Appendix A: Accounting for Unincorporated Businesses

Student: ____

1. A partnership is an accounting entity separate and apart from its owners.
True False

2. As long as the action is within the scope of the partnership, any partner can bind the partnership.
True False

3. One of the benefits of forming a partnership is limited liability.
True False

4. Each partner is personally liable only for his/her share of the debts of the partnership.
True False

5. When a new partner is admitted, it will dissolve the old partnership.
True False

6. A partnership agreement need not be in writing.
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13. If the partnership agreement does not describe the method of income and loss distribution, the partners must share income and losses equally.
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14. When individuals invest property in a partnership, the property becomes an asset of the partnership and is owned jointly by the partners.
True False

15. A partner in a landscaping business can bind the partnership to a contract for purchasing furniture and clothing.
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16. When a partner invests assets in a partnership, the assets are recorded at their fair market value on the date they are transferred to the partnership.
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18. Each partner has a separate Capital, Withdrawals, and Income account.
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19. Accounting for a partnership comes closer to accounting for a corporation than to accounting for a sole proprietorship.
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20. Partners' Withdrawals accounts have normal debit balances.
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21. When a partner invests a noncash asset into the partnership, the partner's Capital account is debited and an asset account is credited.
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22. Income is divided equally among the partners unless the partnership agreement specifies otherwise.
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23. The division of income is one area in which a partnership differs from a corporation.
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24. If a partnership agreement does not specify how income is to be distributed, the partners share the income equally.
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25. Income can be allocated to partners based solely on average capital balances.
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26. The salary allocation to partners also appears as Salaries Expense on the partnership income statement.
True False

27. Partnership income can be divided solely on the basis of salaries or interest.
True False

28. The use of salaries in the allocation of income allows for the differences in the services that partners provide the business.
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29. It is possible to allocate income to partners based solely on interest.
True False

30. Partner X purchases Partner Y's $25,000 interest from Partner Y for $30,000. The entry to record the transaction is for $30,000.
True False

31. It is possible to invest no tangible assets into a partnership, yet be given a positive opening capital balance.
True False

32. When the existing partners pay a bonus to a newly admitted partner, the existing partners' accounts are debited.
True False

33. When a newly admitted partner pays a bonus to the existing partners, the new partner's capital account is credited.
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34. When M purchases N's $10,000 capital interest for $10,000, the ensuing entry on the books of the partnership would contain a debit to Cash for $10,000.
True False

35. When a partner withdraws from a partnership, an audit might be performed and the assets reappraised.
True False

36. The admission of a partner does not change the composition of partners' equity if the new partner purchases the old partner's interest by paying the old partner directly.
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37. When a new partner invests less than the proportionate share he or she receives in the partnership, a bonus is recorded to his or her account.
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38. A partnership is liquidated when a new partner is admitted to the partnership.
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39. A new partner must have the consent of all the partners before being admitted into the partnership.
True False

40. Partner A purchases Partner B's $3,000 interest from Partner B for $5,000. The entry to record the transaction is for $3,000.
True False

41. When a new partner is admitted, the old partnership agreement is still in effect.
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42. If the asset accounts did not reflect their current values, the asset accounts would need to be adjusted before admitting the new partner.
True False

43. Admission of a new partner never has an impact on net income.
True False

44. When a withdrawing partner withdraws assets less than his or her capital balance, the excess is treated as a bonus to the remaining partners.
True False

45. The death of a partner dissolves the partnership.
True False

46. When a partner leaves a partnership, it is possible that total assets will be unaffected.
True False

47. A partner who withdraws from a partnership may not withdraw the balance in his or her Capital account.
True False

48. Liquidation of a partnership is the process of ending the business.
True False

49. After selling all the assets and paying the liabilities in a liquidation of a partnership, the partners share any remaining cash according to the stated ratios.
True False

50. Gains on the sale of assets in a liquidation are divided among partners according to the stated ratios.
True False

51. In a liquidation, partners are given back the assets that they originally invested.
True False

52. Partnership liquidation is not the same as partnership dissolution.
True False

53. A partnership need not obtain permission from the state before it legally conducts business.
True False

54. Which of the following is a characteristic of partnerships?
A. Unlimited life
B. Limited liability
C. Involuntary association
D. Mutual agency

55. The ability of a partner to enter into a contract on behalf of all partners is called
A. the partnership agreement.
B. voluntary association.
C. mutual agency.
D. unlimited liability.

56. Which of the following does *not* result in the dissolution of a partnership?
A. Death of a partner
B. Admission of a new partner
C. Withdrawal of a partner
D. Sale of partnership assets

57. Unlimited liability refers to
A. a claim to the partners' personal assets by creditors if the partnership cannot pay its debts.
B. the ability of any partner to bind the partnership to a business agreement as long as he or she acts within the scope of the company's normal operations.
C. co-ownership of partnership property.
D. the method of income distribution.

58. Disadvantages of a partnership include
A. facilitates pooling of resources.
B. no corporate tax burden.
C. mutual agency.
D. freedom and flexibility for partners.

59. A partnership agreement should include
A. the method of allocating profits.
B. investments of each partner.
C. procedures for admitting partners.
D. All of these choices.

60. Which of the following partnership characteristics is an advantage?
A. Mutual agency
B. Ease of dissolution
C. Unlimited liability
D. Limited life

61. Which of the following is *incorrect* regarding partnerships?
A. Legally, there is no economic separation between a partnership and its owners.
B. A partnership is a voluntary association of individuals.
C. If the partnership agreement does not describe the method of income distribution, the partners must share income equally.
D. When individuals invest property in a partnership, they co-own the property with the partnership.

