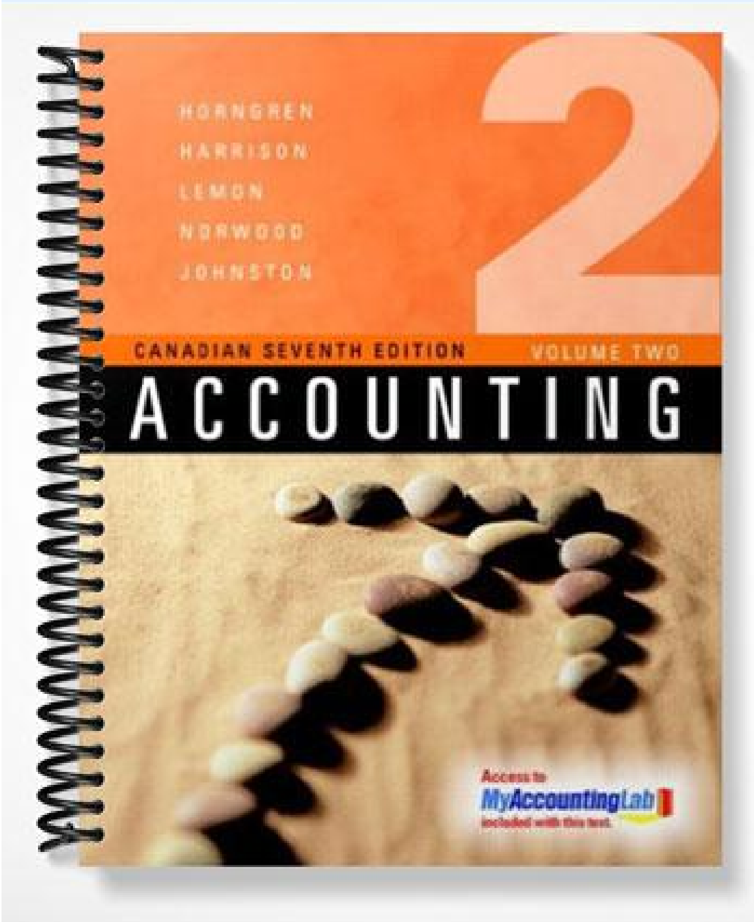
TEST BANK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HARRISON
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2
CANADIAN SEVENTH EDITION
VOLUME TWO
ACCOUNTING
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Chapter 12 Partnerships

1) Mutual agency in a partnership means that partnership decisions may be made by any one of the partners.
Answer: ✓ True False
Diff: 1 Page Ref: 640

2) Accounting for a partnership is similar to accounting for a proprietorship.
Answer: ✓ True False
Diff: 1 Page Ref: 665

3) A partnership agreement may be oral.
Answer: ✓ True False
Diff: 2 Page Ref: 639

4) Partners can share in net income or loss in any manner they choose.
Answer: ✓ True False
Diff: 1 Page Ref: 665

5) A partnership has a life limited by the length of time that all partners continue to own the business.
Answer: ✓ True False
Diff: 2 Page Ref: 640

6) Contributions to a partnership are entered in the books in the same way that a proprietor's assets and liabilities are recorded.
Answer: ✓ True False
Diff: 2 Page Ref: 642

7) A partner cannot invest an asset with an outstanding obligation into a partnership.
Answer: True ✓ False
Diff: 2 Page Ref: 642

8) An outside person may become a partner by purchasing a current partner's interest or by investing in the partnership.
Answer: ✓ True False
Diff: 2 Page Ref: 649

9) When a partnership is formed, each partner's initial investment should be recorded at the fair market value of the assets at the date of their transfer to the partnership.
Answer: ✓ True False
Diff: 2 Page Ref: 643

10) The partnership records receipt of the partners' initial investments at their current market values.
Answer: ✓ True False
Diff: 2 Page Ref: 643

11) If the partnership agreement specifies a method for allocating profits but not losses, then losses are shared in the same proportion as profits.
Answer: ✓ True False
Diff: 2 Page Ref: 644

12) It is not possible to share partnership income purely on the basis of partner's service to the partnership.
Answer: True ✓ False
Diff: 2 Page Ref: 644

13) It is not possible to share partnership income purely on the basis of partner's investments.
Answer: True ✓ False
Diff: 2 Page Ref: 644

14) The balance in the partner's capital account consists of the partner's initial investment less the partner's share of partnership net income plus the partner's withdrawals.
Answer: True ✓ False
Diff: 2 Page Ref: 649

15) Partnership agreements typically do not allow partners to withdraw assets from the business.
Answer: True ✓ False
Diff: 2 Page Ref: 648

16) It is not possible for the withdrawals account of a partner to be nil before closing entries.
Answer: True ✓ False
Diff: 3 Page Ref: 649

