CHAPTER 12

ACCOUNTING FOR PARTNERSHIPS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	9.	2	C	17.	3	K	25.	5	K	[sg]33.	2	K
2.	1	K	10.	2	C	18.	3	K	[a]26.	6	K	[sg]34.	3	C
3.	1	K	11.	3	K	19.	4	C	[a]27.	6	C	[sg]35.	5	K
4.	1	K	12.	3	K	20.	4	C	[a]28.	6	C	[sg,a]36.	6	K
5.	1	K	13.	3	K	21.	4	K	[a]29.	6	C	[sg,a]37.	7	K
6.	2	K	14.	3	K	22.	4	K	[a]30.	7	C			
7.	2	AP	15.	3	C	23.	4	K	[sg]31.	1	K			
8.	2	K	16.	3	K	24.	5	K	[sg]32.	1	K			
Multiple Choice Questions														
38.	1	K	63.	3	K	88.	4	K	113.	5	AP	[a]138.	6	C
39.	1	K	64.	2	C	89.	4	K	114.	5	AP	[a]139.	6	C
40.	1	K	65.	2	AP	90.	4	K	115.	5	AP	[a]140.	7	AP
41.	2	K	66.	2	AP	91.	4	C	116.	5	AP	[a]141.	7	AP
42.	1	K	67.	2	AP	92.	4	AP	117.	5	AP	[a]142.	7	AP
43.	1	K	68.	2	AP	93.	4	AP	118.	5	AP	[a]143.	7	AP
44.	1	K	69.	2	AP	94.	4	AP	119.	5	AP	[a]144.	7	C
45.	1	K	70.	3	AP	95.	4	AP	120.	5	AP	[a]145.	7	K
46.	1	K	71.	3	AP	96.	4	K	[a]121.	6	AP	[a]146.	7	AP
47.	1	K	72.	3	AP	97.	4	K	[a]122.	6	AP	[a]147.	7	AP
48.	1	K	73.	3	AP	98.	4	K	[a]123.	6	AP	[a]148.	7	AP
49.	1	K	74.	3	AP	99.	5	K	[a]124.	6	AP	[st]149.	1	K
50.	1	K	75.	3	AP	100.	5	K	[a]125.	6	AP	[sg]150.	1	C
51.	1	K	76.	3	AP	101.	5	K	[a]126.	6	AP	[st]151.	2	K
52.	5	C	77.	3	C	102.	5	AP	[a]127.	6	AP	[sg]152.	3	C
53.	3	K	78.	3	K	103.	5	AP	[a]128.	6	AP	[st]153.	3	K
54.	1	K	79.	3	K	104.	5	AP	[a]129.	6	C	[sg]154.	5	K
55.	1	K	80.	3	AP	105.	5	AP	[a]130.	6	C	[st]155.	5	K
56.	3	K	81.	3	C	106.	5	K	[a]131.	6	AP	[sg]156.	5	K
57.	1	AP	82.	3	C	107.	5	C	[a]132.	6	AP	[st]157.	5	K
58.	2	AP	83.	3	C	108.	5	K	[a]133.	6	AP	[sg,a]158.	6	C
59.	2	AP	84.	3	C	109.	5	K	[a]134.	6	C	[sg,a]159.	6	AP
60.	2	K	85.	3	AP	110.	5	K	[a]135.	6	C			
61.	2	C	86.	3	AP	111.	5	K	[a]136.	6	C			
62.	2	K	87.	3	AP	112.	5	C	[a]137.	6	K			
Brief Exercises														
160.	2	AP	162.	3	AP	164.	5	AP	[a]166.	6	AP	[a]168.	7	AP
161.	2	AP	163.	4	AP	165.	5	AP	[a]167.	6	AP	[a]169.	7	AP

[sg] This question also appears in the Study Guide.
[st] This question also appears in a self-test at the student companion website.
[a] This question covers a topic in an appendix to the chapter.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
170.	2	AP	175.	3	AP	180.	4	AP	185.	5	AP	[a]190.	6	AP
171.	2	AP	176.	3	AP	181.	5	AP	186.	5	AP	[a]191.	6	AP
172.	2	AP	177.	3	AP	182.	4	AP	187.	5	AP	[a]192.	6,7	AP
173.	3	AP	178.	3	AP	183.	5	AP	[a]188.	6	AP	[a]193.	7	AP
174.	3	AP	179.	3,4	AP	184.	5	AP	[a]189.	6	AP	[a]194.	7	AP
Completion Statements														
195.	1	K	198.	3	K	201.	3	K	[a]204.	6	K			
196.	1	K	199.	3	K	202.	5	K	[a]205.	6	K			
197.	1	K	200.	3	K	203.	5	K	[a]206.	6	K			
Matching Statements														
207.	1	K												
Short-Answer Essay														
208.	1	S	210.	4	S	212.	1	S						
209.	3	S	211.	5	S	213.	1	S						

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	31.	TF	42.	MC	47.	MC	52.	MC	150.	MC	208.	SA
2.	TF	32.	TF	43.	MC	48.	MC	54.	MC	195.	C	212.	SA
3.	TF	38.	MC	44.	MC	49.	MC	55.	MC	196.	C	213.	SA
4.	TF	39.	MC	45.	MC	50.	MC	57.	MC	197.	C		
5.	TF	40.	MC	46.	MC	51.	MC	149.	MC	207.	MA		
Learning Objective 2													
6.	TF	10.	TF	58.	MC	62.	MC	66.	MC	151.	MC	171.	Ex
7.	TF	33.	TF	59.	MC	63.	MC	67.	MC	160.	BE	172.	Ex
8.	TF	41.	MC	60.	MC	64.	MC	68.	MC	161.	BE		
9.	TF	56.	MC	61.	MC	65.	MC	69.	MC	170.	Ex		
Learning Objective 3													
11.	TF	18.	TF	72.	MC	79.	MC	86.	MC	175.	Ex	199.	C
12.	TF	34.	TF	73.	MC	80.	MC	87.	MC	176.	Ex	200.	C
13.	TF	53.	MC	74.	MC	81.	MC	152.	MC	177.	Ex	201.	C
14.	TF	56.	MC	75.	MC	82.	MC	153.	MC	178.	Ex	209.	SA
15.	TF	63.	MC	76.	MC	83.	MC	162.	BE	179.	Ex		
16.	TF	70.	MC	77.	MC	84.	MC	173.	Ex	187.	Ex		
17.	TF	71.	MC	78.	MC	85.	MC	174.	Ex	198.	C		
Learning Objective 4													
19.	TF	22.	TF	89.	MC	92.	MC	95.	MC	98.	MC	180.	Ex
20.	TF	23.	TF	90.	MC	93.	MC	96.	MC	163.	BE	182.	Ex
21.	TF	88.	MC	91.	MC	94.	MC	97.	MC	179.	Ex	210.	SA

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 5													
24.	TF	101.	MC	107.	MC	113.	MC	119.	MC	164.	BE	186.	Ex
25.	TF	102.	MC	108.	MC	114.	MC	120.	MC	165.	BE	187.	Ex
35.	TF	103.	MC	109.	MC	115.	MC	154.	MC	181.	Ex	202.	C
52.	MC	104.	MC	110.	MC	116.	MC	155.	MC	183.	Ex	203.	C
99.	MC	105.	MC	111.	MC	117.	MC	156.	MC	184.	Ex	211.	SA
100.	MC	106.	MC	112.	MC	118.	MC	157.	MC	185.	Ex		
Learning Objective [a]6													
[a]26.	TF	[a]122.	MC	[a]128.	MC	[a]134.	MC	[a]158.	MC	[a]190.	Ex		
[a]27.	TF	[a]123.	MC	[a]129.	MC	[a]135.	MC	[a]159.	MC	[a]191.	Ex		
[a]28.	TF	[a]124.	MC	[a]130.	MC	[a]136.	MC	166.	BE	[a]192.	Ex		
[a]29.	TF	[a]125.	MC	[a]131.	MC	[a]137.	MC	167.	BE	[a]204.	C		
[a]36.	TF	[a]126.	MC	[a]132.	MC	[a]138.	MC	[a]188.	Ex	[a]205.	C		
[a]121.	MC	[a]127.	MC	[a]133.	MC	[a]139.	MC	[a]189.	Ex	[a]206.	C		
Learning Objective [a]7													
[a]30.	TF	[a]141.	MC	[a]144.	MC	[a]147.	MC	[a]169.	BE	[a]194.	Ex		
[a]37.	TF	[a]142.	MC	[a]145.	MC	[a]148.	MC	[a]192.	Ex				
[a]140.	MC	[a]143.	MC	[a]146.	MC	[a]168.	BE	[a]193.	Ex				

Note: TF = True-False; BE = Brief Exercise; C = Completion
MC = Multiple Choice; Ex = Exercise; MA = Matching
SA = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

1. ***Identify the characteristics of the partnership form of business organization.*** The principal characteristics of a partnership are (a) association of individuals, (b) mutual agency, (c) limited life, (d) unlimited liability, and (e) co-ownership of property.

2. ***Explain the accounting entries for the formation of a partnership.*** When formed, a partnership records each partner's initial investment at the fair value of the assets at the date of their transfer to the partnership.

3. ***Identify the bases for dividing net income or net loss.*** Partnerships divide net income or net loss on the basis of the income ratio, which may be (a) a fixed ratio, (b) a ratio based on beginning or average capital balances, (c) salaries to partners and the remainder on a fixed ratio, (d) interest on partners' capital and the remainder on a fixed ratio, and (e) salaries to partners, interest on partners' capital, and the remainder on a fixed ratio.

4. ***Describe the form and content of partnership financial statements.*** The financial statements of a partnership are similar to those of a proprietorship. The principal differences are (a) The partnership shows the division of net income on the income statement. (b) The owners' equity statement is called a partners' capital statement. (c) The partnership reports each partner's capital on the balance sheet.

5. ***Explain the effects of the entries to record the liquidation of a partnership.*** When a partnership is liquidated, it is necessary to record the (a) sale of noncash assets, (b) allocation of the gain or loss on realization, (c) payment of partnership liabilities, and (d) distribution of cash to the partners on the basis of their capital balances.

[a]6. ***Explain the effects of the entries when a new partner is admitted.*** The entry to record the admittance of a new partner by purchase of a partner's interest affects only partners' capital accounts. The entries to record the admittance by investment of assets in the partnership (a) increase both net assets and total capital and (b) may result in recognition of a bonus to either the old partners or the new partner.

[a]7. ***Describe the effects of the entries when a partner withdraws from the firm.*** The entry to record a withdrawal from the firm when the partners pay from their personal assets affects only partners' capital accounts. The entry to record a withdrawal when payment is made from partnership assets (a) decreases net assets and total capital and (b) may result in recognizing a bonus either to the retiring partner or the remaining partners.

TRUE-FALSE STATEMENTS

1. The personal assets, liabilities, and personal transactions of partners are excluded from the accounting records of the partnership.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

2. The act of any partner is binding on all other partners if the act appears to be appropriate for the partnership.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

3. A major advantage of the partnership form of organization is that the partners have unlimited liability.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

4. Partnership creditors may have a claim on the personal assets of any of the partners if the partnership assets are not sufficient to settle claims.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

5. The partnership agreement between partners must be in writing.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

6. If a partner invests noncash assets in a partnership, they should be recorded by the partnership at their fair value.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

7. L. Hampton invests the following assets in a new partnership: $30,000 in cash, and equipment that cost $70,000 but has a book value of $34,000 and fair value of $40,000. Hampton, Capital will be credited for $64,000.

Ans: F, LO: 2, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

solution: $30,000 + $40,000 = $70,000

8. Two proprietorships cannot combine and form a partnership.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

9. If a partner’s investment in a partnership consists of equipment that has accumulated depreciation of $8,000, it would not be appropriate for the partnership to record the accumulated depreciation.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

10. If a partner’s investment in a partnership consists of Accounts Receivable of $35,000 and an Allowance for Doubtful Accounts of $7,000, it would not be appropriate for the partnership to record the Allowance for Doubtful Accounts.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

11. Unless stated otherwise in the partnership contract, profits and losses are shared among the partners in the ratio of their capital equity balances.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

12. If salary allowances and interest on capital are stipulated in the partnership profit and loss sharing agreement, they are implemented only if income is sufficient to cover the amounts required by these features.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

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

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

14. Partnership income or loss need not be closed to partners’ capital accounts each period because of the unlimited life characteristic of partnerships.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. If a partnership has a loss for the period, the closing entry to transfer the loss to the partners will require a credit to the Income Summary account.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

16. The partners' drawing accounts are closed each period into the Income Summary account.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

17. Salary allowances to partners are a major expense on most partnership income statements.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. An interest allowance in sharing partnership net income (or net loss) is related to the amount of partners' invested capital during the period.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

19. The financial statements of a partnership are similar to those of a proprietorship.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

20. The income earned by a partnership will always be greater than the income earned by a proprietorship because in a partnership there is more than one owner contributing to the success of the business.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

21. The function of the Partners' Capital Statement is to explain the changes in partners' capital account balances during a period.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

22. A detailed listing of all the assets invested by a partner in a partnership appears on the Partners' Capital Statement.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

23. Total partners' equity of a partnership is equal to the sum of all partners' capital account balances.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

24. The distribution of cash to partners in a partnership liquidation is always made based on the partners' income sharing ratio.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

25. The liquidation of a partnership means that a new partner has been admitted to the partnership.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]26. The admission of a new partner results in the legal dissolution of the existing partnership and the beginning of a new partnership.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]27. If a new partner is admitted into a partnership by investment, the total assets and total capital will change.

Ans: T, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]28. A bonus to old partners results when the new partner's capital credit on the date of admittance is greater than his or her investment in the firm.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]29. If a new partner invests in a partnership at book value and acquires a 1/4 interest in total partnership capital, it indicates that a bonus was paid to the original partners.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]30. A bonus to the remaining partners results when a retiring partner receives partnership assets which are less than his or her capital balance on the date of withdrawal.