62. Noncash assets invested into a partnership are recorded at
A. their fair market value.
B. their carrying value.
C. zero.
D. their original cost.

63. When a partner invests assets other than cash into a partnership, those assets should be listed on the balance sheet at
A. their original cost.
B. their carrying (book) value.
C. their fair market value.
D. the value the investing partner assigns to them.

64. A partner invests into a partnership a building with a $50,000 carrying value and $80,000 fair market value. The related mortgage payable of $25,000 is assumed by the partnership. The entry to record the investment in partnership is:

A. Building	50,000	
Mortgage Payable		25,000
Capital	25,000	

B. Building	80,000	
Mortgage Payable		25,000
Capital	55,000	

C. Capital	80,000	
Mortgage Payable		25,000
Building	55,000	

D. Capital	50,000	
Mortgage Payable		25,000
Building	25,000	

65. A partner invests into a partnership a building with a $50,000 carrying value and $40,000 fair market value. The related mortgage payable of $25,000 is assumed by the partnership. The entry to record the investment in partnership is:

A. Building 50,000
Mortgage Payable 25,000
Capital 25,000

B. Building 40,000
Mortgage Payable 25,000
Capital 15,000

C. Building 50,000
Loss 10,000
Mortgage Payable 25,000
Capital 35,000

D. Capital 50,000
Loss 10,000
Mortgage Payable 25,000
Building 35,000

66. A partner invests into a partnership a building with a $50,000 carrying value and $80,000 fair market value. The related mortgage payable of $25,000 is **not** assumed by the partnership. The entry to record the investment in partnership is:

A. Building 50,000
Capital 50,000

B. Building 80,000
Capital 80,000

C. Capital 80,000
Mortgage Payable 25,000
Building 55,000

D. Building 80,000
Mortgage Payable 25,000
Capital 55,000

67. Joan contributes cash of $48,000, and Jamie contributes office equipment that cost $40,000 but is valued at $32,000 to the formation of a new partnership. The entry to record the investments in the partnership is:

A.

Cash	48,000	
Equipment	40,000	
Capital, Joan		48,000
Capital, Jamie		40,000

B.

Cash	48,000	
Equipment	32,000	
Capital, Joan		48,000
Capital, Jamie		32,000

C.

Cash	48,000	
Equipment	40,000	
Loss	8,000	
Capital, Joan		48,000
Capital, Jamie		48,000

D.

Cash	48,000	
Equipment	40,000	
Capital, Joan		48,000
Capital, Jamie		32,000
Loss, Jamie		8,000

68. Which of the following statements is correct regarding partnerships?
A. Accounting for a partnership is similar to accounting for a corporation.
B. If the partnership assumes a liability related to an asset invested in the partnership, the partner's capital account is credited and a liability account is debited.
C. It is necessary to maintain separate Capital and Withdrawals accounts for each partner.
D. All of these choices.

69. Which of the following statements is correct regarding partnerships?
A. Accounting for a partnership is similar to accounting for a sole proprietorship.
B. If the partnership assumes a liability related to an asset invested in the partnership, the asset is debited, the partner's capital account is credited and a liability account is credited.
C. It is necessary to maintain separate Capital and Withdrawals accounts for each partner.
D. All of these choices.

70. The division of partnership profits on the basis of salaries, interest, and a stated ratio is usually necessary because
A. partners seldom contribute time, effort, and resources equally.
B. this prevents arguments among the partners.
C. this reflects the amount of time devoted to the partnership by the partners.
D. most states require this method of distribution.

71. Partners A and B receive a salary of $16,000 and $14,000, respectively. They agree to share income equally. If the partnership has income of $280,000 in 20x5, the entry to close the income into their capital accounts is:

A. A, Capital 141,000
B, Capital 139,000
Income Summary 280,000

B. Income Summary 280,000
A, Capital 141,000
B, Capital 139,000

C. Income Summary 280,000
A, Capital 140,000
B, Capital 140,000

D. A, Capital 140,000
B, Capital 140,000
Income Summary 280,000

72. Which of the following methods of distributing income cannot be accomplished (*cannot* stand alone)?

A. Capital balance ratio alone
B. Interest and stated ratio alone
C. Stated ratio alone
D. Salary alone

73. Chad invests $20,000 for a one-third interest in a partnership in which the other partners have capital totaling $52,000 before admitting Chad. After distribution of the bonus, what is Chad's capital?

A. $10,666
B. $17,334
C. $20,000
D. $24,000

74. Alex, Clinton, and Evan are in a partnership. Evan decides to withdraw from the partnership by selling his interest to Linsey. Alex and Clinton agree to this. Alex's Capital account and Clinton's Capital account

A. will not be affected when Linsey is admitted.
B. will decrease when Linsey is admitted.
C. will increase when Linsey is admitted.
D. cannot be determined from the information given.

75. Which of the following will *not* result in dissolution of a partnership?

A. Withdrawal of a partner.
B. Negative capital balance of a partner.
C. Death of a partner.
D. Admission of a new partner.