17) Partnership profits and losses may be allocated based on capital investments and on service.
Answer: ✓ True False
Diff: 2 Page Ref: 645

18) Prior to the admission of a new partner, that partner's capital account is nil.
Answer: ✓ True False
Diff: 2 Page Ref: 650

19) Unless the partnership agreement specifically indicates an income ratio, partnership net income or loss is not allocated to the partners.
Answer: True ✓ False
Diff: 2 Page Ref: 644

20) The balance in the partner's capital account consists of the partner's initial investment less the partner's share of partnership net income plus the partner's withdrawals.
Answer: True ✓ False
Diff: 2 Page Ref: 649

21) The journal entry to close a partner's drawing account involves a debit to the partner's capital account.
Answer: ✓ True False
Diff: 2 Page Ref: 649

22) John and Mary share profits and losses in a 6:9 ratio, respectively. Mary's share of a $60,000 profit would be $24,000.
Answer: True ✓ False
Diff: 2 Page Ref: 644

23) A bonus may result when a new partner is admitted by making an investment directly into the partnership.
Answer: ✓ True False
Diff: 2 Page Ref: 653

24) If there is not bonus on the admission of a new partner, this means that there is no cash changing hands.
Answer: True ✓ False
Diff: 2 Page Ref: 650

25) A new partner may be admitted to a partnership by purchasing some of an existing partner's interest.
Answer: ✓ True False
Diff: 2 Page Ref: 651

26) A bonus paid to the old partners by a new partner increases the old partners' capital accounts.
Answer: ✓ True False
Diff: 2 Page Ref: 651

27) When there is a n admission of a new partner and a bonus is given to the old partners, cash is always obtained by the old partners at the admission of the new partner.
Answer: True ✓ False
Diff: 3 Page Ref: 651

28) Williams and Creech agree to admit Kelley to their partnership. Kelley will purchase one-half of Williams' interest for $110,000. The current balance in Williams' capital account is $200,000. Williams' capital account will be debited for $110,000.
Answer: True ✓ False
Diff: 2 Page Ref: 650

29) Williams and Creech agree to admit Kelley to their partnership. Kelley will purchase one-half of Williams' interest for $110,000. The current balance in Williams' capital account is $200,000. Williams' capital account will be debited for $100,000.
Answer: ✓ True False
Diff: 2 Page Ref: 650

30) The resignation of a partner dissolves the partnership.
Answer: ✓ True False
Diff: 2 Page Ref: 654

31) When a partner withdraws from the partnership, his capital account is always debited for the amount of cash taken.
Answer: True ✓ False
Diff: 2 Page Ref: 655

32) When a partner withdraws from a partnership, it is possible that he not receive any cash and may even have to pay cash to leave the partnership.
Answer: ✓ True False
Diff: 3 Page Ref: 655

33) When a partnership is liquidated, it is not necessary to sell all of the assets of the partnership.
Answer: True ✓ False
Diff: 2 Page Ref: 658

34) If a partner leaves the partnership in the middle of the fiscal year, he must wait until the year end to determine his capital account balance.
Answer: True ✓ False
Diff: 2 Page Ref: 654

35) Cash is distributed to partners in accordance with the net income agreement in the partnership liquidation process.
Answer: True ● False
Diff: 2 Page Ref: 658

36) At the completion of the liquidation of a partnership, all accounts in the general ledger have a nil balance.
Answer: ● True False
Diff: 1 Page Ref: 660

37) At the withdrawal of a partners where a bonus is paid to the withdrawing partner, cash must be paid personally by the remaining partners.
Answer: True ● False
Diff: 2 Page Ref: 656

38) In a limited liability partnership, all the partners have limited liability for the debts of the partnership.
Answer: True ● False
Diff: 2 Page Ref: 642

39) One of the events that cause a partnership to dissolve is the death of a partner.
Answer: ● True False
Diff: 1 Page Ref: 657

40) Gains and losses on the sale of noncash assets in a partnership liquidation are shared by the partners on the basis of their profit-and-loss-sharing ratio.
Answer: ● True False
Diff: 2 Page Ref: 658

41) A partnership balance sheet will show the ending capital balance for each partner.
Answer: ● True False
Diff: 1 Page Ref: 661

42) The entry to record a withdrawal of a partner from the firm when payment is made from partners' personal assets affects only partners' capital accounts.
Answer: ● True False
Diff: 2 Page Ref: 654

43) To make certain that each partner fully understands how a particular partnership will operate in the future, partners should draw up the:
A) articles of liability
B) written partnership agreement
C) articles of incorporation
D) articles of partnership
Answer: B
Diff: 1 Page Ref: 639

44) All of the following are items which should be outlined in a partnership agreement *except:*
A) procedures for settling disputes among partners
B) method of sharing profits and losses among the partners
C) the chart of accounts for the partnership
D) procedures for admitting a new partner
Answer: C
Diff: 1 Page Ref: 639