Ans: T, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

31. A partnership is an association of no more than two persons to carry on as co-owners of a business for profit.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

32. Once assets have been invested in the partnership, they are owned jointly by all partners.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

33. Each partner's initial investment in a partnership should be recorded at book value.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

34. Partnership income is shared in proportion to each partner's capital equity interest unless the partnership contract specifically indicates the manner in which net income or net loss is to be divided.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

35. In a liquidation, the final distribution of cash to partners should be on the basis of their income ratios.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]36. In an admission of a partner by investment of assets, the total net assets and total capital of the partnership do not change.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]37. The withdrawal of a partner legally dissolves the partnership.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	7.	F	13.	F	19.	T	25.	F	31.	F	[a]37.	T
2.	T	8.	F	14.	F	20.	F	[a]26.	T	32.	T		
3.	F	9.	T	15.	T	21.	T	[a]27.	T	33.	F		
4.	T	10.	F	16.	F	22.	F	[a]28.	F	34.	F		
5.	F	11.	F	17.	F	23.	T	[a]29.	F	35.	F		
6.	T	12.	F	18.	T	24.	F	[a]30.	T	[a]36.	F		

MULTIPLE CHOICE QUESTIONS

38. A hybrid form of business organization with certain features like a corporation is a(n)
    a. limited liability partnership.
    b. limited liability company.
    c. "S" corporation.
    d. sub-chapter "S" corporation.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

39. A partnership
    a. has only one owner.
    b. pays taxes on partnership income.
    c. must file an information tax return.
    d. is not an accounting entity for financial reporting purposes.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

40. A general partner in a partnership
    a. has unlimited liability for all partnership debts.
    b. is always the general manager of the firm.
    c. is the partner who lacks a specialization.
    d. is liable for partnership liabilities only to the extent of that partner’s capital equity.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

41. The individual assets invested by a partner in a partnership
    a. revert back to that partner if the partnership liquidates.
    b. determine that partner’s share of net income or loss for the year.
    c. are jointly owned by all partners.
    d. determine the scope of authority of that partner.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

42. Which one of the following would **not** be considered a disadvantage of the partnership form of organization?
    a. Limited life
    b. Unlimited liability
    c. Mutual agency
    d. Ease of formation

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

43. The partnership form of business is
    a. restricted to law and medical practices.
    b. restricted to firms having fewer than 10 partners.
    c. not restricted to any particular type of business.
    d. most often used in relatively large companies.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

44. Which of the following is **not** a principal characteristic of the partnership form of business organization?
    a. Mutual agency
    b. Association of individuals
    c. Limited liability
    d. Limited life

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

45. The partnership agreement should include each of the following **except** the
    a. date of the partnership inception.
    b. principal location of the firm.
    c. surviving family members in the event of a partner's death.
    d. Each of these should be included.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

46. Which of the following statements is true regarding the form of a legally binding partnership contract?
    a. The partnership contract must be in writing.
    b. The partnership contract may be based on a handshake.
    c. The partnership contract may be implied.
    d. The partnership contract cannot be oral.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

47. Which of the following statements about a partnership is correct?
    a. The personal assets of a partner are included in the partnership accounting records.
    b. A partnership is not required to file an information tax return.
    c. Each partner's share of income is taxable to the partnership.
    d. A partnership represents an accounting entity for financial reporting purposes.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

48. In a partnership, mutual agency means
    a. each partner acts on his own behalf when engaging in partnership business.
    b. the act of any partner is binding on all other partners, only if partners act within their scope of authority.
    c. an act by a partner is judged as binding on other partners depending on whether the act appears to be appropriate for the partnership.
    d. that partners must pay taxes on a mutual or combined basis.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

49. A partnership
    a. is dissolved only by the withdrawal of a partner.
    b. is dissolved upon the acceptance of a new partner.
    c. dissolution means the business must liquidate.
    d. has unlimited life.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

50. The partner in a limited partnership that has unlimited liability is referred to as the
    a. lead partner.
    b. head partner.
    c. general partner.
    d. unlimited partner.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

51. Limited partnerships
    a. must have at least one general partner.
    b. guarantee that a partner will receive a return.
    c. guarantee that a partner will get back his original investment.
    d. are limited to only three partners.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

52. The Salinas-Milliken partnership is terminated when creditor claims exceed partnership assets by $80,000. Salinas is a millionaire and Milliken has no personal assets. Milliken's partnership interest is 75% and Salinas's is 25%. Creditors
    a. must collect their claims equally from Milliken and Salinas.
    b. may collect the entire $80,000 from Salinas.
    c. must collect their claims 75% from Milliken and 25% from Salinas.
    d. may not require Salinas to use his personal assets to satisfy the $80,000 in claims.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

53. Which of the following statements about partnerships is **incorrect**?
    a. Partnership assets are co-owned by partners.
    b. If a partnership is terminated, the assets do not legally revert to the original contributor.
    c. If the partnership agreement does not specify the manner in which net income is to be shared, it is distributed according to capital contributions.
    d. Each partner has a claim on assets equal to the balance in the partner's capital account.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

54. Which of the following is **not** an advantage of the partnership form of business?
    a. Mutual agency
    b. Ease of formation
    c. Ease of decision making
    d. Freedom from governmental regulations and restrictions

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

55. The largest companies in the United States are primarily organized as
    a. limited partnerships.
    b. partnerships.
    c. corporations.
    d. proprietorships.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

56. The basis for dividing partnership net income or net loss is referred to as any of the following **except** the
    a. income ratio.
    b. income and loss ratio.
    c. profit and loss ratio.
    d. income sharing ratio.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

57. Which of the following statements is **incorrect** regarding partnership agreements?
    a. It may be referred to as the "articles of co-partnership."
    b. Oral agreements are preferable to written articles.
    c. It should specify the different relationships that are to exist among the partners.
    d. It should state procedures for submitting disputes to arbitration.

Ans: B, LO: 1, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

58. Bagley invests personally owned equipment, which originally cost $220,000 and has accumulated depreciation of $60,000 in the Bagley and Eggers partnership. Both partners agree that the fair value of the equipment was $120,000. The entry made by the partnership to record Bagley's investment should be

a.	Equipment	220,000	
	Accumulated Depreciation—Equipment		60,000
	Bagley, Capital		160,000
b.	Equipment	160,000	
	Bagley, Capital		160,000
c.	Equipment	120,000	
	Loss on Purchase of Equipment	40,000	
	Accumulated Depreciation—Equipment	60,000	
	Bagley, Capital		220,000
d.	Equipment	120,000	
	Bagley, Capital		120,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

59. Nate is investing in a partnership with Deidre. Nate contributes as part of his initial investment, Accounts Receivable of $60,000; an Allowance for Doubtful Accounts of $9,000; and $6,000 cash. The entry that the partnership makes to record Nate's initial contribution includes a
    a. credit to Nate, Capital for $66,000.
    b. debit to Accounts Receivable for $51,000.
    c. credit to Nate, Capital for $57,000.
    d. debit to Allowance for Doubtful Accounts for $9,000.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $60,000 − $9,000 + $6,000 = $57,000

60. Which of the following would **not** be recorded in the entry for the formation of a partnership?
    a. Accumulated depreciation
    b. Allowance for doubtful accounts
    c. Accounts receivable
    d. All of these would be recorded.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

61. Todd is investing in a partnership with Joseph. Todd contributes equipment that originally cost $42,000, has a book value of $20,000, and a fair value of $26,000. The entry that the partnership makes to record Todd's initial contribution includes a
    a. debit to Equipment for $22,000.
    b. debit to Equipment for $42,000.
    c. debit to Equipment for $26,000.
    d. credit to Accumulated Depreciation for $22,000.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

62. Julie contributes, as part of her initial investment, accounts receivable with an allowance for doubtful accounts. Which of the following reflects a proper treatment?
    a. The balance of the accounts receivable account should be recorded on the books of the partnership at its net realizable value.
    b. The allowance account may be set up on the books of the partnership because it relates to the existing accounts that are being contributed.
    c. The allowance account should not be carried onto the books of the partnership.
    d. The accounts receivable and allowance should not be recorded on the books of the partnership because a partner must invest cash in the business.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

63. Which one of the following would **not** be considered an expense of a partnership in determining income for the period?
    a. Expired insurance
    b. Salary allowance to partners
    c. Supplies used
    d. Freight-out

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

64. A partner invests into a partnership a building with an original cost of $360,000 and accumulated depreciation of $160,000. This building has a $280,000 fair value. As a result of the investment, the partner's capital account will be credited for
    a. $280,000.
    b. $200,000.
    c. $360,000.
    d. $480,000.

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

65. Brian and Sandy are forming a partnership. Brian will invest a truck with a book value of $10,000 and a fair value of $14,000. Sandy will invest a building with a book value of $30,000 and a fair value of $42,000 with a mortgage of $15,000. At what amount should the building be recorded?
    a. $30,000
    b. $27,000
    c. $42,000
    d. $45,000

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

66. Brian and Sandy are forming a partnership. Brian will invest a truck with a book value of $10,000 and a fair value of $14,000. Sandy will invest a building with a book value of $30,000 and a fair value of $42,000 with a mortgage of $15,000. What amount should be recorded in Sandy's capital account?
    a. $30,000
    b. $27,000
    c. $42,000
    d. $14,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $42,000 – $15,000 = $27,000

67. Brian and Sandy are forming a partnership. Brian will invest a truck with a book value of $10,000 and a fair value of $14,000. Sandy will invest a building with a book value of $30,000 and a fair value of $42,000 with a mortgage of $15,000. What amount should be recorded in Brian's capital account?
    a. $30,000
    b. $27,000
    c. $42,000
    d. $14,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

68. Brekke and Fig decide to organize a partnership. Brekke invests $30,000 cash, and Fig contributes $24,000 cash and equipment having a book value of $12,000. Choose the entry to record Fig's investment in the partnership assuming the equipment has a fair value of $18,000.

a.	Cash	24,000	
	Equipment	12,000	
	Fig, Capital		36,000
b.	Equipment	12,000	
	Fig, Capital		12,000
c.	Cash	24,000	
	Fig, Capital		24,000
d.	Cash	24,000	
	Equipment	18,000	
	Fig, Capital		42,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

69. M. Abadie and S. Collier combine their individual sole proprietorships to start the Abadie - Collier partnership. M. Abadie and S. Collier invest in the partnership as follows

	Book Value		Fair Value	
	Abadie	Collier	Abadie	Collier
Cash	$21,000	$6,000	$21,000	$6,000
Accounts Receivable	10,000	5,000	10,000	5,000
Allowance for Doubtful Accounts	(1,500)	(600)	(2,100)	(900)
Equipment	15,000	24,000	13,500	9,000
Accumulated Depreciation	(3,000)	(9,000)		

The entries to record the investment will include a credit to:
a. Abadie, Capital of $41,500.
b. Collier, Capital of $19,100.
c. Abadie, Capital of $43,000.
d. Collier, Capital of $25,100.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $6,000 + $5,000 + $9,000 – $900 = $19,100

70. Partners Gary and Elaine have agreed to share profits and losses in an 80:20 ratio respectively, after Gary is allowed a salary allowance of $30,000 and Elaine is allowed a salary allowance of $15,000. If the partnership had net income of $30,000 for 2014, Elaine's share of the income would be
a. $15,000.
b. $12,000.
c. $18,000.
d. $3,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $30,000 – $30,000 – $15,000 = – $15,000; $15,000 – (20%) ($15,000) = $12,000

71. The partnership agreement of Alix, Gise, and Bosco provides for the following income ratio: (a) Alix, the managing partner, receives a salary allowance of $108,000, (b) each partner receives 15% interest on average capital investment, and (c) remaining net income or loss is divided equally. The average capital investments for the year were: Alix $600,000, Gise $1,200,000, and Bosco $1,800,000. If partnership net income is $720,000, the amount distributed to Gise should be:
a. $180,000.
b. $186,000.
c. $204,000.
d. $240,000.

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $720,000 – $108,000 – (.15) ($600,000 + $1,200,000 + $1,800,000) = $72,000; (.15) ($1,200,000) + (72,000 / 3) = $204,000

72. The partnership agreement of Alix, Gise, and Bosco provides for the following income ratio: (a) Alix, the managing partner, receives a salary allowance of $108,000, (b) each partner receives 15% interest on average capital investment, and (c) remaining net income or loss is divided equally. The average capital investments for the year were: Alix $600,000, Gise $1,200,000, and Bosco $1,800,000. If partnership net income is $540,000, the amount distributed to Alix should be
   a. $90,000.
   b. $162,000.
   c. $180,000.
   d. $198,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $540,000 – $108,000 – (.15) ($600,000 + $1,200,000 + $1,800,000) = – $108,000; $108,000 + (.15) ($600,000) + (– 108,000 ÷ 3) = + 162,000

73. Partners Cantor and Dickens have capital balances in a partnership of $160,000 and $240,000, respectively. They agree to share profits and losses as follows:

	Cantor	Dickens
As salaries	$40,000	$48,000
As interest on capital at the beginning of the year	10%	10%
Remaining profits or losses	50%	50%

If income for the year was $200,000, what will be the distribution of income to Dickens ?
   a. $92,000
   b. $108,000
   c. $80,000
   d. $40,000

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $200,000 – $40,000 – $48,000 – (.10) ($160,000 + $240,000) = – $72,000; $48,000 + (.10) ($240,000) + ($72,000/2) = $108,000

74. Partners Cantor and Dickens have capital balances in a partnership of $160,000 and $240,000, respectively. They agree to share profits and losses as follows:

	Cantor	Dickens
As salaries	$40,000	$48,000
As interest on capital at the beginning of the year	10%	10%
Remaining profits or losses	50%	50%

If income for the year was $120,000, what will be the distribution of income to Cantor?
   a. $52,000
   b. $64,000
   c. $40,000
   d. $56,000

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $120,000 – $40,000 – $48,000 – (.10) ($160,000 + $240,000) = – $8,000; $40,000 + (.10) ($160,000) + (– $8,000/2) = $52,000

75. Partners Cantor and Dickens have capital balances in a partnership of $160,000 and $240,000, respectively. They agree to share profits and losses as follows:

	Cantor	Dickens
As salaries	$40,000	$48,000
As interest on capital at the beginning of the year	10%	10%
Remaining profits or losses	50%	50%

If net loss for the year was $8,000, what will be the distribution to Dickens?
a. $48,000 income
b. $4,000 income
c. $4,000 loss
d. $8,000 loss

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: – $8,000 – $40,000 – $48,000 – (.10) ($160,000 + $240,000) = – $136,000; $48,000 + (.10) ($240,00) – ($136,000/2) = $4,000

76. Partners Eli and Alex have agreed to share profits and losses in an 80:20 ratio respectively, after Eli is allowed a salary allowance of $70,000 and Alex is allowed a salary allowance of $35,000. If the partnership had net income of $70,000 for 2014, Alex's share of the income would be
a. $35,000.
b. $28,000.
c. $42,000.
d. $7,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $70,000 – $70,000 – $35,000 = – $35,000; $35,000 – (.20) ($35,000) = $28,000

77. The most appropriate basis for dividing partnership net income when the partners do not plan to take an active role in daily operations is
a. on a fixed ratio.
b. interest on capital balances and salaries to the partners.
c. on a ratio based on average capital balances.
d. salaries to the partners and the remainder on a fixed ratio.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

78. The Mayer and Rodin partnership agreement stipulates that profits and losses will be shared equally after salary allowances of $400,000 for Mayer and $200,000 for Rodin. At the beginning of the year, Mayer's Capital account had a balance of $800,000, while Rodin's ' Capital account had a balance of $700,000. Net income for the year was $500,000. The balance of Rodin's Capital account at the end of the year after closing is
a. $950,000.
b. $200,000.
c. $850,000.
d. $900,000.