76. Sara invests $120,000 for a 30 percent interest in a partnership in which the other partners have capital totaling $200,000 before admitting Sara. After distribution of the bonus, what is Sara's capital balance?
A. $60,000
B. $96,000
C. $120,000
D. $144,000

77. Which of the following will *not* result in dissolution of a partnership?
A. Death of a partner
B. Withdrawal of a partner
C. Admission of a new partner
D. Sale of partnership assets

78. Lexi invests $80,000 for a one-fourth interest in a partnership in which the other partners have capital totaling $160,000 before admitting Lexi. After distribution of the bonus, what is Lexi's capital balance?
A. $20,000
B. $40,000
C. $60,000
D. $80,000

79. Cortney invests $80,000 for a 10 percent interest in a partnership that has total capital of $600,000 after admitting Cortney. Which of the following is true?
A. Cortney's capital is $52,000
B. The original partners' capital in the business was $540,000 before admitting Cortney
C. Cortney received a bonus of $20,000
D. The original partners received a bonus of $20,000

80. Joan pays Eva $60,000 for her $40,000 interest in a partnership. The entry to record the sale on the partnership books is:

A. Eva, Capital	60,000	
Joan, Capital		60,000

B. Joan, Capital	60,000	
Eva, Capital		60,000

C. Eva, Capital	60,000	
Cash	60,000	

D. Eva, Capital	40,000	
Joan, Capital		40,000

81. Juan invests $120,000 for a one-fifth interest in a partnership in which the other partners have capital totaling $240,000 before admitting Juan. After distribution of the bonus, Juan's capital is
A. $120,000
B. $72,000
C. $96,000
D. $48,000

82. Austin invests $80,000 for a 20 percent interest in a partnership that has capital totaling $300,000 after admitting Austin. Which of the following is *true*?
A. The original partners received a bonus of $20,000.
B. Austin received a bonus of $20,000.
C. Austin's capital is $80,000.
D. The original partners' capital in the business was $240,000 before admitting Austin.

83. April and Cammy are partners who have agreed to admit Elena, who will invest $30,000 for a 20 percent interest. The previous capital balances were $30,000 and $60,000 for April and Cammy, respectively. April and Cammy had shared profits equally. What amount will be recorded in Elena's Capital account?
A. $12,000 credit
B. $24,000 credit
C. $30,000 credit
D. $18,000 credit

84. April and Cammy are partners who have agreed to admit Elena, who will invest $30,000 for a 20 percent interest. The previous capital balances were $30,000 and $60,000 for April and Cammy, respectively. April and Cammy had shared profits equally. The entry that records Elena's admission to the partnership is:

A.

Cash	30,000	
Elena, Capital		30,000

B.

Cash	30,000	
April, Capital		3,000
Cammy, Capital		3,000
Elena, Capital		24,000

C.

Cash	24,000	
Elena, Capital		24,000

D.

Elena, Capital	6,000	
Cash		6,000

85. Zach has bought Biannca's interest in the A&B Partnership for a $120,000 direct payment to Biannca. Zach and Biannca's capital balances before the sale were $48,000 and $72,000, respectively. The entry to record the purchase of interest in partnership is:

A. Biannca, Capital 120,000
   Zach, Capital 120,000

B. Biannca, Capital 72,000
   Zach, Capital 72,000

C. Zach, Capital 120,000
   Cash 120,000

D. Cash 120,000
   Zach, Capital 120,000

86. Avery and Bert are partners who share profits in a ratio of 2:1 and have capital balances of $75,000 and $150,000, respectively. The partners agree to admit Carmen to the partnership. Carmen invests $75,000 for a 35 percent interest in the partnership. The new total capital balance after admitting Carmen is $300,000. The entry to record the admission of Carmen to the partnership is:

A. Cash 75,000
   Carmen, Capital 75,000

B. Cash 105,000
   Carmen, Capital 105,000

C. Cash 75,000
Avery, Capital 20,000
Bert, Capital 10,000
   Carmen, Capital 105,000

D. Cash 105,000
   Carmen, Capital 75,000
   Avery, Capital 20,000
   Bert, Capital 10,000

87. When a partner withdraws from a partnership taking assets that represent less than his or her capital balance,

A. the remaining partners receive a bonus.
B. no bonus results.
C. the remaining partners owe the withdrawing partner the difference.
D. the withdrawing partner receives a bonus.

88. A liquidation differs from a dissolution in that in a liquidation
A. the business will not continue.
B. assets may be revalued.
C. gains are distributed according to the partnership agreement.
D. there may be an adjustment of partners' Capital accounts.

89. Which of the following is correct?
A. Total assets + Partner’s equity = Total liabilities.
B. Total assets + Partner’s equity - Total liabilities = Total equity.
C. Total assets - Partner’s equity = Total liabilities.
D. Total assets + Total liabilities = Partner’s equity.

90. List four advantages and four disadvantages of the partnership form of business.

91. Warren and Spencer are partners in a drilling operation. Warren purchased a drilling rig to be used in the partnership's operations. Is this purchase binding on Spencer even though he was not involved in it? Explain your answer.

92. Discuss how each of the following would be recorded in the partner's capital account and why:
a. Trevor invests into the partnership land that he paid $40,000 for 3 years ago. Today, the fair market value of the land is $65,000.
b. Marcela invests into the partnership a building that she paid $24,000 for 2 years ago. The building has a $10,000 mortgage and its fair market value is $18,000. The partnership assumes the mortgage.
c. Courtney invests into the partnership equipment she paid $12,000 for earlier in the year by signing a note payable that the partnership is not assuming. The equipment has a fair market value of $15,000.

93. Justin and Nicole are forming a partnership. What are some of the factors they should consider in deciding how income might be divided?

94. Chelsea, Jack, and Connor have a partnership. Chelsea wishes to withdraw from the partnership by removing assets that represent less than her current capital balance. Discuss who, if anyone, receives a bonus.

95. Chelsea, Jack, and Connor have a partnership. Chelsea wishes to withdraw from the partnership by removing assets that are greater than her current capital balance. Discuss who, if anyone, receives a bonus.