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

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

Answer: B
Diff: 1 Page Ref: 641

46) A limited partnership:

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

Answer: C
Diff: 2 Page Ref: 642

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

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

Answer: B
Diff: 1 Page Ref: 641

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

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

Answer: B
Diff: 2 Page Ref: 640

49) The profits of a general partnership:

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

Answer: B
Diff: 2 Page Ref: 640

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

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

Answer: D
Diff: 2 Page Ref: 640

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

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

Answer: C

Diff: 2 Page Ref: 640

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

A) $9,000
B) $7,000
C) $5,000
D) $14,000

Answer: A

Diff: 1 Page Ref: 643

53) Investments of assets into a partnership are recorded at their:

A) original cost
B) book value
C) current market value
D) original cost plus a percentage adjustment to account for inflation

Answer: C

Diff: 2 Page Ref: 642

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

A) $165,000
B) $175,000
C) $240,000
D) $270,000

Answer: C

Diff: 2 Page Ref: 643

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

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

Answer: D

Diff: 2 Page Ref: 643

56) Canfield invests cash of $20,000 and inventory with a cost of $20,000 and a current value of $25,000 in the Canfield and Roose Partnership. In addition, Canfield invests land with a cost of $75,000 and a current market value of $170,000. The partnership agrees to assume a $60,000 mortgage on the property. Roose invests equipment with a cost of $100,000 and accumulated amortization of $40,000. Roose's equipment has a current market value of $100,000. Roose also invests inventory with a current market value of $30,000. How much cash must be invested by Roose so that the two partners have equal balances in their capital accounts?

A) $25,000
B) $75,000
C) $15,000
D) $35,000

Answer: A
Diff: 3 Page Ref: 643

57) Canfield invests cash of $20,000 and inventory with a cost of $20,000 and a current value of $25,000 in the Canfield and Roose Partnership. In addition, Canfield invests land with a cost of $75,000 and a current market value of $120,000. The partnership agrees to assume a $40,000 mortgage on the property. Roose invests equipment with a cost of $100,000 and accumulated amortization of $40,000. Roose's equipment has a current market value of $90,000. How much cash must be invested by Roose so that the two partners have equal balances in their capital accounts?

A) $55,000
B) $75,000
C) $15,000
D) $35,000

Answer: D
Diff: 3 Page Ref: 643

Table 12-1

Hanna contributes $45,000 cash, land that she bought for $55,000, and a building that cost her $140,000 and has been amortized $40,000, to the newly formed partnership of H & B Company. The building is valued at $190,000 and has an outstanding mortgage of $100,000. The land is valued at $95,000.

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

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

A) building for $100,000
B) various asset accounts for a total of $270,000
C) building for $140,000
D) various asset accounts for a total of $330,000

Answer: D
Diff: 2 Page Ref: 643

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

A) various asset accounts for a total of $75,500
B) various asset accounts for a total of $90,500
C) various asset accounts for a total of $55,500
D) various asset accounts for a total of $80,500

Answer: B
Diff: 2 Page Ref: 643

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

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

Answer: C
Diff: 2 Page Ref: 643

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

A) $95,500
B) $55,500
C) $80,500
D) $75,500

Answer: D
Diff: 3 Page Ref: 643

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

A) $230,000
B) $330,000
C) $185,000
D) $200,000

Answer: A
Diff: 3 Page Ref: 643

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

A) $320,500
B) $305,500
C) $420,500
D) $280,500

Answer: C
Diff: 3 Page Ref: 643

64) Assume the partnership agreement specifies net income is to be divided as follows: "salary" of $30,000 to A and $40,000 to B with any remaining profit or loss divided equally between the partners. If net income for the current year is $65,000, A's distributive share of net income would be:

A) $27,500
B) $37,500
C) $30,000
D) $40,000

Answer: A
Diff: 2 Page Ref: 646

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

A) $18,750
B) $22,500
C) $37,500
D) $43,500

Answer: A
Diff: 2 Page Ref: 646

66) Hugh and Liz formed a partnership with capital contributions of $80,000 and $120,000, respectively. Their partnership agreement called for 1) Hugh to receive a $20,000 "salary", 2) each partner to receive 10% of their initial capital contributions, and 3) the remaining income or loss to be divided equally. If net income for the current year is $70,000, what amount is credited to Hugh's capital account?

