 ratio.

- a) Prepare the journal entries required to revalue the assets.
- b) Prepare the journal entry to record the withdrawal of Dowker under each of the following independent assumptions:
 - 1) The partnership gives cash to Dowker equal to his capital balance.
 - 2) The partnership gives \$76,000 cash to Dowker.
 - 3) The partnership gives \$56,000 cash to Dowker.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Land	20,000	
	Dowker, Capital		6,000
	Cross, Capital		10,000
	Rowe, Capital		4,000
	Dowker, Capital	1,500	
	Cross, Capital	2,500	
	Rowe, Capital	1,000	
	Inventory		5,000
b1)	Dowker, Capital	67,500	
	Cash		67,500
b2)	Dowker, Capital	67,500	
	Cross, Capital	3,400	
	Rowe, Capital	5,100	
	Cash		76,000
b3)	Dowker, Capital	67,500	
	Cross, Capital		4,600
	Rowe, Capital		6,900
	Cash		56,000

Diff: 3 Type: SA
 CPA Competency: 1.2.2 Evaluates treatment for routine transactions
 Objective: 12-5 Account for the withdrawal of a partner
 Knowledge Taxon: Procedural
 Cognitive Taxon: Apply

22) Frasier, Niles, and Daffney are partners in the Lots A Laughs Company and share profits and losses in a ratio of 3:2:1, respectively. Frasier retires and is bought out by his partners. The partners' current capital account balances, after closing entries, are \$147,000, \$98,000, and \$49,000, respectively. The new net income agreement for Niles and Daffney will be 1:3.

Prepare entries for the following transactions involving the retirement of Frasier. Round to the nearest dollar if necessary.

- a) The partners agree to revalue the assets. Land with a cost of \$90,000 has a current market value of \$120,000. Inventory with a cost of \$50,000 has a current market value of \$35,000.
- b) After the assets are revalued, the partnership agrees to give Frasier \$75,000 cash and a note payable for \$65,000.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Land	30,000	
	Frasier, Capital		15,000
	Niles, Capital		10,000
	Daffney, Capital		5,000
	Frasier, Capital	7,500	
	Niles, Capital	5,000	
	Daffney, Capital	2,500	
	Inventory		15,000
b)	Frasier, Capital	154,500	
	Niles, Capital		3,625
	Daffney, Capital		10,875
	Cash		75,000
	Note Payable		65,000

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

23) Ted, Marshall and Barney are partners in the Lots A Laughs Company and share profits and losses in a ratio of 3:2:1, respectively. Marshall retires and is bought out by his partners. The partners' current capital account balances, after closing entries, are \$147,000, \$98,000, and \$49,000, respectively. The new net income agreement for Ted and Barney will be 3:1.

Prepare the entry for the retirement of Marshall. The partnership agrees to give Marshall \$75,000 cash and a note payable for \$65,000. Round to the nearest dollar if necessary.

Answer:

General Journal

Date	Accounts	Debit	Credit
	Marshall, Capital	\$98,000	
	Ted, Capital	31,500	
	Barney, Capital	10,500	
	Note Payable		65,000
	Cash		75,000

Diff: 1 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

24) Jensen, Zhang, and Singh had a partnership that splits profits and losses equally. Singh declared his intention to withdraw from the partnership. Partnership assets were revalued and partner capital balances were adjusted to the following amounts:

Jensen	\$90,000
Zhang	\$70,000
Singh	\$ 100,000

Due to a set of unusual legal circumstances, it was mutually agreed that the partnership would settle with Singh for a cash payment of \$120,000. Please provide the journal entry for that transaction:

Answer:

Singh, capital	100,000	
Jensen, capital	10,000	
Zhang, capital	10,000	
Cash		120,000

Calculations:

$$\$120,000 - \$100,000 = 210,000$$

$$\$20,000/2 = \$10,000$$

Diff: 1 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

25) Arthur Carlson, Maria Perez and Andrew Li have a partnership with equal profit sharing. Andrew Li has decided to withdraw from the partnership. The current balance sheet of the partnership appears as follows:

Assets		Liabilities & Owner's Equity	
Cash	\$180,000	Accounts payable	\$50,000
Inventory	240,000	Carlson, capital	200,000
Land	200,000	Perez, capital	180,000
		Li, capital	190,000
Total assets	\$620,000	Total liabilities & owner's equity	\$620,000

Prior to the final settlement, the assets have been appraised to determine their current fair market value. Fair values are as follow:

Inventory:	\$204,000
Land:	\$440,000

Required:

Provide the journal entries to revalue the inventory; and, record the withdrawal of Li assuming he receives \$160,000 cash, and \$90,000 inventory, for his equity.