96. Describe how a dissolution of a partnership is different from a liquidation of a partnership.

97. Match the following terms with the correct definition. Some terms may not be used.

1. Any partner can bind the partnership to a business agreement as long as he or she acts within the scope of the company's normal operations.
2. Occurs whenever there is a change in the original association of partners.
3. A business owned by one person.
4. The process of selling enough assets to pay the partnership's liabilities and distributing any remaining assets among the partners.
5. Assets withdrawn are greater than partnership interest.
6. Partnership income cannot be divided solely on the basis of _________.
7. Need not be in writing.

Mutual agency. ____
Dissolution. ____
Liquidation. ____
Salaries or interest. ____
Sole proprietorship. ____
Partnership agreement. ____
Bonus to departing partner. ____

98. Delta and Chen form a partnership and invest the following assets and liabilities

	Fair Market Value	*Carrying Value*
Delta		
Cash	$100,000	$100,000
Land	140,000	80,000
Chen		
Cash	32,000	32,000
Building	200,000	180,000
Mortgage Payable	(120,000)	(120,000)

In the journal provided prepare the entry to record the formation of the partnership. (Omit explanation.)

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

99. Briyanna and Greg form a partnership and invest the following assets and liabilities. Greg's building is subject to a $40,000 mortgage that is not assumed by the partnership.

	Fair Market Value	*Carrying Value*
Briyanna		
Cash	$60,000	$60,000
Land	90,000	56,000
Greg		
Cash	20,000	20,000
Building	120,000	104,000

In the journal provided prepare the entry to record the formation of the partnership. (Omit explanation.)

	General Journal		Page 1	
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100. Erin, Rachel, and Travis are partners in ERT Company, with average capital balances for the year of $60,000, $80,000, and $40,000, respectively. They share remaining income in a 2:5:3 ratio, respectively, after each receives a $30,000 salary and 10 percent interest on his or her average capital balance. In the journal provided, prepare the entries without explanations to close income into their Capital accounts, assuming net income of $148,000.

	General Journal		Page 1	
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101. Eddie and Lauren are partners in a business. Eddie's original capital contribution was $80,000, and Lauren's was $120,000. They agreed to share profits as follows:

	Eddie	*Lauren*
As salaries	$72,000	$96,000
As interest on original capital	10%	10%
Remaining profits	2/3	1/3

Calculate each partner's share of profits, assuming (a) the profit was $200,000, and, (b) the profit was $140,000.

102. Leah, Cameron, and Ryan each receive a $20,000 salary, as well as 10 percent interest on their respective average investments of $120,000, $200,000, and $40,000. If they share remaining income in a 2:1:3 ratio, respectively, by how much would Cameron's account increase assuming net income of $144,000.

103. Fred, Kristina, and Nick each receive a $14,000 salary, as well as 15 percent interest on their respective average investments of $40,000, $20,000, and $80,000. If they share remaining income in a 4:3:2 ratio, respectively, by how much would Nick's account increase assuming net income of $81,000.

104. Paul, Quinn, and Ralph have equities in a partnership of $120,000, $180,000, and $100,000, respectively, and share income in a ratio of 2:1:2, respectively. The partners have agreed to admit Sandy to the partnership. Prepare entries in journal form without explanations to record the admission of Sandy to the partnership under each of the following assumptions:

a. Sandy invests $100,000 for a 30 percent interest, and a bonus is recorded for Sandy.
b. Sandy invests $150,000 for a one-fifth interest, and a bonus is recorded for the old partners.

	General Journal		Page 1	
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105. Jordan, Kyle, and Noah have equities in a partnership of $100,000, $160,000, and $140,000, respectively, and share income in a ratio of 5:3:2, respectively. The partners have agreed to admit Billy to the partnership. Prepare entries in journal form without explanations to record the admission of Billy to the partnership under each of the following assumptions:

a. Billy invests $80,000 for a 25 percent interest, and a bonus is recorded for Billy.
b. Billy invests $160,000 for a one-fifth interest, and a bonus is recorded for the old partners.

	General Journal		Page 1	
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106. Jacob and Megan are partners who share profits in a ratio of 2:3, respectively, and have the following capital balances on September 30, 20x5:

Jacob, Capital	Megan, Capital
$200,000 Cr.	$300,000 Cr.

The partners agree to admit Mitchell to the partnership. Calculate the capital balances of each partner after the admission of Mitchell, assuming that bonuses are recorded when appropriate for each of the following assumptions:
a. Mitchell pays Jacob $100,000 for 40 percent of his interest
b. Mitchell invests $100,000 for a one-sixth interest in the partnership
c. Mitchell invests $100,000 for a 25 percent interest in the partnership
d. Mitchell invests $100,000 for a 15 percent interest in the partnership

107. Connie and Marcos are partners who share profits in a ratio of 3:2, respectively, and have the following capital balances on September 30, 20x5:

Connie, Capital	Marcos, Capital
$50,000 Cr.	$100,000 Cr.