A) $27,000
B) $43,000
C) $35,000
D) $18,750

Answer: B
Diff: 2 Page Ref: 646

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

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

Answer: B
Diff: 3 Page Ref: 647

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

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

Answer: B
Diff: 3 Page Ref: 647

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

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

Answer: A
Diff: 2 Page Ref: 645

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

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

Answer: A
Diff: 3 Page Ref: 646

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

A) credit to A's capital account for $40,000
B) credit to B's capital account for $25,000
C) debit to A's capital account for $25,000
D) debit to income summary for $65,000

Answer: D
Diff: 2 Page Ref: 646

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

A) debit to income summary for $25,000
B) credit to Kane's capital account for $12,500
C) debit to Brown's capital account for $12,500
D) credit to the cash account for $25,000

Answer: C
Diff: 2 Page Ref: 647

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

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

Answer: A
Diff: 1 Page Ref: 644

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

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

Answer: D
Diff: 2 Page Ref: 645

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

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

Answer: B
Diff: 2 Page Ref: 645

76) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2009 the business earned $40,000. Grant's share of the income is:

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

Answer: B
Diff: 2 Page Ref: 645

77) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2009 the business experienced a loss of $40,000. Grant's share of the loss is:

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

Answer: B
Diff: 2 Page Ref: 645

78) The Partnership of Raymond, Chabot and Grant divides profits in the ratio of 4:5:3. There is no provision for dividing losses. During 2009 the business experienced a loss of $40,000. Chabot's share of the loss is:

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

Answer: D
Diff: 2 Page Ref: 645

Table 12-2

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

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

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

Answer: A
Diff: 2 Page Ref: 645

80) Refer to Table 12-2. Assuming the company earns a profit of $146,500, the balance of Tac's capital account after closing out the income summary account is:
A) $235,326
B) $348,833
C) $348,500
D) $149,988
Answer: A
Diff: 2 Page Ref: 645

81) Refer to Table 12-2. Assuming the business incurs a loss of $87,000, Toe's share of the loss is:
A) $35,148
B) $20,184
C) $29,000
D) $31,668
Answer: B
Diff: 2 Page Ref: 645

82) Refer to Table 12-2. Assuming the partnership incurs a loss of $105,000, the balance in Tic's capital account after closing out the income summary account is:
A) $159,580
B) $42,420
C) $139,580
D) $73,580
Answer: A
Diff: 2 Page Ref: 645

Table 12-3

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

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

83) Refer to Table 12-3. If the business earns a net income of $118,000, Mariah's share is:
A) $62,125
B) $61,000
C) $55,875
D) $54,000
Answer: C
Diff: 3 Page Ref: 647

84) Refer to Table 12-3. Assuming the business incurs a net loss of $36,000, Brittney's capital account will be:
A) debited for $56,625
B) debited for $94,375
C) credited for $4,375
D) credited for $40,375
Answer: C
Diff: 3 Page Ref: 647

85) Refer to Table 12-3. If the partnership incurred a loss of $18,000, Mariah's capital account would be ________, and Brittney's capital account would be ________.
A) debited for $83,125, debited for $49,875
B) credited for $49,875, debited for $83,125
C) debited for $29,125, credited for $11,125
D) unaffected, unaffected
Answer: C
Diff: 3 Page Ref: 647

Table 12-4

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

1) Annual "salary" allowance of $40,000 to Jana, $20,000 to Jill, and $30,000 to Carolle.
2) Interest on their original capital balances of 10%.
3) Any remainder equally.

86) Refer to Table 12-4. If the partnership earns a profit of $150,000 its first year, then Jana's capital account would be credited for:
A) $40,000
B) $45,000
C) $65,000
D) $42,000
Answer: C
Diff: 3 Page Ref: 647

87) Refer to Table 12-4. Assuming the business has income of $60,000 during its first year, the amount allocated to Jill is:
A) $20,000
B) $15,000
C) $35,000
D) $10,000
Answer: D
Diff: 3 Page Ref: 647

88) Refer to Table 12-4. If during the first year of business, the company incurs a net loss of $20,000, the capital account of Carolle would:
A) increase $56,667
B) increase $11,667
C) decrease $56,667
D) decrease $11,667
Answer: D
Diff: 3 Page Ref: 647

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

Crosby, capital	**Stills, capital**
A) debit of $5,000	credit of $10,000
B) credit of $35,000	credit of $70,000
C) credit of $5,000	credit of $10,000
D) debit of $35,000	credit of $5,000

Answer: A
Diff: 3 Page Ref: 646

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

Crosby, capital	**Stills, capital**
A) debit of $7,917	debit of $12,917
B) credit of $7,917	credit of $12,917
C) debit of $7,917	credit of $12,917
D) debit of $12,917	credit of $7,917

Answer: C
Diff: 3 Page Ref: 646

91) Red, White, and Blue have capital balances immediately after closing entries of $80,000, $100,000, and $120,000, respectively. They have agreed to share all profits equally. Blue is selling his interest to Black for $135,000 cash. The entry on the books of the partnership to record this event includes a:
A) debit to cash for $135,000
B) debit to Black, capital for $120,000
C) credit to Black, capital for $135,000
D) credit to Black, capital for $120,000
Answer: D
Diff: 2 Page Ref: 650