Answer:

Carlson, capital	12,000	
Perez, capital	12,000	
Li, capital	12,000	
Inventory		36,000
Land	240,000	
Carlson, capital		80,000
Perez, capital		80,000
Li, capital		80,000
Li, capital	258,000	
Cash		160,000
Inventory		90,000
Carlson, capital		4,000
Perez, capital		4,000

Inventory Calculations:

$$\$240,000 - \$204,000 = \$36,000$$

$$\$36,000/3 = \$12,000$$

$$\$440,000 - \$200,000 = \$240,000$$

$$\$240,000/3 = \$80,000$$

Land Calculations:

$$\$240,000 - \$204,000 = \$36,000$$

$$\$36,000/3 = \$12,000$$

$$\$440,000 - \$200,000 = \$240,000$$

$$\$240,000/3 = \$80,000$$

Explanation: $\$240,000 - \$204,000 = \$36,000$

$$\$36,000/3 = \$12,000$$

$$\$440,000 - \$200,000 = \$240,000$$

$$\$240,000/3 = \$80,000$$

Diff: 3 Type: SA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-5 Account for the withdrawal of a partner

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Objective 12-6

1) When a partnership is liquidated, it is necessary to sell all of the assets of the partnership.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

2) Cash is distributed to partners in accordance with the net income agreement in the partnership liquidation process.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

3) At the completion of the liquidation of a partnership, all accounts in the general ledger have a nil balance.

Answer: TRUE

Diff: 1 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

4) Gains and losses on the sale of noncash assets in a partnership liquidation are shared by the partners on the basis of their profit-and-loss-sharing ratio.

Answer: TRUE

Diff: 2 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

5) In a partnership liquidation partners are entitled to assets before unsecured creditors.

Answer: FALSE

Diff: 2 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

6) When a partnership liquidates and there is not enough cash to pay the liabilities, then the partners must contribute cash on the basis of their profit-and-loss-sharing ratio to cover unpaid debts.

Answer: TRUE

Diff: 3 Type: TF

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

Table 12-10

M, N, and O are partners in the Drain Company and share profits in a 3:3:2 ratio, respectively. They have decided to liquidate their business. At the start of the liquidation, their capital account balances were \$50,000, \$25,000, and \$25,000, respectively. After the disposal of all noncash assets and the payment of all debts, cash of \$90,000 remains to be distributed to the partners.

7) Refer to Table 12-10. The amount of cash O should receive in the liquidation of the Drain Company is:

A) \$21,250

B) \$46,250

C) \$22,500

D) \$21,250 to each and remainder split evenly

Answer: C

Diff: 3 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-11

Doug, Davis, and Dwight are in the process of liquidating their partnership. They share profits and losses in a 5:3:2 ratio. Following is the current balance sheet for the partnership:

Cash	\$100,000	Liabilities	\$55,000
Other assets	<u>225,000</u>	Doug, capital	145,000
		Davis, capital	50,000
		Dwight, capital	<u>75,000</u>
Total assets	<u>\$325,000</u>	Total liabilities and capital	<u>\$325,000</u>

8) Refer to Table 12-11. If the other assets are sold for \$250,000, the total amount of cash to be distributed to the partners is:

- A) \$295,000
- B) \$250,000
- C) \$350,000
- D) \$195,000

Answer: A

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

9) Refer to Table 12-11. If the other assets are sold for \$250,000, to record the gain would include a:

- A) debit to Doug, Capital of \$12,500
- B) credit to Other assets of \$250,000
- C) credit to Davis, Capital of \$7,500
- D) debit to Cash of \$225,000

Answer: C

Explanation: C) $\$250,000 - 225,000 = 25,000$

$25,000 * 30\% = 7,500$

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

10) Refer to Table 12-11. If the other assets are sold for \$180,000, the total amount of cash to be distributed to the partners is:

- A) \$280,000
- B) \$225,000
- C) \$180,000
- D) \$270,000

Answer: B

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

11) Refer to Table 12-11. If the total amount of cash to be distributed to the partners is \$225,000, then the entry to record the payment and to close the capital accounts would include a:

- A) debit to Doug, Capital of \$145,000
- B) credit to cash of \$225,000
- C) debit to Davis, Capital of \$145,000
- D) debit to Dwight, Capital of \$145,000