The partners agree to admit Trevor to the partnership. Calculate the capital balances of each partner after the admission of Trevor, assuming that bonuses are recorded when appropriate for each of the following assumptions:

a. Trevor pays Connie $50,000 for 50 percent of her interest
b. Trevor invests $50,000 for a one-fourth interest in the partnership
c. Trevor invests $50,000 for a 30 percent interest in the partnership
d. Trevor invests $50,000 for a 20 percent interest in the partnership

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TRUE

2. As long as the action is within the scope of the partnership, any partner can bind the partnership.
TRUE

3. One of the benefits of forming a partnership is limited liability.
FALSE

4. Each partner is personally liable only for his/her share of the debts of the partnership.
FALSE

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32. When the existing partners pay a bonus to a newly admitted partner, the existing partners' accounts are debited.
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46. When a partner leaves a partnership, it is possible that total assets will be unaffected.
TRUE

47. A partner who withdraws from a partnership may not withdraw the balance in his or her Capital account.
TRUE

48. Liquidation of a partnership is the process of ending the business.
TRUE

49. After selling all the assets and paying the liabilities in a liquidation of a partnership, the partners share any remaining cash according to the stated ratios.
FALSE

50. Gains on the sale of assets in a liquidation are divided among partners according to the stated ratios.
TRUE

51. In a liquidation, partners are given back the assets that they originally invested.
FALSE

52. Partnership liquidation is not the same as partnership dissolution.
TRUE

53. A partnership need not obtain permission from the state before it legally conducts business.
TRUE

54. Which of the following is a characteristic of partnerships?
A. Unlimited life
B. Limited liability
C. Involuntary association
D. Mutual agency

55. The ability of a partner to enter into a contract on behalf of all partners is called
A. the partnership agreement.
B. voluntary association.
C. mutual agency.
D. unlimited liability.

56. Which of the following does *not* result in the dissolution of a partnership?
A. Death of a partner
B. Admission of a new partner
C. Withdrawal of a partner
D. Sale of partnership assets

57. Unlimited liability refers to
A. a claim to the partners' personal assets by creditors if the partnership cannot pay its debts.
B. the ability of any partner to bind the partnership to a business agreement as long as he or she acts within the scope of the company's normal operations.
C. co-ownership of partnership property.
D. the method of income distribution.

58. Disadvantages of a partnership include
A. facilitates pooling of resources.
B. no corporate tax burden.
C. mutual agency.
D. freedom and flexibility for partners.

59. A partnership agreement should include
A. the method of allocating profits.
B. investments of each partner.
C. procedures for admitting partners.
D. All of these choices.

60. Which of the following partnership characteristics is an advantage?
A. Mutual agency
B. Ease of dissolution
C. Unlimited liability
D. Limited life

61. Which of the following is *incorrect* regarding partnerships?
A. Legally, there is no economic separation between a partnership and its owners.
B. A partnership is a voluntary association of individuals.
C. If the partnership agreement does not describe the method of income distribution, the partners must share income equally.
D. When individuals invest property in a partnership, they co-own the property with the partnership.

62. Noncash assets invested into a partnership are recorded at
A. their fair market value.
B. their carrying value.
C. zero.
D. their original cost.

63. When a partner invests assets other than cash into a partnership, those assets should be listed on the balance sheet at
A. their original cost.
B. their carrying (book) value.
C. their fair market value.
D. the value the investing partner assigns to them.

64. A partner invests into a partnership a building with a $50,000 carrying value and $80,000 fair market value. The related mortgage payable of $25,000 is assumed by the partnership. The entry to record the investment in partnership is:

A. Building 50,000
Mortgage Payable 25,000
Capital 25,000

B. Building 80,000
Mortgage Payable 25,000
Capital 55,000

C. Capital 80,000
Mortgage Payable 25,000
Building 55,000

D. Capital 50,000
Mortgage Payable 25,000
Building 25,000

65. A partner invests into a partnership a building with a $50,000 carrying value and $40,000 fair market value. The related mortgage payable of $25,000 is assumed by the partnership. The entry to record the investment in partnership is:

A. Building 50,000
Mortgage Payable 25,000
Capital 25,000

B. Building 40,000
Mortgage Payable 25,000
Capital 15,000

C. Building 50,000
Loss 10,000
Mortgage Payable 25,000
Capital 35,000

D. Capital 50,000
Loss 10,000
Mortgage Payable 25,000
Building 35,000

66. A partner invests into a partnership a building with a $50,000 carrying value and $80,000 fair market value. The related mortgage payable of $25,000 is **not** assumed by the partnership. The entry to record the investment in partnership is:

A. Building 50,000
Capital 50,000

B. Building 80,000
Capital 80,000

C. Capital 80,000
Mortgage Payable 25,000
Building 55,000

D. Building 80,000
Mortgage Payable 25,000
Capital 55,000

67. Joan contributes cash of $48,000, and Jamie contributes office equipment that cost $40,000 but is valued at $32,000 to the formation of a new partnership. The entry to record the investments in the partnership is:

A.

Cash	48,000	
Equipment	40,000	
Capital, Joan		48,000
Capital, Jamie		40,000

B.

Cash	48,000	
Equipment	32,000	
Capital, Joan		48,000
Capital, Jamie		32,000

C.

Cash	48,000	
Equipment	40,000	
Loss	8,000	
Capital, Joan		48,000
Capital, Jamie		48,000

D.

Cash	48,000	
Equipment	40,000	
Capital, Joan		48,000
Capital, Jamie		32,000
Loss, Jamie		8,000

68. Which of the following statements is correct regarding partnerships?
A. Accounting for a partnership is similar to accounting for a corporation.
B. If the partnership assumes a liability related to an asset invested in the partnership, the partner's capital account is credited and a liability account is debited.
C. It is necessary to maintain separate Capital and Withdrawals accounts for each partner.
D. All of these choices.

69. Which of the following statements is correct regarding partnerships?
A. Accounting for a partnership is similar to accounting for a sole proprietorship.
B. If the partnership assumes a liability related to an asset invested in the partnership, the asset is debited, the partner's capital account is credited and a liability account is credited.
C. It is necessary to maintain separate Capital and Withdrawals accounts for each partner.
D. All of these choices.