92) Black and Blue formed a partnership, agreeing to share profits equally. After closing entries, the balances in their capital accounts are $36,000 and $45,000, respectively. Blue sells her interest in the partnership to White for $52,000. The entry on the partnership books to record this event includes a:
A) debit to cash for $52,000
B) credit to White, capital for $45,000
C) credit to White, capital for $52,000
D) debit to Blue, capital for $3,500
Answer: B
Diff: 2 Page Ref: 650

Table 12-5

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

93) Refer to Table 12-5. If Jewel is given a 20% interest in the partnership in exchange for $90,000 cash, the entry to record her investment includes a:
A) credit to Jim, capital for $7,000
B) credit to cash for $90,000
C) credit to Jewel, capital for $90,000
D) credit to Jewel, capital for $118,000
Answer: D
Diff: 3 Page Ref: 650

94) Refer to Table 12-5. If Jewel is given a 25% interest in the partnership in exchange for $200,000, the entry to record her investment includes a:
A) credit to Jim, capital for $6,250
B) debit to Joe, capital for $18,750
C) credit to Jewel, capital for $200,000
D) debit to Jewel, capital for $175,000
Answer: A
Diff: 3 Page Ref: 651

95) Refer to Table 12-5. If Jewel is given a 15% interest in the partnership in exchange for $100,000, the entry to record her investment includes a:
A) credit to Jewel, capital for $100,000
B) debit to Jim, capital for $6,250
C) credit to Jim, capital for $6,250
D) credit to Joe, capital for $7,500
Answer: D
Diff: 3 Page Ref: 651

Table 12-6

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

96) Refer to Table 12-6. Assuming Bud is given a 12.5% interest in the partnership for a $60,000 cash investment, the entry to record his investment includes a:
A) credit to Bud, capital for $40,000
B) debit to Donna, capital for $6,000
C) credit to Rick, capital for $8,000
D) credit to Bud, capital for $60,000
Answer: A
Diff: 3 Page Ref: 651

97) Refer to Table 12-6. Assuming Bud is given a 20% interest in the partnership for an $80,000 cash investment, the entry to record his investment includes a:
A) credit to Bud, capital for $80,000
B) debit to loss on sale of partnership interest for $12,000
C) debit to Daisy, capital for $4,800
D) credit to Donna, capital for $3,600
Answer: D
Diff: 3 Page Ref: 651

98) Refer to Table 12-6. Assuming Bud is given a 15% interest in the partnership for a $70,000 cash investment, the entry to record his investment includes a:
A) credit to Donna, capital for $6,150
B) credit to Bud, capital for $70,000
C) debit to Rick, capital for $6,150
D) credit to gain on sale of partnership interest for $20,500
Answer: A
Diff: 3 Page Ref: 651

Table 12-7

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

99) Refer to Table 12-7. Assuming Burt contributes $80,000 for a 20% interest, the entry to record his investment in the partnership includes a:
A) credit to Burt, capital for $76,000
B) debit to Bill, capital for $2,000
C) debit to Bob, capital for $8,000
D) credit to Bo, capital, for $10,000
Answer: A
Diff: 3 Page Ref: 651

100) Refer to Table 12-7. Burt has been offered a 25% interest in the firm for $60,000 cash investment. Assuming Burt takes the offer, the entry to record his investment in the partnership includes a:
A) debit to cash for $75,000
B) debit to loss on sale of partnership interest for $46,000
C) credit to Bill, capital for $1,500
D) debit to Bob, capital for $12,000
Answer: D
Diff: 3 Page Ref: 651

101) Refer to Table 12-7. Burt has been offered a 15% interest in the firm for $130,000. Assuming Burt takes the offer, the entry to record his investment in the partnership includes a:
A) credit to gain on sale of partnership interest for $85,000
B) debit to Burt, capital for $45,000
C) credit to Burt, capital for $45,000
D) debit to cash for $130,000
Answer: D
Diff: 2 Page Ref: 651

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

A) the same as Reese's share of the loss
B) $42,000
C) $28,000
D) $28,000 to each and balance split evenly

Answer: B
Diff: 2 Page Ref: 644

Table 12-8

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

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

A) credit to Joey, capital for $70,000
B) debit to Joey, capital for $50,000
C) credit to Joey, capital for $50,000
D) debit to Joey, capital for $70,000

Answer: D
Diff: 2 Page Ref: 654

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

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

Answer: C
Diff: 3 Page Ref: 655

Table 12-9

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

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

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

Answer: A
Diff: 3 Page Ref: 655

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

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

Answer: B
Diff: 3 Page Ref: 655

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

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

Answer: B
Diff: 3 Page Ref: 655

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

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

Answer: C
Diff: 3 Page Ref: 655

Table 12-10

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

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

A) $21,250
B) $46,250
C) $22,500
D) $21,250 to each and remainder split evenly

Answer: C
Diff: 3 Page Ref: 658

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

A) $37,500
B) $50,000
C) $46,667
D) $46,250

Answer: D
Diff: 3 Page Ref: 658

Table 12-11

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

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

111) Refer to Table 12-11. If the other assets are sold for $250,000, the total amount of cash to be distributed to the partners is:
A) $295,000
B) $250,000
C) $350,000
D) $195,000
Answer: A
Diff: 2 Page Ref: 659