Ans: C, LO: 3, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $500,000 – $400,000 – $200,000 = – $100,000; $200,000 – ($100,000/2) = $150,000; $700,000 + $150,000 = $850,000

79. A partner's share of net income is recognized in the accounts through
    a. adjusting entries.
    b. closing entries.
    c. correcting entries.
    d. accrual entries.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

80. The partnership of Bher and Dhillips reports net income of $120,000. The partners share equally in income and losses. The entry to record the partners' share of net income will include a
    a. credit to Income Summary for $120,000.
    b. credit to Bher, Capital for $60,000.
    c. debit to Dhillips, Capital for $60,000.
    d. credit to Dhillips, Drawing for $60,000.

Ans: B, LO: 3, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Solution: $120,000/2 = $60,000

81. Michelle receives $210,000 and Stephanie receives $140,000 in a split of $350,000 net income. Which expression does **not** reflect the income splitting arrangement?
    a. 3:2
    b. 3/5 & 2/5
    c. 6:4
    d. 2:1

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $350,000/5 = $70,000; $70,000 × 2 = $140,000;$70,000 × 3 = $210,000

82. An income ratio based on capital balances might be appropriate when
    a. service is a primary consideration.
    b. some, but not all, partners plan to work in the business.
    c. funds invested in the partnership are considered the critical factor.
    d. little net income is expected.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

83. If the partnership agreement specifies salaries to partners, interest on partners' capital, and the remainder on a fixed ratio, and partnership net income is not sufficient to cover both salaries and interest,
    a. only salaries are allocated to the partners.
    b. only interest is allocated to the partners.
    c. the entire net income is shared on a fixed ratio.
    d. both salaries and interest are allocated to the partners.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

84. Which of the following would *not* be considered an expense of a partnership in determining income for the period?
    a. Expired insurance
    b. Income tax expense
    c. Rent expense
    d. Utilities expense

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

85. The net income of the Crowe and Browning partnership is $450,000. The partnership agreement specifies that Crowe and Browninghave a salary allowance of $120,000 and $180,000, respectively. The partnership agreement also specifies an interest allowance of 10% on capital balances at the beginning of the year. Each partner had a beginning capital balance of $300,000. Any remaining net income or net loss is shared equally.
    What is Crowe's share of the $450,000 net income?
    a. $120,000
    b. $150,000
    c. $165,000
    d. $195,000

Ans: D, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: $450,000 − $120,000 − $180,000 − (.10) (2) ($300,000) = $90,000; $120,000 + (.10) ($300,000) + ($90,000/2) = $195,000

86. The net income of the Crowe and Browning partnership is $450,000. The partnership agreement specifies that Crowe and Browning have a salary allowance of $120,000 and $180,000, respectively. The partnership agreement also specifies an interest allowance of 10% on capital balances at the beginning of the year. Each partner had a beginning capital balance of $300,000. Any remaining net income or net loss is shared equally.
    What is the balance of Browning's Capital account at the end of the year after net income has been distributed?
    a. $510,000
    b. $480,000
    c. $555,000
    d. $525,000

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $450,000 − $120,000 − $180,000 − (.10) (2) ($300,000) = $9,0000; $300,000 + $180,000 + (.10) ($300,000) + ($90,000/2) = $555,000

87. The net income of the Travis and Tucker partnership is $125,000. The partnership agreement specifies that profits and losses will be shared equally after salary allowances of $100,000 (Travis) and $150,000 (Tucker) have been allocated. At the beginning of the year, Travis's Capital account had a balance of $250,000 and Tucker's Capital account had a balance of $325,000. What is the balance of Tucker's Capital account at the end of the year after profits and losses have been distributed?
    a. $325,000
    b. $50,000
    c. $412,500
    d. $387,500

Ans: C, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: $125,000 − $100,000 − $150,000 = − $125,000; $325,000 + $150,000 − ($125,000/2) = $412,500

88. A partners' capital statement explains
    a. the amount of legal liability of each of the partners.
    b. the types of assets invested in the business by each partner.
    c. how the partnership will be capitalized if a new partner is admitted to the partnership.
    d. the changes in each partner's capital account and in total partnership capital during a period.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

89. Each of the following is used in preparing the partners' capital statement **except** the
    a. balance sheet.
    b. income statement.
    c. partners' capital accounts.
    d. partners' drawing accounts.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

90. The owners' equity statement for a partnership is called the
    a. partners' proportional statement.
    b. partners' capital statement.
    c. statement of shareholders' equity.
    d. capital and drawing statement.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

91. Which of the following would **not** cause an increase in partnership capital?
    a. Drawings
    b. Net income
    c. Additional capital investment by the partners
    d. Initial capital investment by the partners

Ans: A, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

92. Mary Jessica's capital statement reveals that her drawings during the year were $50,000. She made an additional capital investment of $25,000 and her share of the net loss for the year was $10,000. Her ending capital balance was $200,000. What was Jessica's beginning capital balance?
    a. $225,000
    b. $185,000
    c. $235,000
    d. $260,000

Ans: C, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: X + $25,000 − $50,000 − $10,000 = $200,000; X = $235,000

93.Jon Winek started the year with a capital balance of $135,000. During the year, his share of partnership net income was $120,000 and he withdrew $22,500 from the partnership for personal use. He made an additional capital contribution of $37,500 during the year. The amount of Jon Winek's capital balance that will be reported on the year-end balance sheet will be

a. $120,000.
b. $292,500.
c. $225,000.
d. $270,000.

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: $135,000 + $120,000 − $22,500 + $37,500 = $270,000

94. The Partners' Capital Statement for TSB Company reported the following information in total:

Capital, January 1	$240,000
Additional investment	80,000
Drawings	160,000
Net income	200,000

The partnership has three partners: Toub, Sauls, and Birch with ending capital balances in a ratio 40:20:40. What are the respective ending balances of the three partners?

a. Toub, $160,000; Sauls, $80,000; Birch, $160,000.
b. Toub, $144,000: Sauls, $72,000; Birch, $144,000.
c. Toub, $272,000; Sauls, $136,000; Birch, $272,000.
d. Toub, $180,000; Sauls, $96,00000; Birch, $180,000.

Ans: B, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: $240,000 + $80,000 − $160,000 + $200,000 = $360,000; ($360,000) (.4) = $144,000; ($360,000) (.2) = $72,000

95. The total column of the Partners' Capital Statement for DeltaBell Company is as follows:

Capital, January 1	$600,000
Additional investment	240,000
Drawings	360,000
Net income	720,000

The partnership has three partners. The first two partners have ending capital balances that are equal. The ending balance of the third partner is half of the ending balance of the first partner. What is the ending capital balance of the third partner?

a. $288,000
b. $192,000
c. $240,000
d. $264,000

Ans: C, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: $600,000 + $240,000 − $360,000 + $720,000 = $1,200,000; $1,200,000/5 = $240,000

96. The partners' drawing accounts are

a. reported on the income statement.
b. reported on the balance sheet.
c. closed to Income Summary.
d. closed to the partners' capital accounts.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

97. The Uniform Partnership Act provides that
    a. a purchaser of a partnership interest is not a partner until he or she is accepted into the firm by the continuing partners.
    b. a partner must obtain the approval of other partners before selling his or her interest.
    c. the price paid in a purchase of partner's interest must be equal to the capital equity acquired.
    d. the price paid in a purchase of partner's interest must be greater than the capital equity acquired.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

98. The balance sheet of a partnership will
    a. report retained earnings below the partnership capital accounts.
    b. show a separate capital account for each partner.
    c. show a separate drawing account for each partner.
    d. show the amount of income that was distributed to each partner.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

99. The liquidation of a partnership may result from each of the following **except** the
    a. bankruptcy of the partnership.
    b. death of a partner.
    c. retirement of a partner.
    d. sale of the business by the partners.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

100. In the liquidation of a partnership, any gain or loss on the realization of noncash assets should be allocated
    a. first to creditors and the remainder to partners.
    b. to the partners on the basis of their capital balances.
    c. to the partners on the basis of their income ratios.
    d. only after all creditors have been paid.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

101. In the liquidation of a partnership, any partner who has a capital deficiency
    a. has a personal debt to the partnership for the amount of the deficiency.
    b. is automatically terminated as a partner.
    c. will receive a cash distribution only on the basis of his or her income-sharing ratio.
    d. is not obligated to make up the capital deficiency.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

102. Partners Ana, Beth, and Cathy have capital account balances of $90,000 each. The income and loss ratio is 5:2:3, respectively. In the process of liquidating the partnership, noncash assets with a book value of $75,000 are sold for $30,000. The balance of Beth's Capital account after the sale is
   a. $67,500.
   b. $76,500.
   c. $81,000.
   d. $99,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $90,000 − (.20) ($75,000 − $30,000) = $81,000

103. The partners' income and loss sharing ratio is 2:3:5, respectively.

CHENARD, JENNINGS, AND BLAIR PARTNERSHIP
Balance Sheet
December 31, 2014

Assets		Liabilities and Owners' Equity	
Cash	$ 45,000	Liabilities	$150,000
Noncash assets	285,000	Chenard, Capital	60,000
		Jennings, Capital	90,000
		Blair, Capital	30,000
Total	$330,000	Total	$330,000

If the CHENARD, JENNINGS, and BLAIR Partnership is liquidated by selling the noncash assets for $195,000 and creditors are paid in full, what is the amount of cash that can be safely distributed to each partner?
   a. CHENARD, $36,000; JENNINGS, $54,000; BLAIR, $0.
   b. CHENARD, $42,000; JENNINGS, $63,000; BLAIR, $15,000.
   c. CHENARD, $34,500; JENNINGS, $55,500; BLAIR, $0.
   d. CHENARD, $33,000; JENNINGS, $57,000; BLAIR, $0.

Ans: A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $60,000 + (.2) ($195,000 − $285,000) − (2/5) ($15,000) = $36,000; $90,000 + (.3) ($195,000 − $285,000) − (3/5) ($15,000) = $54,000; $30,000 + (.5) ($195,000 − $285,000) + $15,000 = $0

104. The partners' income and loss sharing ratio is 2:3:5, respectively.

CHENARD, JENNINGS, AND BLAIR PARTNERSHIP
Balance Sheet
December 31, 2014

Assets		Liabilities and Owners' Equity	
Cash	$ 45,000	Liabilities	$150,000
Noncash assets	285,000	CHENARD, Capital	60,000
		JENNINGS, Capital	90,000
		BLAIR, Capital	30,000
Total	$330,000	Total	$330,000

If the CHENARD, JENNINGS, and BLAIR Partnership is liquidated by selling the noncash assets for $375,000, and creditors are paid in full, what is the total amount of cash that CHENARD will receive in the distribution of cash to partners?

a. $18,000
b. $117,000
c. $78,000
d. $75,000

Ans: C, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $60,000 + (.2) ($375,000 – $285,000) = $78,000

105. The partners' income and loss sharing ratio is 2:3:5, respectively.

CHENARD, JENNINGS, AND BLAIR PARTNERSHIP
Balance Sheet
December 31, 2014

Assets		Liabilities and Owners' Equity	
Cash	$ 45,000	Liabilities	$150,000
Noncash assets	285,000	CHENARD, Capital	60,000
		JENNINGS, Capital	90,000
		BLAIR, Capital	30,000
Total	$330,000	Total	$330,000

If the CHENARD, JENNINGS, and BLAIR Partnership is liquidated and the noncash assets are worthless, the creditors will look to what partner's personal assets for settlement of the creditors' claims?

a. The personal assets of Partner JENNINGS.
b. The personal assets of Partners CHENARD and BLAIR.
c. The personal assets of Partners CHENARD, JENNINGS, and BLAIR.
d. The personal assets of the partners are not available for partnership debts.

Ans: C, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

106. If a partner has a capital deficiency and does not have the personal resources to eliminate it,
   a. the creditors will have to absorb the capital deficiency.
   b. the other partners will absorb the capital deficiency on the basis of their respective capital balances.
   c. the other partners will have to absorb the capital deficiency on the basis of their respective income sharing ratios.
   d. neither the creditors nor the other partners will have to absorb the capital deficiency.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

107. When a partnership terminates business, the sale of noncash assets is called
   a. liquidation.
   b. realization.
   c. recognition.
   d. disposition.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

108. The liquidation of a partnership
   a. cannot be a voluntary act of the partners.
   b. terminates the business.
   c. eliminates those partners with a capital deficiency.
   d. cannot occur unless all partners approve.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

109. The liquidation of a partnership is a process containing the following steps:

   1. Pay partnership liabilities in cash.
   2. Allocate the gain or loss on realization to the partners on their income ratios.
   3. Sell noncash assets for cash and recognize a gain or loss on realization.
   4. Distribute remaining cash to partners on the basis of their remaining capital balances.