70. The division of partnership profits on the basis of salaries, interest, and a stated ratio is usually necessary because
A. partners seldom contribute time, effort, and resources equally.
B. this prevents arguments among the partners.
C. this reflects the amount of time devoted to the partnership by the partners.
D. most states require this method of distribution.

71. Partners A and B receive a salary of $16,000 and $14,000, respectively. They agree to share income equally. If the partnership has income of $280,000 in 20x5, the entry to close the income into their capital accounts is:

A. A, Capital 141,000
B, Capital 139,000
Income Summary 280,000

B. Income Summary 280,000
A, Capital 141,000
B, Capital 139,000

C. Income Summary 280,000
A, Capital 140,000
B, Capital 140,000

D. A, Capital 140,000
B, Capital 140,000
Income Summary 280,000

72. Which of the following methods of distributing income cannot be accomplished (*cannot* stand alone)?

A. Capital balance ratio alone
B. Interest and stated ratio alone
C. Stated ratio alone
D. Salary alone

73. Chad invests $20,000 for a one-third interest in a partnership in which the other partners have capital totaling $52,000 before admitting Chad. After distribution of the bonus, what is Chad's capital?

A. $10,666
B. $17,334
C. $20,000
D. $24,000

74. Alex, Clinton, and Evan are in a partnership. Evan decides to withdraw from the partnership by selling his interest to Linsey. Alex and Clinton agree to this. Alex's Capital account and Clinton's Capital account

A. will not be affected when Linsey is admitted.
B. will decrease when Linsey is admitted.
C. will increase when Linsey is admitted.
D. cannot be determined from the information given.

75. Which of the following will *not* result in dissolution of a partnership?

A. Withdrawal of a partner.
B. Negative capital balance of a partner.
C. Death of a partner.
D. Admission of a new partner.

76. Sara invests $120,000 for a 30 percent interest in a partnership in which the other partners have capital totaling $200,000 before admitting Sara. After distribution of the bonus, what is Sara's capital balance?
A. $60,000
B. $96,000
C. $120,000
D. $144,000

77. Which of the following will *not* result in dissolution of a partnership?
A. Death of a partner
B. Withdrawal of a partner
C. Admission of a new partner
D. Sale of partnership assets

78. Lexi invests $80,000 for a one-fourth interest in a partnership in which the other partners have capital totaling $160,000 before admitting Lexi. After distribution of the bonus, what is Lexi's capital balance?
A. $20,000
B. $40,000
C. $60,000
D. $80,000

79. Cortney invests $80,000 for a 10 percent interest in a partnership that has total capital of $600,000 after admitting Cortney. Which of the following is true?
A. Cortney's capital is $52,000
B. The original partners' capital in the business was $540,000 before admitting Cortney
C. Cortney received a bonus of $20,000
D. The original partners received a bonus of $20,000

80. Joan pays Eva $60,000 for her $40,000 interest in a partnership. The entry to record the sale on the partnership books is:

A.

Eva, Capital	60,000	
Joan, Capital		60,000

B.

Joan, Capital	60,000	
Eva, Capital		60,000

C.

Eva, Capital	60,000	
Cash	60,000	

D.

Eva, Capital	40,000	
Joan, Capital		40,000

81. Juan invests $120,000 for a one-fifth interest in a partnership in which the other partners have capital totaling $240,000 before admitting Juan. After distribution of the bonus, Juan's capital is
A. $120,000
B. $72,000
C. $96,000
D. $48,000

82. Austin invests $80,000 for a 20 percent interest in a partnership that has capital totaling $300,000 after admitting Austin. Which of the following is *true*?
A. The original partners received a bonus of $20,000.
B. Austin received a bonus of $20,000.
C. Austin's capital is $80,000.
D. The original partners' capital in the business was $240,000 before admitting Austin.

83. April and Cammy are partners who have agreed to admit Elena, who will invest $30,000 for a 20 percent interest. The previous capital balances were $30,000 and $60,000 for April and Cammy, respectively. April and Cammy had shared profits equally. What amount will be recorded in Elena's Capital account?
A. $12,000 credit
B. $24,000 credit
C. $30,000 credit
D. $18,000 credit

84. April and Cammy are partners who have agreed to admit Elena, who will invest $30,000 for a 20 percent interest. The previous capital balances were $30,000 and $60,000 for April and Cammy, respectively. April and Cammy had shared profits equally. The entry that records Elena's admission to the partnership is:

A.

Cash	30,000	
Elena, Capital		30,000

B.

Cash	30,000	
April, Capital		3,000
Cammy, Capital		3,000
Elena, Capital		24,000

C.

Cash	24,000	
Elena, Capital		24,000

D.

Elena, Capital	6,000	
Cash		6,000

85. Zach has bought Biannca's interest in the A&B Partnership for a $120,000 direct payment to Biannca. Zach and Biannca's capital balances before the sale were $48,000 and $72,000, respectively. The entry to record the purchase of interest in partnership is:

A. Biannca, Capital 120,000
Zach, Capital 120,000

B. Biannca, Capital 72,000
Zach, Capital 72,000

C. Zach, Capital 120,000
Cash 120,000

D. Cash 120,000
Zach, Capital 120,000

86. Avery and Bert are partners who share profits in a ratio of 2:1 and have capital balances of $75,000 and $150,000, respectively. The partners agree to admit Carmen to the partnership. Carmen invests $75,000 for a 35 percent interest in the partnership. The new total capital balance after admitting Carmen is $300,000. The entry to record the admission of Carmen to the partnership is:

A. Cash 75,000
Carmen, Capital 75,000

B. Cash 105,000
Carmen, Capital 105,000

C. Cash 75,000
Avery, Capital 20,000
Bert, Capital 10,000
Carmen, Capital 105,000

D. Cash 105,000
Carmen, Capital 75,000
Avery, Capital 20,000
Bert, Capital 10,000

87. When a partner withdraws from a partnership taking assets that represent less than his or her capital balance,

A. the remaining partners receive a bonus.
B. no bonus results.
C. the remaining partners owe the withdrawing partner the difference.
D. the withdrawing partner receives a bonus.