112) Refer to Table 12-11. If the other assets are sold for $180,000, the total amount of cash to be distributed to the partners is:
A) $280,000
B) $225,000
C) $180,000
D) $270,000
Answer: B
Diff: 2 Page Ref: 659

113) Other assets were sold during a partnership liquidation for $300,000, which involved a $27,000 gain. Assuming the three partners have an equal net income division agreement, the journal entry would involve:
A) debits to the three partners' capital accounts for $9,000 each
B) a credit to other assets for $300,000
C) a credit to other assets for $273,000
D) a debit to cash for $273,000
Answer: C
Diff: 3 Page Ref: 659

114) Capital balances for Hold and Held are $225,000 and $350,000 immediately before liquidation. Noncash assets with a book value of $500,000 are sold for $560,000 cash. Total liabilities of $270,000 are paid by the partnership. The amount of cash available for distribution to the partners is:
A) $635,000
B) $905,000
C) $75,000
D) $560,000
Answer: A
Diff: 3 Page Ref: 659

115) A partnership balance sheet includes:

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

Answer: C
Diff: 1 Page Ref: 661

116) A partnership income statement includes:

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

Answer: D
Diff: 1 Page Ref: 661

Match the following.

117) Agreement that is the contract between partners
Answer: J
Diff: 2 Page Ref: all

118) Ending of a partnership
Answer: I
Diff: 2 Page Ref: all

119) A voluntary association of two or more persons who co-own a business for profit
Answer: E
Diff: 2 Page Ref: all

120) Every partner can bind the business to a contract within the scope of the partnership's regular business operations
Answer: C
Diff: 2 Page Ref: all

121) When a partnership cannot pay its debts with business assets, the partners must use personal assets to meet the debt
Answer: A
Diff: 2 Page Ref: all

122) A partnership in which each partner's personal liability for the business's debts is limited to a certain dollar amount.
Answer: D
Diff: 2 Page Ref: all

123) The process of going out of business by selling the entity's assets and paying its liabilities
Answer: F
Diff: 2 Page Ref: all

124) The assets invested by a partner are recorded on the books of the partnership at this value
Answer: K
Diff: 2 Page Ref: all

A) unlimited liability
B) death of a partner
C) mutual agency
D) limited liability partnership
E) partnership
F) liquidation
G) distribution of remaining cash to partners
H) equally
I) dissolution
J) articles of partnership
K) current market value

125) Without an agreement, the law will stipulate this method of sharing profits and losses
Answer: H
Diff: 2 Page Ref: all

126) Causes the dissolution of a partnership
Answer: B
Diff: 2 Page Ref: all

127) The final step in the liquidation of a partnership
Answer: G
Diff: 2 Page Ref: all

128) What is a partnership? List three advantages and three disadvantages of the partnership form of business organization.
Answer: A partnership is a voluntary association of two or more persons to co-own a business for profit.

Advantages: Unlike a corporation, it is easy to form, involving no legal procedures, and it is less expensive to form. It brings together capital, expertise, and labour of two or more individuals. Finally, partnerships pay no income taxes as corporations do.

Disadvantages: Some disadvantages of a partnership are mutual agency, which allows each partner to sign contracts in the name of the partnership, and unlimited liability, which makes each partner individually liable for all the debts of the partnership. Additionally, the limited life of a partnership requires a new agreement whenever there is a change to the existing partnership.
Diff: 2 Page Ref: 641

129) Describe the items that should be covered in a partnership agreement.
Answer: The partnership agreement should include the following points:

· name, location, and nature of the business
· name, capital investment, and duties of each partner
· method of sharing profits and losses among the partners
· withdrawals of assets allowed to the partners
· procedures for settling disputes between the partners
· procedures for admitting new partners
· procedures for settling up with a partner who withdraws from the business
· procedures for liquidating the partnership

Diff: 2 Page Ref: 639

130) Jack and Will decide to form the JW Partnership. On January 1, 2008, they combine their assets with the following current market values and book values:

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

Journalize the entries on January 1, 2008, to record the partners' initial investments.

Answer:

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

Diff: 2 Page Ref: 643

131) Jill and Sue decide to form the JS Partnership. On February 1, 2008, they combine their assets with the following current market values and book values:

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

Journalize the entries on February 1, 2008, to record the partners' initial investments.

Answer:

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

Diff: 2 Page Ref: 643

132) Jill and Sue decide to form the JS Partnership. On February 1, 2008, they combine their assets except for the land with the following current market values and book values:

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

Journalize the entries on February 1, 2008, to record the partners' initial investments.

