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TEST BANK SAMPLE PREVIEW

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CHAPTER 12

ACCOUNTING FOR PARTNERSHIPS

20-MINUTE QUIZ #1

Circle the correct answer.

True/False

- | | | |
|--|------|-------|
| 1. An advantage of partnerships is mutual agency. | True | False |
| 2. In a limited partnership, all of the partners have limited liability for the debts of the firm. | True | False |
| 3. In a limited liability partnership, a partner can be held liable for the negligence of the people directly supervised by that partner. | True | False |
| 4. In a partnership where the division of profits and losses is based on salaries, interest, and a stated ratio, if the salary and interest allocation will exceed the profit, the profit is allocated only by the stated ratio instead. | True | False |
| 5. A partnership is considered an accounting entity for financial reporting purposes. | True | False |
| 6. When the partnership contract does not specify the manner in which profits and losses are to be divided, profits and losses are distributed based on the average capital balances of each partner during the year. | True | False |
| 7. The statement of partners' capital explains the changes in each partner's capital account and in total partnership capital during the year. | True | False |
| 8. Admission of a new partner to the partnership does not result in the legal dissolution of the existing partnership. | True | False |
| 9. If a partnership is admitting a new partner to the existing partnership and the existing partners are to receive a bonus, this bonus would be allocated on the basis of their | True | False |

profit and loss ratios before the admission of the new partner.

10. Upon liquidation, once the assets have been sold and the creditors paid, the final cash is distributed equally among partners.

True

False

Multiple Choice

1. Which one of the following is **not** a feature of partnerships?
 - a) limited life
 - b) limited liability
 - c) mutual agency
 - d) co-ownership of property

2. B invests \$60,000 for a 25% interest in a partnership that has total capital of \$200,000 after admitting B. Which of the following is true?
 - a) B's capital is \$60,000.
 - b) B's capital is \$35,000.
 - c) B received a bonus of \$10,000.
 - d) The original partners received a total bonus of \$10,000.

3. Partners A and B receive a salary allowance of \$12,000 and \$18,000, respectively, and share the remainder equally. If the company earned \$20,000 during the period, what is the effect on A's capital?
 - a) \$12,000 increase
 - b) \$7,000 decrease
 - c) \$7,000 increase
 - d) \$10,000 increase

4. After selling the assets and paying the creditors, the partnership had \$90,000 cash remaining. A, B, and C had capital balances of \$20,000, \$30,000 and \$40,000 respectively. Profit is shared on a ratio of 1:3:5, respectively. The cash to be received by partner C would be
 - a) \$30,000.
 - b) \$40,000.
 - c) \$45,000.
 - d) \$50,000.

5. Selling partnership assets and paying the proceeds to creditors and owners refers to
 - a) dissolution.
 - b) unlimited liability.
 - c) mutual agency.
 - d) liquidation.

ANSWERS TO 20-MINUTE QUIZ #1

True/False

1. False
2. False
3. True
4. False
5. True
6. False
7. True
8. False
9. True
10. False

Multiple Choice

1. b
2. d
3. c
4. b
5. d

20-MINUTE QUIZ #2

Question 1

Harmawell Partnership has a profit of \$150,000 for the year ended December 31, 2022. The partnership agreement states that profit and losses are to be distributed using salary allowances, interest allowances, and a ratio for the remainder. Information about the agreement and the balance of the Drawings accounts is contained in the table below.

	<u>Harlos</u>	<u>Maxwell</u>	<u>Wellington</u>
Salary allowance	\$35,000	\$45,000	\$20,000
Interest of 10% based upon their average capital balances, which are:	\$85,000	\$65,000	\$50,000
Remainder shared in this ratio	2	2	1
Dec. 31 balance of the Drawings accounts	\$25,000	\$20,000	\$15,000

- Prepare a detailed schedule to show how the profit would be allocated among the three partners.
- Assume that the revenue and expense accounts have been closed. Prepare the remaining closing entries.

Question 2

On April 1, the Bruce & Duval partnership agreed to admit Singh to the partnership. Singh will receive a 40% share of the business for a cash investment of \$200,000. Information regarding the partnership records prior to the admission of Singh is located in the table.

	<u>Bruce</u>	<u>Duval</u>
Capital balance	\$125,000	\$75,000
Profit sharing ratio	3	2

Prepare the journal entry to admit Singh into the partnership. Show calculations.

ANSWERS TO 20-MINUTE QUIZ #2

Question 1

a)

	<u>Harlos</u>	<u>Maxwell</u>	<u>Wellington</u>	<u>Total</u>
Profit				\$150,000
Salary allowance	\$35,000	\$45,000	\$20,000	<u>100,000</u>
Remaining profit				50,000
Interest allowance	8,500	6,500	5,000	<u>20,000</u>
Remaining profit				30,000
Fixed ratio 2:2:1	<u>12,000</u>	<u>12,000</u>	<u>6,000</u>	<u>30,000</u>
Remaining profit				<u>0</u>
Profit allocated to the partners	<u>\$55,500</u>	<u>\$63,500</u>	<u>\$31,000</u>	<u>\$150,000</u>

b)

Dec. 31	Income Summary	150,000	
	Harlos, Capital		55,500
	Maxwell, Capital		63,500
	Wellington, Capital		31,000
	To close Income Summary.		
31	Harlos, Capital	25,000	
	Maxwell, Capital	20,000	
	Wellington, Capital	15,000	
	Harlos, Drawings		25,000
	Maxwell, Drawings		20,000
	Wellington, Drawings		15,000
	To close the Drawings accounts.		

Question 2

Bruce, Capital	\$125,000
Duval, Capital	75,000
Singh's investment	<u>200,000</u>
Total	<u>\$400,000</u>

Singh's investment	\$200,000
Singh's capital (40% of \$400,000)	<u>160,000</u>
Bonus to existing partners	<u>\$40,000</u>

Bruce's share (3/5 of \$40,000)	\$24,000
Duval's share (2/5 of \$40,000)	\$16,000

April 1	Cash	200,000	
	Bruce, Capital		24,000
	Duval, Capital		16,000
	Singh, Capital		160,000
	To record the admission of Singh.		