88. A liquidation differs from a dissolution in that in a liquidation
A. the business will not continue.
B. assets may be revalued.
C. gains are distributed according to the partnership agreement.
D. there may be an adjustment of partners' Capital accounts.

89. Which of the following is correct?
A. Total assets + Partner’s equity = Total liabilities.
B. Total assets + Partner’s equity - Total liabilities = Total equity.
C. Total assets - Partner’s equity = Total liabilities.
D. Total assets + Total liabilities = Partner’s equity.

90. List four advantages and four disadvantages of the partnership form of business.

Advantages
Ease of formation, change, and dissolution
Enables pooling of resources and talents
No corporate tax liability
Freedom and flexibility of partners' actions

Disadvantages
Limited life
Mutual agency
Unlimited liability
Difficult to raise large amount of capital and to transfer ownership

91. Warren and Spencer are partners in a drilling operation. Warren purchased a drilling rig to be used in the partnership's operations. Is this purchase binding on Spencer even though he was not involved in it? Explain your answer.

Yes. Each partner is an agent of the partnership and can bind the partnership by his or her actions as long as the activity is within the scope of the business. Because Warren was acting within the scope of the business when he purchased the drilling rig, the purchase is binding on Spencer. This is the concept of mutual agency.

92. Discuss how each of the following would be recorded in the partner's capital account and why:
a. Trevor invests into the partnership land that he paid $40,000 for 3 years ago. Today, the fair market value of the land is $65,000.
b. Marcela invests into the partnership a building that she paid $24,000 for 2 years ago. The building has a $10,000 mortgage and its fair market value is $18,000. The partnership assumes the mortgage.
c. Courtney invests into the partnership equipment she paid $12,000 for earlier in the year by signing a note payable that the partnership is not assuming. The equipment has a fair market value of $15,000.

a. Trevor's capital account would be credited for $65,000 because that's the fair market value of the land.
b. Marcela's capital account would be credited for $8,000 because that's the difference between the fair market value of the assets invested and the liabilities assumed.
c. Courtney's capital account will be credited for $15,000 because that's the fair market value of the equipment and the partnership is not assuming the liability.

93. Justin and Nicole are forming a partnership. What are some of the factors they should consider in deciding how income might be divided?

The factors that should be considered in deciding how to divide the income of a partnership are the amount of capital invested by each partner, the amount of time each partner plans to devote to the partnership, and any other special characteristics each partner brings to the partnership.

94. Chelsea, Jack, and Connor have a partnership. Chelsea wishes to withdraw from the partnership by removing assets that represent less than her current capital balance. Discuss who, if anyone, receives a bonus.

When a withdrawing partner removes assets that represent less than his or her capital balance, there is a bonus to the remaining partners.

95. Chelsea, Jack, and Connor have a partnership. Chelsea wishes to withdraw from the partnership by removing assets that are greater than her current capital balance. Discuss who, if anyone, receives a bonus.

When a withdrawing partner takes out assets that are greater than his or her capital balance, the excess is treated as a bonus to the withdrawing partner.

96. Describe how a dissolution of a partnership is different from a liquidation of a partnership.

A dissolution occurs any time there is a change in the original association of the partners. The business often continues, but with a different group of partners. A liquidation is a special type of dissolution because the partnership discontinues operation altogether.

97. Match the following terms with the correct definition. Some terms may not be used.

1. Any partner can bind the partnership to a business agreement as long as he or she acts within the scope of the company's normal operations.	Mutual agency.	**1**
2. Occurs whenever there is a change in the original association of partners.	Dissolution.	**2**
3. A business owned by one person.	Liquidation.	**4**
4. The process of selling enough assets to pay the partnership's liabilities and distributing any remaining assets among the partners.	Salaries or interest.	**6**
5. Assets withdrawn are greater than partnership interest.	Sole proprietorship.	**3**
6. Partnership income cannot be divided solely on the basis of _________.	Partnership agreement.	**7**
7. Need not be in writing.	Bonus to departing partner.	**5**

98. Delta and Chen form a partnership and invest the following assets and liabilities

	Fair Market Value	*Carrying Value*
Delta		
Cash	$100,000	$100,000
Land	140,000	80,000
Chen		
Cash	32,000	32,000
Building	200,000	180,000
Mortgage Payable	(120,000)	(120,000)

In the journal provided prepare the entry to record the formation of the partnership. (Omit explanation.)

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit
	Cash		132000	
	Land		140,000	
	Buildings		200,000	
	Mortgage Payable			120,000
	Delta, Capital			240,000
	Chen, Capital			112,000

99. Briyanna and Greg form a partnership and invest the following assets and liabilities. Greg's building is subject to a $40,000 mortgage that is not assumed by the partnership.

	Fair Market Value	*Carrying Value*
Briyanna		
Cash	$60,000	$60,000
Land	90,000	56,000
Greg		
Cash	20,000	20,000
Building	120,000	104,000

In the journal provided prepare the entry to record the formation of the partnership. (Omit explanation.)