Answer:

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

Diff: 2 Page Ref: 643

133) Jack and Will formed the JW Partnership on January 1, 2008, by combining the separate assets of their respective proprietorships. Information relating to their assets and liabilities are as follows:

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

Prepare the balance sheet for JW Partnership on January 1, 2008, immediately after the partnership entries are prepared.

Answer:

JW Partnership
Balance Sheet
January 1, 2008

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

Diff: 3 Page Ref: 643

134) Tracy and Jack formed the TJ Partnership on March 1, 2008, by combining the separate assets of their respective proprietorships. Information relating to their assets and liabilities are as follows:

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

Prepare the balance sheet for TJ Partnership on March 1, 2008, immediately after the partnership entries are prepared.

Answer:

TJ Partnership
Balance Sheet
March 1, 2008

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

Diff: 3 Page Ref: 643

Table 12-12

On January 1, 2007, Ruben Ho and Clay Runnerup formed the Ruben and Clay Partnership by investing the following assets and liabilities in the business:

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

An independent appraiser believes that Ruben's equipment has a market value of $29,000 and Clay's equipment has a market value of $47,500. The appraiser indicates Ruben's building has a current value of $90,000 and Clay's building has a current value of $110,000. The appraiser further indicates that Ruben's land has a current value of $78,000 and Clay's land has a current value of $80,000. Ruben and Clay agree to share profits and losses in a 60:40 ratio. During the first year of operations, the business net income income of $74,000. Each partner withdrew $30,000 cash.

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

b) Refer to Table 12-12. Prepare a balance sheet dated January 1, 2007, after the completion of the initial journal entries.

Answer: a) **General Journal**

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

b)

Ruben and Clay Partnership
Balance Sheet
January 1, 2007

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

Diff: 3 Page Ref: 643

136) Refer to Table 12-12. Determine the capital balances of Ruben Ho and Clay Runnerup, on December 31, 2007, after the completion of their first year of operations.

Answer: Ruben Ho, capital balance on December 31, 2007

$157,000 + $44,400 - $30,000 = $171,400

Clay Runnerup, capital balance on December 31, 2007

$192,000 + $29,600 - $30,000 = $191,600

Diff: 2 Page Ref: 664

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

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

a) Net income is $60,000 and the partners could not agree on a plan for net income/loss division.
b) The net loss is $24,000 and the partners agreed to share in the profits based on a 2:2:1 ratio. The agreement did not address losses.
c) Net income is $75,000 and the partners agreed to share profits based on the relationship of their initial capital balances.
d) The net loss is $30,000 and the partners agreed to share profits and losses based on 15% to Copps, 50% to Rock, and 35% to Grey.

Round all answers to the nearest whole dollar.

Answer:

Item	Copps	Rock	Grey	Total
a)	$20,000	$20,000	$20,000	$60,000
b)	$(9,600)	$(9,600)	$(4,800)	$(24,000)
c)	$23,437	$32,813	$18,750	$75,000
d)	$(4,500)	$(15,000)	$(10,500)	$(30,000)

Diff: 3 Page Ref: 647

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

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

Answer:

General Journal

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

Diff: 2 Page Ref: 647

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

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

Answer: **General Journal**

Date	Accounts	Debit	Credit
a)	Clancy Capital	20,000	
	Flanagan Capital	20,000	
	Income Summary		40,000
b)	Clancy Capital	18,000	
	Flanagan Capital	22,000	
	Income Summary		40,000
c)	Clancy Capital	16,300	
	Flanagan Capital	23,700	
	Income Summary		40,000

Diff: 2 Page Ref: 647

140) Cornell and Roberts are partners who agree to admit Stanley to their partnership. Cornell has a capital balance of $51,000 and Roberts has a capital balance of $70,000. Cornell and Roberts share net income in the ratio of 2:8. Prepare journal entries to admit Stanley to the partnership based on the following independent agreements. Round all amounts to the nearest dollar.

a) Cornell invests $50,000 cash into the partnership for a 20% interest.
b) Roberts invests $50,000 cash into the partnership for a 30% interest.
c) Stanley purchases one-third of Cornell's capital for $20,000.
d) Stanley purchases one-half of Robert's capital for $31,000.

Answer: **General Journal**

Date	Accounts	Debit	Credit
a)	Cash	50,000	
	Cornell, Capital		3,160
	Roberts, Capital		12,640
	Stanley, Capital		34,200
b)	Cash	50,000	
	Cornell, Capital	260	
	Stanley, Capital	1,040	
	Stanley, Capital		51,300
c)	Cornell, Capital	17,000	
	Stanley, Capital		17,000
d)	Roberts, Capital	35,000	
	Stanley, Capital		35,000

Diff: 3 Page Ref: 650

141) Monica Turner and Anna Frost have capital balances of $200,000 and $250,000, respectively and have no net income/net loss agreement. On January 1, 2008, they agree to admit Emma Brown into their partnership and give her a 30% interest in the business.