   Identify the proper sequencing of the steps in the liquidation process.
   a. 3, 2, 4, 1.
   b. 3, 2, 1, 4.
   c. 1, 3, 2, 4.
   d. 1, 4, 3, 2.

Ans: B, LO: 5, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

110. In the final step of the liquidation process, remaining cash is distributed to partners
   a. on an equal basis.
   b. on the basis of the income ratios.
   c. on the basis of the remaining capital balances.
   d. regardless of capital deficiencies.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

111. In the liquidation process, if a capital account shows a deficiency
   a. the partner with a deficiency has an obligation to the partnership for the amount of the deficiency.
   b. it may be written off to a "Loss" account.
   c. it is disregarded until after the partnership books are closed.
   d. it can be written off to a "Gain" account.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

112. Before distributing any remaining cash to partners in a partnership liquidation, it is necessary to do each of the following **except**
   a. sell noncash assets for cash.
   b. recognize a gain or loss on realization.
   c. allocate the gain or loss to the partners based on their capital balances.
   d. pay partnership liabilities in cash.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

113. Mandy, Annie, and Tammy formed a partnership with income-sharing ratios of 50%, 30%, and 20%, respectively. Cash of $300,000 was available after the partnership's assets were liquidated. Prior to the final distribution of cash, Mandy's capital balance was $200,000, Annie's capital balance was $150,000, and Tammy had a capital deficiency of $50,000. Assuming Tammy contributes cash to match her capital deficiency, Mandy should receive
   a. $175,000.
   b. $168,750.
   c. $131,250.
   d. $200,000.

Ans: D, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

114. Alex, Bob, and Ciera are partners, sharing income 2:1:2. After selling all of the assets for cash, dividing gains and losses on realization, and paying liabilities, the balances in the capital accounts are as follows: Alex, $10,000 Cr; Bob, $10,000 Cr; and Ciera, $30,000 Cr. How much cash should be distributed to Alex?
   a. $6,000
   b. $20,000
   c. $10,000
   d. $16,667

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

115. In liquidation, balances prior to the distribution of cash to the partners are: Cash $900,000; Peterson, Capital $420,000; Laney, Capital $390,000, and Howell, Capital $90,000. The income ratio is 6:2:2, respectively. How much cash should be distributed to Peterson?
   a. $375,000
   b. $408,750
   c. $420,000
   d. $450,000

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

116. In liquidation, balances prior to the distribution of cash to the partners are: Cash $765,000; Peterson, Capital $420,000; Laney, Capital $390,000, and Howell, Capital $45,000 deficiency. The income ratio is 6:2:2, respectively. How much cash should be distributed to Laney if Howell does not pay his deficiency?
a. $367,000
b. $378,750
c. $356,250
d. $390,000

Ans: B, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $390,000 – (2/8) ($45,000) = $378,750

117. In liquidation, balances prior to the distribution of cash to the partners are: Cash $240,000; Paley, Capital $112,000; Stengel, Capital $104,000, and King, Capital $24,000. The income ratio is 6:2:2, respectively. How much cash should be distributed to Paley?
a. $100,000
b. $104,000
c. $112,000
d. $120,000

Ans: C, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

118. In liquidation, balances prior to the distribution of cash to the partners are: Cash $204,000; Paley, Capital $112,000; Stengel, Capital $104,000, and King, Capital $12,000 deficiency. The income ratio is 6:2:2, respectively. How much cash should be distributed to Stengel if King does not pay his deficiency?
a. $98,000
b. $101,000
c. $95,000
d. $104,000

Ans: B, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $104,000 – (2/8) (12,000) = $101,000

119. Use the following account balance information for Granobfin Partnership with income ratios of 2:4:4 for Granger, Noble, and Finn, respectively.

Assets		Liabilities and Owner's Equity	
Cash	$ 54,000	Accounts payable	$ 126,000
Accounts receivable	132,000	Granger, Capital	$138,000
		Noble, Capital	48,000
Inventory	438,000	Finn, Capital	312,000
	$624,000		$624,000

Assume that, as part of liquidation proceedings, Granobfin sells its noncash assets for $510,000. The amount of cash that would ultimately be distributed to Finn would be
a. $312,000.
b. $288,000.
c. $204,000.
d. $516,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $312,000 + (.4) ($510,000 – $132,000 – $438,000) = $288,000

120. Use the following account balance information for Granobfin Partnership with income ratios of 2:4:4 for Granger, Noble, and Finn, respectively.

Assets		Liabilities and Owner's Equity	
Cash	$ 54,000	Accounts payable	$ 126,000
Accounts receivable	132,000	Granger, Capital	138,000
		Noble, Capital	48,000
Inventory	438,000	Finn, Capital	312,000
	$624,000		$624,000

Assume that, as part of liquidation proceedings, Granobfin sells its noncash assets for $360,000. As a result, one of the partners has a capital deficiency which that partner decides not to repay. The amount of cash that would ultimately be distributed to Finn would be

a. $312,000.
b. $228,000.
c. $144,000.
d. $204,000.

Ans: D, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $312,000 + (.4) ($360,000 – $132,000 – $438,000) – (4/6) ($36,000) = $204,000

[a]121. R. Schoen purchases a 25% interest for $60,000 when the Hise, Poole, Lagos partnership has total capital of $540,000. Prior to the admission of Schoen, each partner has a capital balance of $180,000. Each partner relinquishes an equal amount of his capital balance to Schoen. The amount to be relinquished by Lagos is

a. $30,000.
b. $38,000.
c. $45,000.
d. $75,000.

Ans: A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: (.25) ($540,000 + 60,000) – $60,000 = $90,000; $90,000/3 = $30,000

[a]122. Jackson is admitted to a partnership with a 25% capital interest by a cash investment of $360,000. If total capital of the partnership is $1,560,000 before admitting Jackson, the bonus to Jackson is

a. $120,000.
b. $60,000.
c. $180,000.
d. $240,000.

Ans: A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: (.25) ($1,560,000 + $360,000) – $360,000 = $120,000

[a]123. Elkins and Landry are partners who share income and losses in the ratio of 3:2, respectively. On August 31, their capital balances were: Elkins, $140,000 and Landry, $120,000. On that date, they agree to admit Neumark as a partner with a one-third capital interest. If Neumark invests $100,000 in the partnership, what is Elkins's capital balance after Neumark's admittance?

a. $120,000
b. $126,667
c. $128,000
d. $140,000

Ans: C, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: (1/3) ($140,000 + $120,000 + $100,000) = $120,000; $140,000 - (3/5) ($120,000 − $100,000) = $128,000

[a]124. Elkins and Landry are partners who share income and losses in the ratio of 3:2, respectively. On August 31, their capital balances were: Elkins, $140,000 and Landry, $120,000. On that date, they agree to admit Neumark as a partner with a one-third capital interest. If Neumark invests $160,000 in the partnership, what is Landry's capital balance after Neumark's admittance?

a. $140,000
b. $128,000
c. $126,000
d. $120,000

Ans: B, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (1/3) ($140,000 + $120,000 + $160,000) = $140,000; $120,000 + (2/5) ($160,000 − $140,000) = $128,000

[a]125. Encisco and Ollinger are partners who share profits and losses equally and have capital balances of $280,000 and $245,000, respectively. Parks is admitted into the partnership by investing $245,000 for a 30% capital interest. The account balance of Ollinger, Capital after the admission of Parks would be

a. $231,000.
b. $238,000.
c. $252,000.
d. $245,000.

Ans: C, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (.30) ($280,000 + $245,000 + $245,000) − $245,000 = $14,000; $245,000 + ($14,000/2) = $252,000

[a]126. Rogers and Wissinger have partnership capital balances of $576,000 and $432,000, respectively. Wissinger negotiates to sell his partnership interest to Mergenthaler for $504,000. Rogers agrees to accept Mergenthaler as a new partner. The partnership entry to record this transaction is

a.	Cash	504,000	
	Mergenthaler, Capital		504,000
b.	Wissinger, Capital	504,000	
	Mergenthaler, Capital		504,000
c.	Cash	72,000	
	Wissinger, Capital	432,000	
	Mergenthaler, Capital		504,000
d.	Wissinger, Capital	432,000	
	Mergenthaler, Capital		432,000

Ans: D, LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]127. Gable and Devito share partnership profits and losses in the ratio of 6:4. Gable's Capital account balance is $160,000 and Devito's Capital account balance is $100,000. Nance is admitted to the partnership by investing $180,000 and is to receive a one-fourth ownership interest. Gable, Devito and Nance's capital balances after Nance's investment will be

	Gable	Devito	Nance
a.	$160,000	$100,000	$180,000
b.	$202,000	$128,000	$110,000
c.	$198,000	$132,000	$110,000
d.	$195,000	$135,000	$110,000

Ans: B, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (1/4) ($160,000 + $100,000 + $180,000) = $110,000; $160,000 + (6/10) ($180,000 − $110,000) = $202,000; $100,000 + (4/10) ($180,000 − $110,000) = $128,000

[a]128. Jill and Smita have partnership capital account balances of $1,056,000 and $792,000, respectively and share profits and losses equally. Sierra is admitted to the partnership by investing $440,000 for a one-fourth ownership interest. The balance of Smita's Capital account after Sierra is admitted is
a. $726,000.
b. $792,000.
c. $858,000.
d. $572,000.

Ans: A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: (.25) ($1,056,000 + $792,000 + $440,000) = $572,000; $792,000 + (.5) ($440,000 − $572,000) = $726,000

[a]129. The admission of a new partner to an existing partnership
a. may be accomplished only by investing assets in the partnership.
b. requires purchasing the interest of one or more existing partners.
c. causes a legal dissolution of the existing partnership.
d. is almost always accompanied by the liquidation of the business.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]130. When a partnership interest is purchased
   a. every partner's capital account is affected.
   b. the transaction is a personal transaction between the purchaser and the selling partner(s).
   c. the buyer receives equity equal to the amount of cash paid.
   d. all partners will receive some part of the purchase price.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]131. Wu and Mannis each sell 1/3 of their partnership interest to Patel, receiving $105,000 each. At the time of the admission, each partner has a $315,000 capital balance. The entry to record the admission of Patel will show a
   a. debit to Cash for $210,000.
   b. credit to Patel, Capital for $315,000.
   c. debit to Mannis, Capital for $315,000.
   d. debit to Wu, Capital for $105,000.

Ans: D, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (2 × $315,000)/3 = $210,000; $315,000 − $210,000 = $105,000

[a]132. Bingham and Ecuyer sell 1/4 of their partnership interest to Ives receiving $600,000 each. At the time of admission, Bingham and Ecuyer each had a $1,050,000 capital balance. The admission of Ives will cause the net partnership assets to
   a. increase by $1,200,000.
   b. remain at $2,100,000.
   c. decrease by $1,200,000.
   d. remain at $3,300,000.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: (2) ($1,050,000) = $2,100,000

[a]133. Faget and Hein sell to Melges a 1/3 interest in the Faget - Hein partnership. Melges will pay Faget and Hein each $140,000 for admission into the organization. Before this transaction, Faget and Hein show capital balances of $210,000 each. The journal entry to record the admission of Melges will
   a. show a debit to Cash for $280,000.
   b. not show a debit to Cash.
   c. show a debit to Hein, Capital for $140,000.
   d. show a credit to Melges, Capital for $280,000.

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]134. Letourneau invests $20,000 in cash (admission by investment) in the Seiler-Shaw partnership to acquire a 1/4 interest. In this case
   a. the accounting will be the same as a purchase of an interest.
   b. the total net assets of the new partnership are unchanged from the previous partnership.
   c. the total capital of the new partnership is greater than the total capital of the old partnership.
   d. Letourneau's income ratio will automatically be 1/4.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]135. Which of the following is correct when admitting a new partner into an existing partnership?

		Purchase of an Interest	Admission by Investment
a.	Total net assets	unchanged	unchanged
b.	Total capital	increased	unchanged
c.	Total net assets	unchanged	increased
d.	Total capital	unchanged	unchanged

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]136. When admitting a new partner by investment, a bonus to old partners
a. is usually unjustified because book values clearly reflect partnership net worth.
b. is sometimes justified because goodwill may exist and it is not reflected in the accounts.
c. results if the debit to cash is less than the new partner's capital credit.
d. results if the debit to cash is equal to the new partner's capital credit.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]137. When admitting a new partner by investment, a bonus to old partners is allocated on
a. the basis of capital balances.
b. the basis of the original investment of the old partners.
c. the basis of income ratios before the admission of the new partner.
d. a seniority basis.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]138. A bonus to a new partner
a. is prohibited by GAAP.
b. results when the new partner's capital credit is less than his or her investment of assets in the firm.
c. may occur when recorded book values are lower than market values.
d. results when the new partner's capital credit is greater than his or her investment of assets in the firm.