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit
	Cash		80,000	
	Land		90,000	
	Buildings		120,000	
	Briyanna, Capital			150,000
	Greg, Capital			140,000

100. Erin, Rachel, and Travis are partners in ERT Company, with average capital balances for the year of $60,000, $80,000, and $40,000, respectively. They share remaining income in a 2:5:3 ratio, respectively, after each receives a $30,000 salary and 10 percent interest on his or her average capital balance. In the journal provided, prepare the entries without explanations to close income into their Capital accounts, assuming net income of $148,000.

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit
a.	Income Summary		148,000	
	Erin, Capital			44,000
	Rachel, Capital			58,000
	Travis, Capital			46,000

101. Eddie and Lauren are partners in a business. Eddie's original capital contribution was $80,000, and Lauren's was $120,000. They agreed to share profits as follows:

	Eddie	*Lauren*
As salaries	$72,000	$96,000
As interest on original capital	10%	10%
Remaining profits	2/3	1/3

Calculate each partner's share of profits, assuming (a) the profit was $200,000, and, (b) the profit was $140,000.

a. Eddie, $88,000 Lauren, $112,000
b. Eddie, $48,000 Lauren, $92,000

102. Leah, Cameron, and Ryan each receive a $20,000 salary, as well as 10 percent interest on their respective average investments of $120,000, $200,000, and $40,000. If they share remaining income in a 2:1:3 ratio, respectively, by how much would Cameron's account increase assuming net income of $144,000.

$48,000

103. Fred, Kristina, and Nick each receive a $14,000 salary, as well as 15 percent interest on their respective average investments of $40,000, $20,000, and $80,000. If they share remaining income in a 4:3:2 ratio, respectively, by how much would Nick's account increase assuming net income of $81,000.

$30,000

104. Paul, Quinn, and Ralph have equities in a partnership of $120,000, $180,000, and $100,000, respectively, and share income in a ratio of 2:1:2, respectively. The partners have agreed to admit Sandy to the partnership. Prepare entries in journal form without explanations to record the admission of Sandy to the partnership under each of the following assumptions:

a. Sandy invests $100,000 for a 30 percent interest, and a bonus is recorded for Sandy.
b. Sandy invests $150,000 for a one-fifth interest, and a bonus is recorded for the old partners.

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit
a.	Cash		100,000	
	Paul, Capital		20,000	
	Quinn, Capital		10,000	
	Ralph, Capital		20,000	
	Sandy, Capital			150,000
b.	Cash		150,000	
	Paul, Capital			16,000
	Quinn, Capital			8,000
	Ralph, Capital			16,000
	Sandy, Capital			110,000

105. Jordan, Kyle, and Noah have equities in a partnership of $100,000, $160,000, and $140,000, respectively, and share income in a ratio of 5:3:2, respectively. The partners have agreed to admit Billy to the partnership. Prepare entries in journal form without explanations to record the admission of Billy to the partnership under each of the following assumptions:

a. Billy invests $80,000 for a 25 percent interest, and a bonus is recorded for Billy.
b. Billy invests $160,000 for a one-fifth interest, and a bonus is recorded for the old partners.

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit

	General Journal		Page 1	
Date	Description	Post. Ref.	Debit	Credit
a.	Cash		80,000	
	Jordan, Capital		20,000	
	Kyle, Capital		12,000	
	Noah, Capital		8,000	
	Billy, Capital			120,000
b.	Cash		160,000	
	Jordan, Capital			24,000
	Kyle, Capital			14,400
	Noah, Capital			9,600
	Billy, Capital			112,000

106. Jacob and Megan are partners who share profits in a ratio of 2:3, respectively, and have the following capital balances on September 30, 20x5:

Jacob, Capital	Megan, Capital
$200,000 Cr.	$300,000 Cr.

The partners agree to admit Mitchell to the partnership. Calculate the capital balances of each partner after the admission of Mitchell, assuming that bonuses are recorded when appropriate for each of the following assumptions:
a. Mitchell pays Jacob $100,000 for 40 percent of his interest
b. Mitchell invests $100,000 for a one-sixth interest in the partnership
c. Mitchell invests $100,000 for a 25 percent interest in the partnership
d. Mitchell invests $100,000 for a 15 percent interest in the partnership

a. Jacob, $120,000 Megan, $300,000 Mitchell, $80,000
b. Jacob, $200,000 Megan, $300,000 Mitchell, $100,000
c. Jacob, $180,000 Megan, $270,000 Mitchell, $150,000
d. Jacob, $204,000 Megan, $306,000 Mitchell, $90,000

107. Connie and Marcos are partners who share profits in a ratio of 3:2, respectively, and have the following capital balances on September 30, 20x5:

Connie, Capital	Marcos, Capital
$50,000 Cr.	$100,000 Cr.

The partners agree to admit Trevor to the partnership. Calculate the capital balances of each partner after the admission of Trevor, assuming that bonuses are recorded when appropriate for each of the following assumptions:
a. Trevor pays Connie $50,000 for 50 percent of her interest
b. Trevor invests $50,000 for a one-fourth interest in the partnership
c. Trevor invests $50,000 for a 30 percent interest in the partnership
d. Trevor invests $50,000 for a 20 percent interest in the partnership

a. Connie, $25,000 Marcos, $100,000 Trevor, $25,000
b. Connie, $50,000 Marcos, $100,000 Trevor, $50,000
c. Connie, $44,000 Marcos, $96,000 Trevor, $60,000
d. Connie, $56,000 Marcos, $104,000 Trevor, $40,000