Answer: B

Explanation: B) all other are incorrect as amounts are the capital balances before the liquidation

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

12) Other assets were sold during a partnership liquidation for \$300,000, which involved a \$27,000 gain. Assuming the three partners have an equal net income division agreement, the journal entry to record the gain would involve:

- A) debits to the three partners' capital accounts for \$9,000 each
- B) a credit to other assets for \$300,000
- C) a credit to other assets for \$273,000
- D) a debit to Cash for \$273,000

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

13) Capital balances for Hold and Held are \$225,000 and \$350,000 immediately before liquidation. Noncash assets with a book value of \$500,000 are sold for \$560,000 cash. Total liabilities of \$270,000 are paid by the partnership. The amount of cash available for distribution to the partners is:

- A) \$635,000
- B) \$905,000
- C) \$75,000
- D) \$560,000

Answer: A

Explanation: A) Cash?? + 500,000 = 270,000 + 225,000 + 350,000; so Cash = 345,000
345,000 + 560,000 - 270,000 = 635,000

Diff: 3 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

14) It is possible for a partner's capital account to have a negative balance. This is known as a:

- A) capital deficiency
- B) capital requirement
- C) capital recovery
- D) capital efficiency

Answer: A

Diff: 1 Type: MC

CPA Competency: 1.3.1 Prepares financial statements

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Factual

Cognitive Taxon: Remember

15) Ivey and Balzac had a partnership that distributed profits in a ratio of 1:3 respectively. At the end of 2014, they agreed to liquidate the partnership. Prior to liquidation, the partnership had Cash of \$50,000, Inventory of \$75,000, Equipment (net) of \$235,000, and no payables. Partner capital balances were:

Ivey: \$100,000 Balzac: \$260,000

The inventory was sold for \$59,000 and the equipment was sold for \$243,000. After the assets were sold, what was Ivey's and Balzac's capital balance?

- A) \$90,000 and \$176,000 respectively
- B) \$106,000 and \$254,000 respectively
- C) \$ 98,000 and \$278,000 respectively
- D) \$98,000 and \$254,000 respectively

Answer: D

Explanation: D)

<u>Dr/(Cr)</u>	<u>Prelim Bal</u>	<u>Sell inv</u>	<u>Sell equip</u>	<u>Balance</u>
Cash	\$50,000	\$59,000	\$243,000	\$352,000
Inventory	75,000	(75,000)		0
Equipment	235,000		(235,000)	0
Accts pay	0			0
Ivey	(100,000)	4,000	(2,000)	(98,000)
Balzac	(260,000)	12,000	(6,000)	(254,000)
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Diff: 3 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

16) Which of the following statements about the liquidation of a partnership is TRUE?

- A) Gains and losses from the disposal of assets are always distributed to the partner's capital accounts based on their respective percentage of total capital.
- B) The final cash distribution is always based on equal shares.
- C) The final cash distribution is based on the partners' capital account balances.
- D) The final cash distribution is always based on the profit sharing formula specified in the partnership agreement.

Answer: C

Diff: 2 Type: MC

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Remember

Match the following.

- A) liquidation
- B) dissolution
- C) sell the assets
- D) pay all the partnership liabilities
- E) partnership
- F) mutual agency
- G) limited liability partnership
- H) death of a partner
- I) current market value
- J) unlimited liability
- K) partnership agreement
- L) general partnership
- M) distribution of remaining cash to partners
- N) bonus to old partners
- O) bonus to new partner
- P) equally

17) Agreement that is the contract between partners

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

18) Ending of a partnership

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

19) A voluntary association of two or more persons who co-own a business for profit

Diff: 1 Type: MA

CPA Competency:

Objective: 12-1 Identify the characteristics of a partnership

1.1.1 Evaluates financial reporting needs

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

20) Every partner can bind the business to a contract within the scope of the partnership's regular business operations

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

21) When a partnership cannot pay its debts with business assets, the partners must use personal assets to meet the debt

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

22) A partnership in which each partner's personal liability for the business's debts is limited to a certain dollar amount

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

23) Causes the dissolution of a partnership

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

24) The basic form of partnership organization

Diff: 1 Type: MA

CPA Competency: 1.1.1 Evaluates financial reporting needs

Objective: 12-1 Identify the characteristics of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

25) The assets invested by a partner are recorded on the books of the partnership at this value

Diff: 1 Type: MA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-2 Account for partners' initial investments in a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

26) Without an agreement, the law will stipulate this method of sharing profits and losses