Ans: D, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]139. A bonus to a new partner will
a. increase the capital balances of existing partners based on their income ratios before the admission of the new partner.
b. increase the capital balances of existing partners based on their income ratios after the admission of the new partner.
c. decrease the capital balances of existing partners based on their income ratios before the admission of the new partner.
d. decrease the capital balances of existing partners based on their capital balances before the admission of the new partner.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]140. On November 30, capital balances are Forsyth $720,000, Lagassi $600,000 and Kelly $600,000. The income ratios are 20%, 20% and 60% respectively. Forsytha decides to retire from the partnership. The partnership pays Forsyth $600,000 cash for her partnership interest. After Forsyth's retirement, what is the balance of Kelly's capital account?

a. $528,000
b. $600,000
c. $672,000
d. $690,000

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]141. On November 30, capital balances are Forsytha $720,000, Lagassi $600,000 and Kelly $600,000. The income ratios are 20%, 20% and 60% respectively. Forsytha decides to retire from the partnership. In order for Lagassi and Kelly to have equal capital interests after the retirement of Forsyth, how much partnership cash would have to be paid to Forsytha for her partnership interest?

a. $0.
b. $640,000
c. $720,000
d. Any amount paid to Forsyth will cause Lagassi and Kelly to still have equal capital balances.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

[a]142. Dawn, Garret and Josh have partnership capital account balances of $225,000, $450,000 and $105,000, respectively. The income sharing ratio is Dawn, 50%; Garret, 40%; and Josh, 10%. Dawn desires to withdraw from the partnership and it is agreed that partnership assets of $195,000 will be used to pay Dawn for her partnership interest. The balances of Garret's and Josh's Capital accounts after Dawn's withdrawal would be

a. Garret, $450,000; Josh, $105,000.
b. Garret, $474,000; Josh, $111,000.
c. Garret, $426,000; Josh, $99,000.
d. Garret, $435,000; Josh, $90,000.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $225,000 − $195,000 = $30,000; $450,000 + (4/5) ($30,000) = $474,000; $105,000 + (1/5) ($30,000) = $111,000

[a]143. Able Baker, and Carter have partnership capital account balances of $600,000 each. Income and losses are shared equally. Carter agrees to sell three-fourths of his ownership interest to Able for $525,000 and one-fourth to Baker for $187,500. Able and Baker will use personal assets to purchase Carter's interest. The partnership's entry to record Carter's withdrawal from the partnership would be

a.	Carter, Capital	712,500	
	Cash		712,500
b.	Carter, Capital	712,500	
	Able, Capital		350,000
	Baker, Capital		125,000
c.	Carter, Capital	600,000	
	Able, Capital		450,000
	Baker, Capital		150,000
d.	Able, Capital	534,375	
	Baker, Capital	178,125	
	Carter, Capital		712,500

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $600,000 × .25 = $150,000; $600,000 × .75 = $450,000

[a]144. When a partner withdraws from the firm, which of the following reflects the correct partnership effects?

		Payment from Partners' Personal Assets	Payment from Partnership Assets
a.	Total net assets	decreased	decreased
b.	Total capital	decreased	decreased
c.	Total net assets	unchanged	decreased
d.	Total capital	unchanged	unchanged

Ans: C, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]145. Which of the following is not a necessary action that the partnership must take upon the death of a partner?

a. Determine the net income or net loss for the year to date.
b. Discontinue business operations.
c. Close the books.
d. Prepare financial statements.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

[a]146. On November 30, capital balances are Roses $300,000, Ellis $250,00 and Gise $250,000. The income ratios are 20%, 20% and 60%, respectively. Roses decides to retire from the partnership. The partnership pays Roses $350,000 cash for her partnership interest. After Rose's retirement, what is the balance of Ellis's capital account?

a. $237,500
b. $240,000
c. $250,000
d. $325,000

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $250,000 + (2/8) ($300,000 − $350,000) = $237,500

[a]147. On November 30, capital balances are Ross $300,000, Ellis $250,000 and Gise $250,000. The income ratios are 20%, 20% and 60%, respectively. Ross decides to retire from the partnership. The partnership pays Ross $250,000 cash for her partnership interest. After Ross's retirement, what is the balance of Gise's capital account?

a. $220,000
b. $250,000
c. $280,000
d. $287,500

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $250,000 + (6/8) ($300,000 – $250,000) = $287,500

[a]148. On November 30, capital balances are Ross $300,000, Ellis $250,000 and Gise $250,000. The income ratios are 20%, 20% and 60%, respectively. Ross decides to retire from the partnership. In order for Ellis and Gise to have equal capital interests after the retirement of Ross, how much partnership cash would have to be paid to Ross for her partnership interest?

a. $0
b. $266,667
c. $300,000
d. Any amount paid to Ross will cause Ellis and Gise to still have equal capital balances.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

149. All of the following are characteristics of partnerships **except**

a. co-ownership of property.
b. mutual agency.
c. unlimited life.
d. association of individuals.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

150. The Gorni, Chambers, and Hale partnership is terminated when the claims of company creditors exceed partnership assets by $100,000. The capital balances for Gorni, Chambers, and Hale are $70,000, $10,000, and $0, respectively. The original claims of the creditors were negotiated by Chambers and Hale. Which partner(s) is(are) personally and individually liable for all partnership liabilities?

a. Gorni
b. Chambers
c. Chambers and Hale
d. Gorni, Chambers, and Hale

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

151. When a partner invests noncash assets in a partnership, the assets should be recorded at their

a. book value.
b. carrying value.
c. fair value.
d. original cost.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

152. The partnership agreement of Ashford and Cohen provides for salary allowances of $90,000 to Ashford and $70,000 to Cohen, with the remaining income or loss to be divided equally. During the year, Ashford and Cohen each withdraw cash equal to 80% of their salary allowances. If partnership net income is $200,000, Ashford's equity in the partnership would
   a. increase more than Cohen's.
   b. decrease more than Cohen's.
   c. increase the same as Cohen's.
   d. decrease the same as Cohen's.

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

153. Which of the following statements is correct?
   a. Salaries to partners and interest on partners' capital are expenses of the partnership.
   b. Salaries to partners are expenses of the partnership but not interest on partners' capital.
   c. Interest on partners' capital is an expense of the partnership but not salaries to partners.
   d. Neither salaries to partners nor interest on partners' capital are expenses of the partnership.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

154. In the liquidation of a partnership, the gains and losses from assets sold are
   a. divided equally among the partners.
   b. divided among the partners in the stated income ratio.
   c. divided among the partners in proportion to their capital equity interests.
   d. ignored.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

155. If a partner with a capital deficiency is unable to pay the amount owed to the partnership, the deficiency is allocated to the partners with credit balances
   a. equally.
   b. on the basis of their income ratios.
   c. on the basis of their capital balances.
   d. on the basis of their original investments.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

156. An entry is **not** required in the liquidation of a partnership to record the
   a. payment of cash to creditors.
   b. distribution of cash to the partners.
   c. sale of noncash assets.
   d. allocation of a capital deficiency to partners with credit balances when the deficient partner is expected to pay the deficiency.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

157. The first step in the liquidation of a partnership is to
 a. allocate a gain or loss on realization to the partners.
 b. distribute remaining cash to the partners.
 c. pay partnership liabilities.
 d. sell noncash assets and recognize a gain or loss on realization.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

158. Leno joins the partnership of Kingsley and Mccaffrey by paying $95,000 in cash. If the net assets of the partnership are still the same amount after Leno has been admitted as a partner, then Leno
 a. must have been admitted by investment of assets.
 b. must have been admitted by purchase of a partner's interest.
 c. must have received a bonus upon being admitted.
 d. could have been admitted by an investment of assets or by a purchase of a partner's interest.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

159. Motts is admitted to a partnership with a 25% capital interest by a cash investment of $90,000. If total capital of the partnership is $390,000 before admitting Motts, the bonus to Mock is
 a. $30,000.
 b. $15,000.
 c. $45,000.
 d. $60,000.

Ans: A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution: (.25) ($390,000 + $90,000) − $90,000 = $30,000

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
38.	b	56.	d	74.	a	92.	c	110.	c	[a]128.	a	[a]146.	a
39.	c	57.	b	75.	b	93.	d	111.	a	[a]129.	c	[a]147.	d
40.	a	58.	d	76.	b	94.	b	112.	c	[a]130.	b	[a]148.	c
41.	c	59.	c	77.	c	95.	c	113.	d	[a]131.	d	149.	c
42.	d	60.	a	78.	c	96.	d	114.	c	[a]132.	b	150.	d
43.	c	61.	c	79.	b	97.	a	115.	c	[a]133.	b	151.	c
44.	c	62.	b	80.	b	98.	b	116.	b	[a]134.	c	152.	a
45.	c	63.	b	81.	d	99.	c	117.	c	[a]135.	c	153.	d
46.	b	64.	a	82.	c	100.	c	118.	b	[a]136.	b	154.	b
47.	d	65.	c	83.	d	101.	a	119.	b	[a]137.	c	155.	b
48.	c	66.	b	84.	b	102.	c	120.	d	[a]138.	d	156.	d
49.	b	67.	d	85.	d	103.	a	[a]121.	a	[a]139.	c	157.	d
50.	c	68.	d	86.	c	104.	c	[a]122.	a	[a]140.	d	[a]158.	b
51.	a	69.	b	87.	c	105.	c	[a]123.	c	[a]141.	c	[a]159.	a
52.	b	70.	b	88.	d	106.	c	[a]124.	b	[a]142.	b		
53.	c	71.	c	89.	a	107.	b	[a]125.	c	[a]143.	c		
54.	a	72.	b	90.	b	108.	b	[a]126.	d	[a]144.	c		
55.	c	73.	b	91.	a	109.	b	[a]127.	b	[a]145.	b		

BRIEF EXERCISES

BE 160

Draper and Becker decide to organize a partnership. Draper invests $25,000 cash, and Becker contributes $5,000 and equipment having a book value of $7,000 and a fair value of $15,000.

Instructions
Prepare the entry to record each partner's investment.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 160 (5 min.)

Cash	25,000	
Draper, Capital		25,000
Cash	5,000	
Equipment	15,000	
Becker, Capital		20,000

BE 161

Sonoma Company and Woodberry Company decide to merge their proprietorships into a partnership called Sonberry Company. The balance sheet of Woodberry Company shows:

Accounts Receivable	$18,000	
Less: Allowance for doubtful accounts	1,500	$16,500
Equipment	$20,000	
Less: Accumulated depreciation	10,000	$10,000

The partners agree that the net realizable value of the receivables is $16,000 and that the fair value of the equipment is $15,000.

Instructions
Indicate how the four accounts should appear in the opening balance sheet of the partnership.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 161 (4 min.)

SONBERRY COMPANY
Balance Sheet (partial)

Assets		
Accounts Receivable	$18,000	
Less: Allowance for Doubtful Accounts	2,000	$16,000
Equipment		15,000

BE 162

The Fig & Olive Co. reports net income of $24,000. Interest allowances are Fig $3,000 and Olive $5,000; partner salary allowances are Fig $18,000 and Olive $10,000 and the remainder is shared equally.

Instructions
Indicate the division of net income to each partner, and prepare the entry to distribute the net income.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 162 (6 min.)

Division of Net Income

	Fig	Olive	Total
Salary allowance	$18,000	$10,000	$28,000
Interest allowance on partners' capital	3,000	5,000	8,000
Total salaries and interest	21,000	15,000	36,000
Remaining income, ($12,000) ($24,000 – $36,000)			
Fig ($12,000 × 50%)	(6,000)		
Olive ($12,000 × 50%)		(6,000)	
Total remainder			(12,000)
Total division of net income	$15,000	$ 9,000	$24,000

The entry to record the division of net income is:

Income Summary	24,000	
Fig, Capital		15,000
Olive, Capital		9,000

BE 163

Southern Skies Co. had beginning capital balances on January 1, 2014, as follows: Patty Sharp $30,000 and Jim O'Connor $25,000. During the year, drawings were Sharp $15,000 and O'Connor $8,000. Net income was $40,000, and the partners share income equally.

Instructions
Prepare the partners' capital statement for the year.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 163 (4 min.)

SOUTHERN SKIES COMPANY
Partners' Capital Statement

	Sharp	O'Connor	Total
Beginning Capital	$30,000	$25,000	$55,000
Add: Net Income	20,000	20,000	40,000
	50,000	45,000	95,000
Less: Drawings	15,000	8,000	23,000
Ending Capital	$35,000	$37,000	$72,000

BE 164

After liquidating noncash assets and paying creditors, account balances in the Main Co. are Cash $29,000, Art, Capital (Cr.) $11,000, Bob, Capital (Cr,) $8,000 and Cam, Capital (Cr.) $10,000. The partners share income equally.

Instructions
Journalize the final distribution of cash to the partners.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 164 (4 min.)

Art, Capital	11,000	
Bob, Capital	8,000	
Cam, Capital	10,000	
Cash		29,000

BE 165

Appalachian Company at December 31 has cash $40,000, noncash assets $200,000, liabilities $110,000, and the following capital balances: Hoffman $90,000 and Mena $40,000. The firm is liquidated, and $220,000 in cash is received for the noncash assets. Hoffman and Mena income ratios are 60% and 40%, respectively.

Instructions
Prepare a cash distribution schedule.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 165 (5 min.)

APPALACHIAN COMPANY
Schedule of Cash Payments

	Cash	+	Noncash Assets	=	Liabilities	+	Hoffman Capital	+	Mena Capital
Balances before Liquidation	$ 40,000		$200,000		$110,000		$ 90,000		$40,000
Sale of noncash assets and allocation of losses	220,000		(200,000)				12,000		8,000
New balances	260,000		-0-		110,000		102,000		48,000
Pay liabilities	(110,000)				(110,000)				
New balances	150,000		-0-		-0-		102,000		48,000
Cash distribution	$150,000		$ -0-		$ -0-		$102,000		$48,000

[a]BE 166

In BigEasy Co., capital balances are Adrienne $60,000 and Dino $75,000. The partners share income equally. Javier is admitted to the firm with a 40% interest by an investment of cash of $85,000. Journalize the admission of Javier.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 166 (3 min.)

Cash	85,000	
Adrienne, Capital (50% × $3,000*)	1,500	
Dino, Capital (50% × $3,000*)	1,500	
Javier, Capital (40% × $220,000)		88,000

*[(60,000 + $75,000 + $85,000) × 40%] – $85,000 = $3,000.

[a]BE 167

Thao and Leslie are partners who share profits 60% and 40%. Their capital balances were both $120,000 before Kiley was admitted to the partnership. Kiley contributed $160,000 in cash to the partnership for a 30% interest.

Instructions
Compute the capital balances of Thao and Leslie after Kiley is admitted to the partnership.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 167 (4 min.)

Thao's capital balance: $120,000 + {$160,000 – [($240,000 + $160,000) × .30]} × .60 = $144,000

Leslie's capital balance: $120,000 + {$160,000 – [($240,000 + $160,000) ×.30]} × .40 = $136,000

[a]BE 168

Capital balances in Carson Co. are Dene $50,000, Aneta $38,000, and Harriet $25,000. The partners share income equally. Harriet receives $31,000 from partnership assets in withdrawing from the firm.