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

a) Emma contributes $250,000 cash to the business.
b) Emma contributes equipment valued at $275,000 to the business.
c) Emma contributes land valued at $180,000 to the business.

Answer:

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

a) $200,000 + $250,000 + $250,000 = $700,000
$700,000 × 0.30 = $210,000
$250,000 - $210,000 = $40,000 bonus to current partners
$40,000/2 = $20,000 bonus to each current partner
Turner = $200,000 + $20,000 = $220,000
Frost = $250,000 + $20,000 = $270,000
Brown = $210,000

b) $200,000 + $250,000 + $275,000 = $725,000
$725,000 × 0.30 = $217,500
$275,000 - $217,500 = $57,500 bonus to current partners
$57,500/2 = $28,750 bonus to each current partner

c) $200,000 + $250,000 + $180,000 = $630,000
$630,000 × 0.30 = $189,000
$180,000 - $189,000 = ($9,000) bonus to new partner
($9,000)/2 = ($4,500) bonus from each current partner to new partner
Turner = $200,000 - $4,500 = $195,500
Frost = $250,000 - $4,500 = $245,500
Brown = $189,000

Diff: 3 Page Ref: 650

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

a) Prepare the journal entries required to revalue the assets.

b) Prepare the journal entry to record the withdrawal of Dowker under each of the following independent assumptions:

1) The partnership gives cash to Dowker equal to his capital balance.
2) The partnership gives $76,000 cash to Dowker.
3) The partnership gives $56,000 cash to Dowker.

Answer:

General Journal

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

Diff: 3 Page Ref: 654

143) Frasier, Niles, and Daffney are partners in the Lots A Laughs Company and share profits and losses in a ratio of 3:2:1, respectively. Frazier has been contemplating retirement. The partners' current capital account balances, after closing entries, are $147,000, $98,000, and $49,000, respectively. The new net income agreement for Niles and Daffney will be 1:3.

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

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

Answer:

General Journal

Date	Accounts	Debit	Credit
a)	Land	20,000	
	Frasier, Capital		15,000
	Niles, Capital		10,000
	Daffney, Capital		5,000
	Frasier, Capital	7,500	
	Niles, Capital	5,000	
	Daffney, Capital	2.500	
	Inventory		15,000
b)	Frasier, Capital	149,500	
	Niles, Capital		2,375
	Daffney, Capital		7,125
	Cash		75,000
	Note Payable		65,000

Diff: 3 Page Ref: 656

144) On August 1, 2009, Salt, Pepper, and Spice agree to liquidate their partnership. Sale has a capital balance of $90,000, Pepper has a capital balance of $37,500, and Spice has a capital balance of $30,000. The partners share net income/net loss in a ratio of 4:3:3. Accounts payable amount to $60,000. Assets are shown on the balance sheet at $40,000 of cash and $177,500 of noncash assets. All the noncash assets are sold for $159,500.

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

Answer:

General Journal

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

Diff: 3 Page Ref: 658

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

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

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

Diff: 2 Page Ref: 658

Table 12-13

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

1) Burns is to receive a "salary" of $20,000 and Allan is to receive a "salary" of $10,000.
2) $15,000 is to be allocated according to their original capital contributions to the partnership.
3) The remainder is to be allocated 5:4 respectively

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

Answer:

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

Diff: 2 Page Ref: 647

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

Answer:

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

Diff: 2 Page Ref: 647

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

Answer:

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

Diff: 2 Page Ref: 647

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

1) allocate the income to Burns and Allan.

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

Answer:

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

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

1) allocate the income to Burns and Allan.

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

Answer:

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

Diff: 2 Page Ref: 647

Table 12-14

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

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

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

Answer:

	Opening Balance	Allocate Loss	Ending Balance
Sammy, capital	100,000	(7,500)	92,500
Davis, capital	400,000	(5,625)	394,375
Junior, capital	60,000	(1,875)	58,125

Diff: 3 Page Ref: 659

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

Answer:

	Opening Balance	Allocate Income	Ending Balance
Sammy, capital	100,000	25,000	125,000
Davis, capital	400,000	18,750	418,750
Junior, capital	60,000	6,250	66,250

Diff: 3 Page Ref: 659

Table 12-15

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

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

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

Answer:

	Opening Balance	Allocate Income	Ending Balance
Martha, capital	60,000	10,000	70,000
Queen, capital	110,000	15,000	125,000
Stuart, capital	40,000	5,000	45,000

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

Answer:

	Opening Balance	Allocate Loss	Ending Balance
Martha, capital	60,000	(3,000)	57,000
Queen, capital	110,000	(4,500)	105,500
Stuart, capital	40,000	(1,500)	38,500

Diff: 3 Page Ref: 659