Diff: 1 Type: MA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-3 Allocate profits and losses to the partners by different methods

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

27) New partner invests assets with a market value greater than the equity received

Diff: 1 Type: MA

CPA Competency: 1.2.2 Evaluates treatment for routine transactions

Objective: 12-4 Account for the admission of a new partner

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

28) The process of going out of business by selling the entity's assets and paying its liabilities

Diff: 1 Type: MA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

29) The final step in the liquidation of a partnership

Diff: 1 Type: MA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

30) The first step in partnership liquidation

Diff: 1 Type: MA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

Answers: 17) K 18) B 19) E 20) F 21) J 22) G 23) H 24) L 25) I 26) P 27) N 28) A 29) M 30) C

31) On August 1, 2017, Salt, Pepper, and Spice agree to liquidate their partnership. Salt has a capital balance of \$90,000, Pepper has a capital balance of \$37,500, and Spice has a capital balance of \$30,000. The partners share net income/net loss in a ratio of 4:3:3. Accounts payable amount to \$60,000. Assets are shown on the balance sheet at \$40,000 of cash and \$177,500 of noncash assets. All the noncash assets are sold for \$159,500.

Prepare entries to sell the noncash assets, pay the liabilities, and distribute the remaining cash to the partners.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Cash	159,500	
	Salt, Capital	7,200	
	Pepper, Capital	5,400	
	Spice, Capital	5,400	
	Noncash Assets		177,500
b)	Liabilities	60,000	
	Cash		60,000
c)	Salt, Capital	82,800	
	Pepper Capital	32,100	
	Spice Capital	24,600	
	Cash		139,500

Diff: 2 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

32) On January 1, 2017, Sybil, Vivien and Zoe agree to liquidate their partnership. Sybil has a capital balance of \$90,000, Vivien has a capital balance of \$37,500, and Zoe has a capital balance of \$20,000. The partners share net income/net loss in a ratio of 4:3:3. Accounts payable amount to \$60,000. Assets are shown on the balance sheet at \$20,000 of cash and \$187,500 of noncash assets. All the noncash assets are sold for \$100,000.

Prepare entries to sell the noncash assets, pay the liabilities, and distribute the remaining cash to the partners. If any of the partners have a deficit balance in their capital accounts, assume that the other partners absorb the deficit (based on their net income/loss ratio) before paying out the cash payment.

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Cash	100,000	
	Sybil, Capital	35,000	
	Vivien, Capital	26,250	
	Zoe, Capital	26,250	
	Noncash Assets		187,500
b)	Liabilities	60,000	
	Cash		60,000
c)	Sybil, Capital	3,571	
	Vivien, Capital	2,679	
	Zoe, Capital		6,250
	Sybil, Capital	51,429	
	Vivien, Capital	8,571	
	Cash		60,000

Explanation: Due to the \$87,500 loss on the sale of the noncash assets, Zoe has a deficit of \$6,250 which is absorbed by the other two partners using the ratio 4:3.

Diff: 2 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

33) Define liquidation and describe the steps followed to liquidate a partnership. How is the cash distributed to the partners?

Answer: Liquidation is the process of going out of business by selling the entity's assets and paying its liabilities.

Before the business is liquidated, its accounts must be adjusted and closed. The process of liquidating a partnership begins with the sale of all noncash assets, continues with the payment of all debts, and ends with the distribution of the remaining cash to the partners. The remaining cash is distributed to the partners based on their capital balances after selling these assets, dividing any gains or losses, and paying the entity's liabilities.

Diff: 2 Type: ES

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

34) Distinguish the difference between the following two accounting terms: "dissolution" and "liquidation".

Answer: Both signal the ending of a partnership. However dissolution does not require the assets to be sold and the debts to be paid as a new partnership is forming that will continue the business. When a partner leaves or a partner joins, the old partnership is dissolved and a new partnership is formed. Whereas liquidation means not only is the partnership ending but so is the business that the partnership owned and managed. Thus the assets need to be sold and the debts need to be paid, before all partners can receive their claim on the business.

Diff: 3 Type: ES

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

Table 12-14

Sammy, Davis, and Junior are in the process of liquidating their partnership. They share profits and losses in a 4:3:1 ratio. Following is the current balance sheet for the partnership:

Cash	\$290,000	Liabilities	\$65,000
Other assets	<u>335,000</u>	Sammy, capital	100,000
		Davis, capital	400,000
		Junior, capital	<u>60,000</u>
Total assets	<u>\$625,000</u>	Total liabilities and capital	<u>\$625,000</u>

35) Refer to Table 12-14 If the other assets are sold for \$320,000 calculate the amount that will be received by each of the partners upon the liquidation of the partnership.