Instructions
Journalize the withdrawal of Harriet.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 168 (3 min.)

Harriet, Capital	25,000	
Dene, Capital (50% × $6,000)	3,000	
Aneta, Capital (50% × $6,000)	3,000	
Cash		31,000

[a]BE 169

Rich, Tracy, and Mark are partners who share profits 40%, 20%, and 40%. Their capital balances were $630,000, $420,000, and $210,000, respectively, before Mark's retirement. Mark was paid $240,000 from partnership assets to buy his interest.

Instructions
Compute the capital balances of Rich and Tracy after Mark has withdrawn.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

[a]Solution 169 (4 min.)

Rich's capital balance: $630,000 – [($240,000 – $210,000) X 40/60] = $610,000

Tracy's capital balance: $420,000 – [($240,000 – $210,000) X 20/60] = $410,000

EXERCISES

Ex. 170

Michelle Hamilton and Bill Rossi decide to form a partnership. Hamilton invests $35,000 cash and accounts receivable of $30,000 less allowance for doubtful accounts of $2,000. Rossi contributes $25,000 cash and equipment having a $6,000 book value. It is agreed that the allowance account should be $3,000 and the fair value of the equipment is $10,000.

Instructions
Prepare the necessary journal entry to record the formation of the partnership.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 170 (6 min.)

Cash ($35,000 + $25,000)	60,000	
Accounts Receivable	30,000	
Equipment	10,000	
Allowance for Doubtful Accounts		3,000
Hamiltion, Capital ($35,000 + $30,000 – $3,000)		62,000
Rossi, Capital ($25,000 + $10,000)		35,000

Ex. 171

Ron Marden and Tip Baker operate separate auto repair shops. On January 1, 2014, they decide to combine their separate businesses which were operated as proprietorships to form M & B Auto Repair, a partnership. Information from their separate balance sheets is presented below:

	Marden Auto Repair	Baker Auto Repair
Cash	$10,000	$14,000
Accounts receivable	12,000	10,000
Allowance for doubtful accounts	1,000	500
Accounts payable	5,000	6,000
Notes payable	—	3,000
Salaries and wages payable	1,000	1,500
Equipment	12,000	24,000
Accumulated depreciation—equipment	2,000	4,000

It is agreed that the expected realizable value of Marden's accounts receivable is $11,000 and Baker's receivables is $7,000. The fair value of Marden's equipment is $13,000 and the value of Baker's equipment is $20,000. It is further agreed that the new partnership will assume all liabilities of the proprietorships with the exception of the notes payable on Baker's balance sheet which he will pay himself.

Instructions

Prepare the journal entries necessary to record the formation of the partnership.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 171 (15 min.)

Cash	10,000	
Accounts Receivable	12,000	
Equipment	13,000	
Allowance for Doubtful Accounts		1,000
Salaries and Wages Payable		1,000
Accounts Payable		5,000
R. Marden, Capital		28,000
(To record R. Marden's investment)		

Cash	14,000	
Accounts Receivable	10,000	
Equipment	20,000	
Allowance for Doubtful Accounts		3,000
Salaries and Wages Payable		1,500
Accounts Payable		6,000
T. Baker, Capital		33,500
(To record Baker's investment)		

Ex. 172

A. Wiggins, L. Stokes, and K. Hayes are forming a partnership. Wiggins is transferring $75,000 of personal cash to the partnership. Stokes owns land worth $25,000 and a small building worth $120,000, which she transfers to the partnership. Hayes transfers to the partnership cash of $14,000, accounts receivable of $48,000 and equipment worth $28,000. The partnership expects to collect $45,000 of the accounts receivable.

Instructions
(a) Prepare the journal entries to record each of the partners' investments.
(b) What amount would be reported as total owners' equity immediately after the investments?

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 172 (10 min.)

(a)	Cash	75,000	
	Wiggins, Capital		75,000
	Land	25,000	
	Building	120,000	
	Stokes, Capital		145,000
	Cash	14,000	
	Accounts Receivable	48,000	
	Equipment	28,000	
	Allowance for Doubtful Accounts		3,000
	Hayes, Capital		87,000

(b) $75,000 + $145,000 + $87,000 = $307,000

Ex. 173

S. Pellah (beginning capital, $80,000) and M. Berry (beginning capital $120,000) are partners. During 2014 the partnership earned net income of $90,000, and Pellah made drawings of $24,000 while Berry made drawings of $32,000.

Instructions
(a) Assume the partnership income-sharing agreement calls for income to be divided 40% to Pellah and 60% to Berry. Prepare the journal entry to record the allocation of net income.
(b) Assume the partnership income-sharing agreement calls for income to be divided with a salary of $40,000 to Pellah and $35,000 to Berry, with the remainder divided 40% to Pellah and 60% to Berry. Prepare the journal entry to record the allocation of net income.
(c) Assume the partnership income-sharing agreement calls for income to be divided with a salary of $50,000 to Pellah and $45,000 to Berry, interest of 10% on beginning capital, and the remainder divided 50%-50%. Prepare the journal entry to record the allocation of net income.
(d) Compute the partners' ending capital balances under the assumption in part (c).

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 173 (15 min.)

(a)	Income Summary	90,000	
	Pellah, Capital ($90,000 X 40%)		36,000
	Berry, Capital ($90,000 X 60%)		54,000
(b)	Income Summary	90,000	
	Pellah, Capital [$40,000 + ($15,000 X 40%)]		46,000
	Berry, Capital [$35,000 + ($15,000 X 60%)]		44,000
(c)	Income Summary	90,000	
	Pellah, Capital		45,500
	Berry, Capital		44,500

Pellah: [$50,000 + $8,000 – ($25,000 X 50%)]
Berry: [$45,000 + $12,000 – ($25,000 X 50%)]

(d) Pellah: $80,000 + $45,500 – $24,000 = $101,500
Berry: $120,000 + $44,500 – $32,000 = $132,500

Ex. 174

The Jamison and Stephens partnership reports net income of $50,000. Partner salary allowances are Jamison $18,000 and Stephens $12,000. Any remaining income is shared 60:40.

Instructions
Determine the amount of net income allocated to each partner.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitive Methods

Solution 174 (5 min.)

	Jamison	Stephens	Total
Salary allowance	$18,000	$12,000	$30,000
Remaining income, $15,000			
Jamison ($20,000 × 60%)	12,000		
Stephenss ($20,000 × 40%)		8,000	20,000
Total division	$30,000	$20,000	$50,000

Ex. 175

Ando, Dadd, and Porter formed a partnership on January 1, 2014. Ando invested $60,000, Dadd $60,000 and Porter $140,000. Ando will manage the store and work 40 hours per week in the store. Dadd will work 20 hours per week in the store, and Porter will not work. Each partner withdrew 40 percent of his income distribution during 2014. If there was no income distribution to a partner, there were no withdrawals of cash.

Instructions
Compute the partners' capital balances at the end of 2014 under the following independent conditions: (Hint: Use T accounts to determine each partner's capital balances.)

Ex. 175 (Cont.)

(1) Net income is $120,000 and the income ratio is Ando 40%, Dadd 35%, and Porter 25%.
(2) Net income is $125,000 and the partnership agreement only specifies a salary of $50,000 to Ando and $30,000 to Dadd.
(3) Net income is $76,000 and the partnership agreement provides for (a) a salary of $40,000 to Ando and $40,000 to Dadd, (b) interest on beginning capital balances at the rate of 10%, and (c) any remaining income or loss is to be shared by Ando 40%, Dadd 35%, and Porter 25%.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 175 (15 min.)

(1)

Ando, Capital		Dadd, Capital		Porter, Capital	
19,200	60,000	16,800	60,000	12,000	140,000
	48,000		42,000		30,000
	88,800		85,200		158,000

	Net Income		%	Distribution		%	Drawings
Ando	$120,000	×	40	$ 48,000	×	40	$19,200
Dadd	120,000	×	35	42,000	×	40	16,800
Porter	120,000	×	25	30,000	×	40	12,000
				$120,000			$48,000

(2)

Ando, Capital		Dadd, Capital		Porter, Capital	
26,000	60,000	18,000	60,000	6,000	140,000
	65,000		45,000		15,000
	99,000		87,000		149,000

	Ando	Dadd	Porter	Total
Salary	$50,000	$30,000	$ 0	$ 80,000
Remainder	15,000	15,000	15,000	45,000
Total	$65,000	$45,000	$15,000	$125,000
× 40% = Drawings	$26,000	$18,000	$ 6,000	$ 50,000

(3)

Ando, Capital		Dadd, Capital		Porter, Capital	
13,600	60,000	14,200	60,000	2,600	140,000
	34,000		35,500		6,500
	80,400		81,300		143,900

	Ando	Dadd	Porter	Total
Salary	$40,000	$40,000	$ 0	$80,000
Interest	6,000	6,000	14,000	26,000
Remainder ($30,000)	(12,000)	(10,500)	(7,500)	(30,000)
Total	$34,000	$35,500	$ 6,500	$76,000
× 40% = Drawings	$13,600	$14,200	$ 2,600	$30,400

Ex. 176

Carraway and Boos have a partnership agreement which includes the following provisions regarding sharing net income or net loss:

1. A salary allowance of $48,000 to Carraway and $36,000 to Boos.
2. An interest allowance of 10% on capital balances at the beginning of the year.
3. The remainder to be divided 60% to Carraway and 40% to Boos.

The capital balance on January 1, 2014, for Carraway and Boos was $90,000 and $120,000, respectively. During 2014, the Carraway and Boos Partnership had sales of $495,000, cost of goods sold of $290,000, and operating expenses of $85,000.

Instructions
Prepare an income statement for the Carraway and Boos Partnership for the year ended December 31, 2014. As a part of the income statement, include a Division of Net Income to each of the partners.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 176 (15 min.)

CARRAWAY AND BOOS PARTNERSHIP
Income Statement
For the Year Ended December 31, 2014

Sales revenue	$495,000
Cost of goods sold	290,000
Gross profit	205,000
Operating expenses	85,000
Net income	$120,000

Division of Net Income

	Carraway	Boos	Total
Salary allowance	$48,000	$36,000	$ 84,000
Interest allowance			
($90,000 × 10%)	9,000		
($120,000 × 10%)		12,000	
Total interest			21,000
Total salaries and interest	57,000	48,000	105,000
Remaining income, $15,000			
Carraway ($15,000 × 60%)	9,000		
Boosr ($15,000 × 40%)		6,000	
Total remainder			15,000
Total division	$66,000	$54,000	$120,000

Ex. 177

Barr & Eglin Co. reports net income of $42,000. The partnership agreement provides for annual salaries of $24,000 for Barr and $18,000 for Eglin and interest allowances of $4,000 to Barr and $6,000 to Eglin. Any remaining income or loss is to be shared 70% by Barr and 30% by Eglin.

Instructions

Compute the amount of net income distributed to each partner.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 177 (8 min.)

	Barr	Eglin	Total
Salary allowance	$24,000	$18,000	$42,000
Interest allowance	4,000	6,000	10,000
Total salaries and interest	28,000	24,000	52,000
Remaining deficiency ($10,000)			
Barr ($10,000 × 70%)	(7,000)		
Eglin ($10,000 × 30%)		(3,000)	(10,000)
Total division	$21,000	$21,000	$42,000

Ex. 178

The adjusted trial balance of the Ricci and Napoli Partnership for the year ended December 31, 2014, appears below:

RICCI AND NAPOLI PARTNERSHIP
Adjusted Trial Balance
December 31, 2014

	Debit	Credit
Current Assets	19,000	
Plant Assets	80,000	
Current Liabilities		7,000
Long-term Debt		40,000
Ricci, Capital		20,000
Ricci, Drawings	4,000	
Napoli, Capital		18,000
Napoli , Drawings	7,000	
Sales Revenue		110,000
Cost of Goods Sold	62,000	
Operating Expenses	23,000	
	195,000	195,000

The partnership agreement stipulates that a division of partnership net income or net loss is to be made as follows:

1. A salary allowance of $12,000 to Ricci and $23,000 to Napoli.
2. The remainder is to be divided equally.

Ex. 178 (Cont.)

Instructions

(a) Prepare a schedule which shows the division of net income to each partner.

(b) Prepare the closing entries for the division of net income and for the drawings accounts at December 31, 2014.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 178 (15 min.)

(a) Schedule for Division of Net Income

Sales Revenue	$110,000
Cost of goods sold	62,000
Gross profit	48,000
Operating expenses	23,000
Net income	$ 25,000

	Ricci	Napolini	Total
Salary allowance	$12,000	$23,000	$35,000
Remaining deficiency, ($10,000)			
Ricci ($10,000) × 50%	(5,000)		
Napoli ($10,000) × 50%		(5,000)	
Total remainder			(10,000)
Total division	$ 7,000	$18,000	$25,000

(b)

			Debit	Credit
Dec.	31	Income Summary	25,000	
		Ricci, Capital		7,000
		Napoli, Capital		18,000
		(To close net income to capital)		
	31	Ricci, Capital	4,000	
		Napoli, Capital	7,000	
		Ricci, Drawings		4,000
		Napoli, Drawings		7,000
		(To close drawing accounts to capital)		

Ex. 179

Juanita Gomez and Brandi Toomey have formed the GT Partnership, and have capital balances of $130,000 and $100,000, respectively, on January 1, 2014. On June 1, 2014, Toomey invested an additional $30,000. Also during the year, Gomez withdrew $60,000 and Toomey withdrew $48,000. Sales for the year amounted to $360,000 and expenses were $240,000. Gomez and Toomey share income and losses on a 3:1 basis.

Instructions

(a) Prepare the closing entries at December 31, 2014, for the GT Partnership.

(b) Prepare a partners' capital statement for 2014.

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 179 (15 min.)

(a)

Sales Revenue	360,000	
Expenses		240,000
Income Summary		120,000
Income Summary	120,000	
Gomez, Capital ($120,000 × 75%)		90,000
Tooney, Capital ($120,000 × 25%)		30,000
Gomez, Capital	60,000	
Toomey, Capital	48,000	
Gomez, Drawings		60,000
Toomey, Drawings		48,000

(b)

GT Partnership
Partners' Capital Statement
For the Year Ended December 31, 2014

	Gomez	Toomey	Totals
Capital, January 1, 2014	$130,000	$100,000	$230,000
Add: Additional Investment		30,000	30,000
Net Income	90,000	30,000	120,000
	220,000	160,000	380,000
Less: Drawings	60,000	48,000	108,000
Capital, December 31, 2014	$160,000	$112,000	$272,000

Ex. 180

Actor, Brees, and Cotswald are forming The ABC Partnership. Actor is transferring $40,000 of personal cash and equipment worth $38,000 to the partnership. Brees owns land worth $27,000 and a small building worth $112,000, which he transfers to the partnership. There is a long-term mortgage of $40,000 on the land and building, which the partnership assumes. Cotswald transfers cash of $10,000, accounts receivable of $54,000, supplies worth $5,000, and equipment worth $28,000 to the partnership. The partnership expects to collect $48,000 of the accounts receivable.

Instructions

Prepare a classified balance sheet for the partnership after the partner's investments on December 31, 2014.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 180 (15 min.)

THE ABC PARTNERSHIP
Balance Sheet
December 31, 2014

Assets			
Current Assets			
Cash		$50,000	
Accounts Receivable	$54,000		
Less: Allowance for Doubtful Accounts	(6,000)	48,000	
Supplies		5,000	
Total current assets			$103,000
Property, Plant and Equipment			
Land		$27,000	
Buildings		112,000	
Equipment		66,000	
Total property, plant, and equipment			205,000
Total assets			$308,000
Liabilities and Owners' Equity			
Long-term Liabilities			
Mortgage Payable			$40,000
Owners' Equity			
Actor, Capital		$78,000	
Brees, Capital		99,000	
Cotswald, Capital		91,000	
Total owners' equity			268,000
Total liabilities and owners' equity			$308,000

Ex. 181

The Zhuzer Company at December 31 has cash $50,000, noncash assets $250,000, liabilities $138,000, and the following capital balances: Zhu $112,000 and Zerkel $50,000. The firm is liquidated, and $265,000 in cash is received for the noncash assets. Zhu and Zerkel income ratios are 60% and 40%, respectively.

Instructions

Prepare the entries to record:

(a) The sale of noncash assets.
(b) The allocation of the gain or loss on liquidation to the partners.
(c) Payment of creditors.
(d) Distribution of cash to the partners.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 181 (10 min.)

		Debit	Credit
(a)	Cash	265,000	
	Noncash Assets		250,000
	Gain on Realization		15,000
(b)	Gain on Realization	15,000	
	Zhu, Capital ($15,000 X 60%)		9,000
	Zerkel, Capital ($15,000 X 40%)		6,000
(c)	Liabilities	138,000	
	Cash		138,000
(d)	Zhu, Capital	121,000	
	Zerkel, Capital	56,000	
	Cash		177,000

Ex. 182

Prepare a partners' capital statement for Whatito Company based on the following information.

	Whatley	Hito
Beginning capital	$30,000	$27,000
Drawings during year	15,000	8,000

Net income was $45,000, and the partners share income 60% to Whatley and 40% to Hito.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 182 (8 min.)

WHATITO COMPANY
Partners' Capital Statement

	Whatley	Hito	Total
Beginning capital	$30,000	$27,000	$57,000
Add: Net income	27,000	18,000	45,000
	57,000	45,000	102,000
Less: Drawings	15,000	8,000	23,000
Ending capital	$42,000	$37,000	$79,000

Ex. 183

On December 31, Nola Company has cash $30,000, noncash assets $150,000, and liabilities $80,000. Capital balances were Harper $55,000 and Kahle $45,000. The firm is liquidated, and the noncash assets are sold for $115,000. Harper and Kahle share income in a 60:40 ratio.

Instructions

Prepare entries to record (a) the sale of noncash assets and (b) the allocation of the gain (loss) on liquidation to the partners.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 183 (6 min.)

(a)	Cash	115,000	
	Loss on Realization	35,000	
	Noncash Assets		150,000
(b)	Harper, Capital ($35,000 × 60%)	21,000	
	Kahle, Capital ($35,000 × 40%)	14,000	
	Loss on Realization		35,000

Ex. 184

The ABC Partnership is to be liquidated and you have been hired to prepare a Schedule of Cash Payments for the partnership. Partners Alexa, Bitsy, and Coco share income and losses in the ratio of 4:3:3, respectively. Assume the following:

1. The noncash assets were sold for $70,000.
2. Liabilities were paid in full.
3. The remaining cash was distributed to the partners. (If any partner has a capital deficiency, assume that the partner is unable to make up the capital deficiency.)

Instructions

Using the above information, complete the Schedule of Cash Payments below:

ABC PARTNERSHIP
Schedule of Cash Payments

Item	Cash	+	Noncash Assets	=	Liabilities	+	Alexa Capital	+	Bitsy Capital	+	Coco Capital
Balances before liquidation	25,000	+	150,000	=	50,000	+	25,000	+	35,000	+	65,000

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 184 (20 min.)

ABC PARTNERSHIP
Schedule of Cash Payments

Item	Cash	+	Noncash Assets	=	Liabilities	+	Alexa Capital	+	Bitsy Capital	+	Coco Capital
Balances before liquidation	25,000	+	150,000	=	50,000	+	25,000	+	35,000	+	65,000
Sale of noncash assets (1)	70,000	+	(150,000)	=		+	(32,000)	+	(24,000)	+	(24,000)
New balance	95,000	+	-0-	=	50,000	+	(7,000)	+	11,000	+	41,000
Pay liabilities (2)	(50,000)			=	(50,000)						
New balances	45,000	+	-0-	=	-0-	+	(7,000)	+	11,000	+	41,000
Allocate capital deficiency							7,000	+	(3,500)	+	(3,500)
New balances	45,000	+	-0-	=	-0-	+	-0-	+	7,500	+	37,500
Cash distribution (3)	(45,000)			=					(7,500)	+	(37,500)
Final balances	-0-		-0-		-0-		-0-		-0-		-0-

Ex. 185

The MFP Partnership is to be liquidated when the ledger shows the following:

Cash	$ 50,000
Noncash Assets	200,000
Liabilities	50,000
Mossimo, Capital	75,000
Fandango, Capital	100,000
Plank, Capital	25,000

Mossimo, Fandango, and Plank's income ratios are 6:3:1, respectively.

Instructions
Prepare separate entries to record the liquidation of the partnership assuming that the noncash assets are sold for $140,000 in cash.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 185 (15 min.)

1.	Cash	140,000	
	Loss on Realization	60,000	
	Noncash Assets		200,000
2.	Mossimo, Capital ($60,000 × 6/10)	36,000	
	Fandango, Capital ($60,000 × 3/10)	18,000	
	Plank, Capital ($60,000 × 1/10)	6,000	
	Loss on Realization		60,000
3.	Liabilities	50,000	
	Cash		50,000
4.	Mossimo, Capital ($75,000 – $36,000)	39,000	
	Fandango, Capital ($100,000 – $18,000)	82,000	
	Planks, Capital ($25,000 – $6,000)	19,000	
	Cash ($50,000 + $140,000 – $50,000)		140,000

Ex. 186

Prior to the distribution of cash to the partners, the accounts of ABC Company are: Cash $35,000, Acock, Capital (Dr.) $5,000, Buster, Capital (Cr.) $25,000, and Cutter, Capital (Cr.) $15,000. They share income on a 5:3:2 basis.

Instructions
Prepare entries to record (a) the absorption of Acock's capital deficiency by the other partners and (b) the distribution of cash to the partners with credit balances.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 186 (8 min.)

(a)	Buster, Capital ($5,000 × 3/5)	3,000	
	Cutter, Capital ($5,000 × 2/5)	2,000	
	Acock, Capital		5,000
(b)	Buster, Capital ($25,000 – $3,000)	22,000	
	Cutter, Capital ($15,000 – $2,000)	13,000	
	Cash		35,000

Ex. 187

The HK Partnership is liquidated when the ledger shows:

Cash	$60,000
Noncash Assets	90,000
Liabilities	44,000
Howell, Capital	100,000
Kenton, Capital	6,000

Henson and Kaenzig income ratios are 3:2, respectively.

Instructions
Prepare a schedule of cash payments, assuming that the noncash assets were sold for $65,000. Assume that any partner's capital deficiencies cannot be paid to the partnership.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 187 (10 min.)

HK Partnership
Schedule of Cash Payments

	Cash	+	Noncash Assets	=	Liabilities	+	Henson Capital	+	Kaenzig Capital
Balances before liquidation	$ 60,000		$90,000		$44,000		$100,000		$6,000
Sale of noncash assets and allocation of losses	65,000		(90,000)				(15,000)		(10,000)
New Balances	125,000		-0-		44,000		85,000		(4,000)
Pay Liabilities	(44,000)				(44,000)				
New Balances	81,000		-0-		-0-		85,000		(4,000)
Allocate capital deficiency							(4,000)		4,000
Cash Distribution	$(81,000)		$ -0-		$ -0-		$(81,000)		$ -0-

[a]Ex. 188

The Felton and Burchell Partnership has partner capital account balances as follows:

Felton, Capital	$550,000
Burchell, Capital	200,000

The partners share income and losses in the ratio of 60% to Felton and 40% to Burchell.

Instructions

Prepare the journal entry on the books of the partnership to record the admission of Santos as a new partner under the following three independent circumstances.

1. Santos pays $400,000 to Felton and $150,000 to Burchell for one-half of each of their ownership interest in a personal transaction.
2. Santos invests $600,000 in the partnership for a one-third interest in partnership capital.
3. Santos invests $240,000 in the partnership for a one-third interest in partnership capital.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]**Solution 188** (20 min.)

1.	Felton, Capital	275,000	
	Burchell, Capital	100,000	
	Santos, Capital		375,000
	(To record admission of Santos by purchase)		

Total net assets and total capital of the partnership do not change.

2.	Cash	600,000	
	Felton, Capital		90,000
	Burchell, Capital		60,000
	Santos, Capital		450,000
	(To record admission of Santos and bonus to old partners)		

Total capital of existing partnership	$ 750,000
Investment by new partner, Santos	600,000
Total capital of new partnership	$1,350,000

Santos's capital credit = $1,350,000 × 1/3 = $450,000

Santos's investment	$600,000
Santos's capital credit	450,000
Bonus to old partners	$150,000

Allocation to old partners

Felton (60% × $150,000)	$90,000
Burchell (40% × $150,000)	60,000
	$150,000

3.	Cash	240,000	
	Felton, Capital	54,000	
	Burchell, Capital	36,000	
	Santos, Capital		330,000
	(To record Santos's admission and bonus)		

[a]Solution 188 (Cont.)

Total capital of existing partnership	$750,000
Investment by new partner, Santos	240,000
Total capital of new partnership	$990,000

Santos's capital credit = $990,000 × 1/3 = $330,000

Bonus to Santos ($330,000 – $240,000) = $90,000

Reduction of old partners' capital	
Felton ($90,000 × 60%)	$ 54,000
Burchell ($90,000 × 40%)	36,000
	$90,000

[a]Ex. 189

Hu, Marcos, and Letterman share income on a 6:3:1 basis. They have capital balances of $80,000, $60,000, and $45,000, respectively, when Buffett is admitted to the partnership.

Instructions
Prepare the journal entry to record the admission of Buffett into the partnership if Buffett purchases one-half of Hu's equity for $45,000; one-half of Marcos's equity for $22,000; and one-third of Letterman's equity for $18,000.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 189 (5 min.)

Hu, Capital	40,000	
Marcos, Capital	30,000	
Letterman, Capital	15,000	
Buffett, Capital		85,000

[a]Ex. 190

Yuanne Sipp and Letitia Grimes share partnership income on a 3:2 basis. They have capital balances of $560,000 and $280,000, respectively, when Tammy Tuck is admitted to the partnership.

Instructions
Prepare the journal entry to record the admission of Tammy Tuck under each of the following assumptions:

(a) Tuck invests $320,000 for a 25% ownership interest.
(b) Tuck invests $220,000 for a 25% ownership interest.
(c) Tuck invests an amount that gives him a 25% ownership interest.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 190 (20 min.)

(a)

Cash		320,000	
Tuck, Capital			290,000
Sipp, Capital (3/5 × $30,000)			18,000
Grimes, Capital (2/5 × $30,000)			12,000

Total capital of existing partnership	$ 840,000
Investment by new partner, Tuck	320,000
Total capital of new partnership	$1,160,000
Tuck's capital credit ($1,160,000 × 25%)	$290,000
Investment by new partner, Tuck	$320,000
Tuck's capital credit	290,000
Bonus to existing partners	$ 30,000

(b)

Cash	220,000	
Sipp, Capital ($45,000 × 3/5)	27,000	
Grimes, Capital ($45,000 × 2/5)	18,000	
Tuck, Capital		265,000

Total capital of existing partnership	$ 840,000
Investment by new partner, Tuck	220,000
Total capital of new partnership	$1,060,000
Tuck's capital credit ($1,060,000 × 25%)	$265,000
Investment by new partner, Tuck	$220,000
Tuck's capital credit	265,000
Reduction of existing partners	$ (45,000)

(c)

Cash	280,000	
Tuck, Capital		280,000

$840,000 ÷ .75 = $1,120,000; $1,120,000 – $840,000 = $280,000

[a]Ex. 191

Kim Locke and Mary Leigh Coker have capital accounts of $420,000 and $480,000, respectively. Jeff Doggett and Danny Cambrey are to join the partnership. Doggett invests $425,000 in the partnership for which he receives a capital credit of $425,000. Cambrey purchases a one-half interest from Locke for $300,000 and a one-fourth interest from Coker for $90,000.

Instructions

(a) Prepare the journal entries to record the admission of Doggett and Cambrey to the partnership.