Answer:	Opening	Allocate	Ending	Cash
	<u>Balance</u>	<u>Loss</u>	<u>Balance</u>	<u>Distribution</u>
Sammy, capital	100,000	(7,500)	92,500	92,500
Davis, capital	400,000	(5,625)	394,375	394,375
Junior, capital	60,000	(1,875)	58,125	58,125

Diff: 3 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

36) Refer to Table 12-14 If the other assets are sold for \$385,000 calculate the amount that will be received by each of the partners upon the liquidation of the partnership.

Answer:	Opening	Allocate	Ending	Cash
	<u>Balance</u>	<u>Income</u>	<u>Balance</u>	<u>Distribution</u>
Sammy, capital	100,000	25,000	125,000	125,000
Davis, capital	400,000	18,750	418,750	418,750
Junior, capital	60,000	6,250	66,250	66,250

Diff: 3 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

Table 12-15

Martha, Queen and Stuart are in the process of liquidating their partnership. They share profits and losses in a 2:3:1 ratio. Following is the current balance sheet for the partnership:

Cash	\$90,000	Liabilities	\$80,000
Other assets	<u>200,000</u>	Martha, capital	60,000
		Queen, capital	110,000
		Stuart, capital	<u>40,000</u>
Total assets	<u>\$290,000</u>	Total liabilities and capital	<u>\$290,000</u>

37) Refer to Table 12-15 If the other assets are sold for \$230,000 calculate the amount that will be received by each of the partners upon the liquidation of the partnership.

Answer:	Opening	Allocate	Ending	Cash
	<u>Balance</u>	<u>Income</u>	<u>Balance</u>	<u>Distribution</u>
Martha, capital	60,000	10,000	70,000	70,000
Queen, capital	110,000	15,000	125,000	125,000
Stuart, capital	40,000	5,000	45,000	45,000

Diff: 3 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

38) Refer to Table 12-15 If the other assets are sold for \$191,000 calculate the amount that will be received by each of the partners upon the liquidation of the partnership.

Answer:	Opening	Allocate	Ending	Cash
	<u>Balance</u>	<u>Loss</u>	<u>Balance</u>	<u>Distribution</u>
Martha, capital	60,000	(3,000)	57,000	57,000
Queen, capital	110,000	(4,500)	105,500	105,500
Stuart, capital	40,000	(1,500)	38,500	38,500

Diff: 3 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply

39) When a partnership liquidates, there may not be enough cash from the sale of the assets to pay the liabilities. What happens in this situation?

Answer: When there is not enough cash to pay the liabilities, the partners who are personally liable for the partnerships debts must contribute cash on the basis of their profit-and-loss ratio to cover unpaid debts.

Diff: 3 Type: ES

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Conceptual

Cognitive Taxon: Understand

40) Rahman, Ganesh and Malik had a long-standing and highly profitable accounting business organized as a partnership with equal sharing of profits and losses. At the end of 2014, all partners agreed to liquidate the partnership. At that time, the balance sheet was as follows:

Assets		Liabilities & Owner's Equity	
Cash	\$51,000	Accounts payable	\$5,000
Inventory	60,000	Rahman, capital	51,600
Land	100,000	Ganesh, capital	64,400
		Malik, capital	90,000
Total assets	\$211,000	Total liabilities & owner's equity	\$211,000

The inventory was sold for \$54,000 and the land was sold for \$220,000 cash. After sale of the assets and settlement of accounts payable, how much were the balances in the partners' capital accounts?

Answer:

Dr/(Cr)	<u>Prelim balance</u>	<u>Sell inv</u>	<u>Sell land</u>	<u>Pay A/P</u>	<u>Balance</u>
Cash	\$51,000	\$54,000	\$220,000	\$(5,000)	\$320,000
Inven	60,000	(60,000)			0
Land	100,000		(100,000)		0
Accts pay	(5,000)			5,000	0
Rahman	(51,600)	2,000	(40,000)		(89,600)
Ganesh	(64,400)	2,000	(40,000)		(102,400)
Malik	(90,000)	2,000	(40,000)		(128,000)
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Diff: 3 Type: SA

CPA Competency: 1.2.3 Evaluates treatment for non-routine transactions

Objective: 12-6 Account for the liquidation of a partnership

Knowledge Taxon: Procedural

Cognitive Taxon: Apply