(b) Determine the capital balances of the partners after the admission of Doggett and Cambrey.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 191 (10 min.)

(a)	Cash	425,000	
	Doggett, Capital		425,000
	Locke, Capital	210,000	
	Coker, Capital	120,000	
	Cambrey, Capital		330,000

(b)	Locke ($420,000 – $210,000)	$ 210,000
	Coker ($480,000 – $120,000)	360,000
	Doggett	425,000
	Cambrey	330,000
	Total Capital	$1,325,000

[a]Ex. 192

Daggett, Lamppin, and Pendergast are partners who share profits and losses 50%, 30%, and 20%, respectively. Their capital balances are $150,000, $90,000, and $60,000, respectively.

Instructions

(a) Assume Sanford joins the partnership by investing $140,000 for a 25% interest with bonuses to the existing partners. Prepare the journal entry to record his investment.

(b) Assume instead that Daggett leaves the partnership. Daggett is paid $170,000 with a bonus to the retiring partner. Prepare the journal entry to record Daggett's withdrawal.

Ans: N/A, LO: 6,7, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 192 (10 min.)

(a)	Cash	140,000	
	Janford, Capital ($440,000 × 25%)		110,000
	Daggett, Capital ($30,000 × 50%)		15,000
	Lamppin, Capital ($30,000 × 30%)		9,000
	Pendergast, Capital ($30,000 × 20%)		6,000
(b)	Daggett, Capital	150,000	
	Lamppin, Capital ($20,000 × 3/5)	12,000	
	Pendergast, Capital ($20,000 × 2/5)	8,000	
	Cash		170,000

[a]Ex. 193

Brislin, Humphreys, and Watkins share income and losses in a ratio of 3:2:5, respectively. The capital account balances of the partners are as follows:

Brislin Capital	$600,000
Humphreys, Capital	360,000
Watkins, Capital	260,000

[a]Ex. 193 (Cont.)

Instructions

Prepare the journal entry on the books of the partnership to record the withdrawal of Watkins under the following independent circumstances:

1. The partners agree that Watkins should be paid $280,000 by the partnership for his interest.
2. The partners agree that Watkins should be paid $220,000 by the partnership for his interest.
3. Brislin agrees to pay Watkins $180,000 for one-half of his capital interest and Heller agrees to pay Watkins $180,000 for one-half of his capital interest in a personal transaction among the partners.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 193 (15 min.)

1.	Watkins, Capital		260,000	
	Brislin, Capital		12,000	
	Humphreys, Capital		8,000	
	Cash			280,000
	(To record withdrawal and bonus to Watkins)			
	Bonus to Watkins $20,000 ($280,000 – $260,000)			
	Allocation to reduce remaining partners' capital:			
	Brislin (3/5 × $20,000)	$12,000		
	Humphreys (2/5 × $20,000)	8,000		
		$20,000		
2.	Watkins, Capital		260,000	
	Brislin, Capital			24,000
	Humphreys, Capital			16,000
	Cash			220,000
	(To record withdrawal of Watkins and bonus to remaining partners)			
	Bonus to remaining partners $40,000 ($260,000 – $220,000)			
	Allocation to increase remaining partners' capital:			
	Brislin (3/5 × $40,000)	$24,000		
	Humphreys (2/5 × $40,000)	16,000		
		$40,000		
3.	Watkins, Capital		260,000	
	Brislin, Capital			130,000
	Humphreys, Capital			130,000
	(To record withdrawal of Watkins)			

Total net assets and total capital of the partnership do not change.

[a]Ex. 194

Elam, Kamins, and Rubio have capital balances of $150,000, $100,000, and $75,000, respectively, and their income ratios are 4:2:4.

Instructions

Record the withdrawal of Rubio from the partnership under each of the following assumptions:

1. Rubio is paid $75,000 from partnership assets.
2. Rubio is paid $93,000 from partnership assets.
3. Rubio is paid $60,000 from partnership assets.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

[a]Solution 194 (10 min.)

1.	Rubio, Capital	75,000	
	Cash		75,000
2.	Rubio, Capital	75,000	
	Elam, Capital ($18,000 × 4/6)	12,000	
	Kamins, Capital ($18,000 × 2/6)	6,000	
	Cash		93,000
3.	Rubio, Capital	75,000	
	Elam, Capital ($15,000 × 4/6)		10,000
	Kamins, Capital ($15,000 × 2/6)		5,000
	Cash		60,000

COMPLETION STATEMENTS

195. The ______________ Act provides the basic rules for the formation and operation of partnerships in more than 90% of the states.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

196. A partnership characteristic which enables each partner to act on behalf of the partnership when engaging in partnership business is called ______________.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

197. A major disadvantage of the partnership form of organization is ______________, which makes each partner personally and individually liable for all partnership liabilities.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

198. The capital accounts indicate each partner's ______________ investment, while the partner's drawing accounts are ______________ owner's equity accounts.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

199. The ______________ ratio specifies the basis for sharing income and losses.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

200. An income ratio based on ______________ balances may be appropriate when the amount of funds invested in the partnership is critical to the partnership.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

201. A ______________ allowance or ______________ on partners' capital accounts are not expenses of the partnership when they are specified as the basis for sharing income and losses.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

202. In liquidating a partnership, it is necessary to convert ______________ into cash and to allocate any ______________ or ______________ to the partners based on their income ratios.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

203. A debit balance in a partner's capital account is called a _____________.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

[a]204. A new partner may be admitted to the partnership by ______________ the interest of an existing partner, or by ______________ assets in the partnership.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]205. When a new partner's capital interest on the date of admittance is less than his or her investment in the firm, a ______________ results for the ______________ partner(s).

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

[a]206. If a bonus is given to a new partner, the old partners' capital accounts are decreased based on their ______________ ratio prior to the admission of the new partner.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

195. Uniform Partnership
196. mutual agency
197. unlimited liability
198. permanent, temporary
199. income
200. capital
201. salary, interest
202. noncash assets, gains, losses
203. capital deficiency
[a]204. purchasing, investing
[a]205. bonus, old
[a]206. Income

MATCHING

207. Match the items below by entering the appropriate code letter in the space provided.

A.	Mutual agency	G.	Purchase of an interest
B.	Unlimited liability	H.	Partnership liquidation
C.	Partnership agreement	I.	Capital deficiency
D.	Income ratio	J.	Distribution of cash to partners in liquidation of a partnership.
E.	Partners' capital statement		
F.	Admission by investment		

____ 1. Each partner is personally and individually liable for partnership debts.

____ 2. Made on basis of partners' capital balances.

____ 3. Explains changes in individual partner's capital accounts during a period.

____ 4. Each partner can bind the partnership so long as the action appears to be appropriate for the partnership.

____ 5. Business terminates.

____ [a]6. Results in an increase in total net assets and total capital of the partnership.

____ 7. Capital account with a debit balance.

____ 8. The basis for sharing income and losses.

____ [a]9. Total net assets and total capital of the partnership do not change.

____ 10. Written contract establishing duties and responsibilities of partners.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

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

SHORT-ANSWER ESSAY QUESTIONS

S-A E 208

Identify *and* explain the principal characteristics of the partnership form of business organization.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 208

The principal characteristics of a partnership form of organization are as follows:

(a) It is a voluntary *association of two or more individuals* based on a legally binding contract.

(b) The partners act in a *mutual agency* relationship; that is, each partner acts on behalf of the partnership when engaging in partnership business.

(c) A partnership has *limited life*. That is, a partnership may be ended voluntarily at any time through the acceptance of a new partner into the firm or the withdrawal of a partner. And, a partnership may be ended involuntarily by the death or incapacity of a partner.

(d) The partners have *unlimited liability*. Each partner is personally and individually liable for all partnership liabilities.

(e) All partnership a*ssets are co-owned* by the partners; that is, the assets are owned jointly by all the partners.

S-A E 209

Castle and Berry are discussing how income and losses should be divided in a partnership they plan to form. What factors should be considered in determining the division of net income or net loss?

Ans: N/A, LO: 3, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution 209

Factors to be considered in determining how income and loss should be divided are: (1) a fixed ratio is easy to apply and it may be an equitable basis in some circumstances; (2) capital balance ratios when the funds invested in the partnership are considered the most critical factor; and (3) salary allowance and/or interest allowance coupled with a fixed ratio. This last approach gives specific recognition to differences that may exist among partners by providing salary allowances for time worked and interest allowances for capital invested.

S-A E 210

Are the financial statements of a partnership similar to those of a proprietorship? Discuss.

Ans: N/A, LO: 4, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 210

The financial statements of a partnership are similar to those of a proprietorship. The differences are due to the number of partners involved. The income statement for a partnership is identical to the income statement for a proprietorship except for the division of net income. The owners' equity statement is called the partners' capital statement. This statement shows the changes in each partner's capital account and in total partnership capital during the year. On the balance sheet each partner's capital balance is reported in the owners' equity section.

S-A E 211

A partnership is liquidated by selling the non-cash assets, paying the creditors in full, and distributing the remaining assets to the partners. Explain why gains and losses on the realization of non-cash assets are distributed to the partners based on their income ratios, whereas cash is distributed to the partners based on their equity as shown in their capital accounts. What effects does the payment or nonpayment of a capital deficiency have on the distribution of cash to the partners?

Ans: N/A, LO: 5, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 211

Gains and losses on the realization of non-cash assets are like income and losses; that is, they are income statement items and, therefore, are distributed to partners based on their income and loss ratios. Cash is a balance sheet item and is the basis for any residual equity after liquidation; therefore, the final asset amount cash should be distributed to partners in accordance with their equity balances.

When the capital deficiency is paid, the payment is credited to the partner with the debit balance in the capital account. Then, the remaining cash is distributed to the partners with credit balances on the basis of their balances.

If the capital deficiency is not paid, the deficiency is allocated to the partners with credit balances on the basis of their income ratios. The remaining cash is then distributed to these partners on the basis of their capital balances.

S-A E 212 (Ethics)

Three doctors, Marshall Murrey, Andrew Shaw, and Austin Taylor, opened a family medicine clinic. All three doctors had been lifelong friends. All belonged to the same religious faith. All were very active in church affairs, and tried to mold their professional behavior to their religious beliefs.

About a year ago, Dr. Murrey announced that he was leaving the church. The others noticed that his personality also began to change. He began to dress in flamboyant styles, and he started wearing expensive-looking jewelry. His temper became unstable—one minute he was calm, and the next, he might be throwing charts down the hall and screaming. He started coming to the office late, and forgetting to see some of his patients before he left again. The other two at first were stunned at the changes. His wife asked them whether they thought he might have a drinking problem. After finally deciding to investigate, they found what looked to them like a large amount of cocaine, (hundreds of plastic sacks of white powder) tucked away in boxes of old medical equipment.

Frightened, Drs. Shaw and Taylor decided to act quickly. Their partnership agreement said nothing about dissolving the partnership—only about what to do if one of them died. They therefore secretly rented office space across town and began to move the most necessary equipment and supplies to the new office. A month later, they changed the locks on the old office and began seeing patients in the new office without any notice to Dr. Murrey at all. Dr. Murrey simply came in at around ten o'clock as usual, and found himself locked out of an empty office.

Required:
Did Drs. Shaw and Taylor l act ethically in their ending of the partnership? Explain.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Decision Modeling, AICPA PC: Professional Demeanor, IMA: Decision Analysis

Solution 212

No, Drs. Shaw and Taylor did not act ethically in the way they ended the partnership. It is important to distinguish between legal obligations and ethical obligations. The partnership may well be legally dissolved by their action. However, ethically, they had no right to act unilaterally, without giving Dr. Murrey a chance to defend himself or to correct his behavior. It also looks like they may have had an obligation to report their apparent cocaine "find" to the appropriate authorities, or at least to determine whether the substance was, in fact, cocaine. It is clear that the doctors had the right and obligation to protect Dr. Murrey's patients, but there is no evidence given that he was actually endangering his patients. Drs. Shaw and Taylor'ss actions seem to be cowardly, and an attempt to keep from facing unpleasant realities.

S-A E 213 (Communication)

Walter Bector and Sandy Melos began detail work on automobiles as a hobby. First, they used a mail-order kit to add "pin striping" to their own cars, a 1968 Mustang and a 1970 GTO Judge, respectively. Then Walter added more flourishes, including his name. Sandy practiced painting flames on his Judge. Gradually, their cars became recognized around town and others began to ask them to add a flourish here or there to their cars. They were talked into attending a "muscle car" show in a nearby large city to show off their cars. They had more requests for work than they could handle. Now, they are considering quitting their other jobs and making this a permanent business. Sandy, for example, turns down more jobs than he accepts and still gets more requests every week.

Walter and Sandy are unsure how to proceed. They like the idea of a partnership, but they only know they work well together—things like how to split payment have just been settled individually for each job, depending on which one did more work. Walter's father suggests a written partnership agreement. Walter disagrees. He believes that it will spoil the whole arrangement by reducing it to words.

Required:
Write a brief note to Walter explaining why he needs a partnership agreement.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Solution 213

Dear Walter,

Your dad asked me to write to you. I am an accountant with the CPA firm Clinton, Grant, and Thomas, and I do a lot of work for partnerships.

I understand that you don't want a written partnership agreement. I'd like to share with you a few things you may not have considered. First, I completely agree that a written agreement won't solve all your problems. I would even say that a poorly written agreement is worse than none at all. However, I don't know any partnerships in this town that have lasted for more than a year or two that don't have a written agreement. If they didn't have one at first, they learned by hard experience exactly why they needed one.

I'd say the biggest advantage is that it forces both of you to spell out what you expect of the other party. You have discussed, I understand, how profits are to be split. Do both of you agree entirely? What if you decide another method would be more fair? What do you plan to do if you want to add a partner? Who makes the decisions about which building to rent, and what kind of help to hire? All these things can be spelled out in a partnership agreement.

I hope you will seriously consider drawing up a good partnership agreement. Otherwise, you may condemn yourselves to spending more time clearing up misunderstandings than on fixing up cars.

Let me know if I can help. I know a couple of attorneys in town who could get the job done without charging an arm and a leg.

Sincerely,

(signature)