

<b>First Semester</b>		<b>Assiut University</b>
<b>2020/2021</b>		<b>Faculty of Commerce</b>
<b>Second Year</b>		<b>English Program</b>

# **Corporation Accounting (1)**

## **Partnership**

### **Test Bank**

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#### **TRUE-FALSE STATEMENTS**

1. The personal assets, liabilities, and personal transactions of partners are excluded from the accounting records of the partnership.
2. The act of any partner is binding on all other partners if the act appears to be appropriate for the partnership.
3. The partnership agreement between partners must be in writing.
4. L. Hill invests the following assets in a new partnership: \$15,000 in cash, and equipment that cost \$30,000 but has a book value of \$17,000 and fair market value of \$20,000. Hill, Capital will be credited for \$32,000.
5. If a partner's investment in a partnership consists of Accounts Receivable of \$25,000 and an Allowance for Doubtful Accounts of \$7,000, it would not be appropriate for the partnership to record the Allowance for Doubtful Accounts.
6. Partnership income or loss need not be closed to partners' capital accounts each period because of the unlimited life characteristic of partnerships.
7. The financial statements of a partnership are similar to those of a proprietorship.
8. The function of the Partners' Capital Statement is to explain the changes in partners' capital account balances during a period.
9. The distribution of cash to partners in a partnership liquidation is always made based on the partners' income sharing ratio.
10. The admission of a new partner results in the legal dissolution of the existing partnership and the beginning of a new partnership.
- 11.A bonus to old partners results when the new partner's capital credit on the date of admittance is greater than his or her investment in the firm.
12. If a new partner invests in a partnership at book value and acquires a 1/4 interest in total partnership capital, it indicates that a bonus was paid to the original partners.
13. A bonus to the remaining partners results when a retiring partner receives partnership assets which are less than his or her capital balance on the date of withdrawal.

14. A partnership is an association of no more than two persons to carry on as co-owners of a business for profit.
15. Once assets have been invested in the partnership, they are owned jointly by all partners.
16. Each partner's initial investment in a partnership should be recorded at book value.
17. Partnership income is shared in proportion to each partner's capital equity interest unless the partnership contract specifically indicates the manner in which net income or net loss is to be divided.
18. In a liquidation, the final distribution of cash to partners should be on the basis of their income ratios.
19. In an admission of a partner by investment of assets, the total net assets and total capital of the partnership do not change.
20. The withdrawal of a partner legally dissolves the partnership.

### MULTIPLE CHOICE QUESTIONS

1. A partnership
  - a. has only one owner.
  - b. pays taxes on partnership income.
  - c. must file an information tax return.
  - d. is not an accounting entity for financial reporting purposes.
2. A general partner in a partnership
  - a. has unlimited liability for all partnership debts.
  - b. is always the general manager of the firm.
  - c. is the partner who lacks a specialization.
  - d. is liable for partnership liabilities only to the extent of that partner's capital equity.
3. Which one of the following would *not* be considered a disadvantage of the partnership form of organization?
  - a. Limited life
  - b. Unlimited liability
  - c. Mutual agency
  - d. Ease of formation
4. Which of the following is *not* a principal characteristic of the partnership form of business organization?
  - a. Mutual agency
  - b. Association of individuals
  - c. Limited liability
  - d. Limited life

5. The partnership agreement should include each of the following *except* the
  - a. date of the partnership inception.
  - b. principal location of the firm.
  - c. surviving family members in the event of a partner's death.
  - d. Each of these should be included.
  
6. Which of the following statements is true regarding the form of a legally binding partnership contract?
  - a. The partnership contract must be in writing.
  - b. The partnership contract may be based on a handshake.
  - c. The partnership contract may be implied.
  - d. The partnership contract cannot be oral.
  
7. A partnership
  - a. is dissolved only by the withdrawal of a partner.
  - b. is dissolved upon the acceptance of a new partner.
  - c. dissolution means the business must liquidate.
  - d. has unlimited life.
  
8. The Maris-Crane partnership is terminated when creditor claims exceed partnership assets by \$40,000. Crane is a millionaire and Maris has no personal assets. Maris' partnership interest is 75% and Crane's is 25%. Creditors
  - a. must collect their claims equally from Maris and Crane.
  - b. may collect the entire \$40,000 from Crane.
  - c. must collect their claims 75% from Maris and 25% from Crane.
  - d. may not require Crane to use his personal assets to satisfy the \$40,000 in claims.
  
9. Which of the following is *not* an advantage of the partnership form of business?
  - a. Mutual agency
  - b. Ease of formation
  - c. Ease of decision making
  - d. Freedom from governmental regulations and restrictions
  
10. The largest companies in the United States are primarily organized as
  - a. limited partnerships.
  - b. partnerships.
  - c. corporations.
  - d. proprietorships.
  
11. The basis for dividing partnership net income or net loss is referred to as any of the following *except* the
  - a. income ratio.
  - b. income and loss ratio.
  - c. profit and loss ratio.
  - d. income sharing ratio.
  
12. Partner B is investing in a partnership with Partner A. B contributes as part of his initial investment, Accounts Receivable of \$80,000; an Allowance for Doubtful Accounts of \$12,000; and \$8,000 cash. The entry that the partnership makes to record B's initial contribution includes a
  - a. credit to B, Capital for \$88,000.
  - b. debit to Accounts Receivable for \$68,000.

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- c. credit to B, Capital for \$76,000.
  - d. debit to Allowance for Doubtful Accounts for \$12,000.
13. Which of the following would *not* be recorded in the entry for the formation of a partnership?
- a. Accumulated depreciation
  - b. Allowance for doubtful accounts
  - c. Accounts receivable
  - d. All of these would be recorded.
14. Which one of the following would *not* be considered an expense of a partnership in determining income for the period?
- a. Expired insurance
  - b. Salary allowance to partners
  - c. Supplies used
  - d. Freight-out
15. A partner invests into a partnership a building with an original cost of \$90,000 and accumulated depreciation of \$40,000. This building has a \$70,000 fair market value. As a result of the investment, the partner's capital account will be credited for
- a. \$70,000.
  - b. \$50,000.
  - c. \$90,000.
  - d. \$120,000.
16. Speir and Pablo decide to organize a partnership. Speir invests \$15,000 cash, and Pablo contributes \$12,000 cash and equipment having a book value of \$6,000. Choose the entry to record Pablo's investment in the partnership assuming the equipment has a fair market value of \$9,000.
17. Partners Jim and Joe have agreed to share profits and losses in an 80:20 ratio respectively, after Jim is allowed a salary allowance of \$140,000 and Joe is allowed a salary allowance of \$70,000. If the partnership had net income of \$140,000 for 2008, Joe's share of the income would be
- a. \$70,000.
  - b. \$56,000.
  - c. \$84,000.
  - d. \$14,000.
18. The most appropriate basis for dividing partnership net income when the partners do not plan to take an active role in daily operations is
- a. on a fixed ratio.
  - b. interest on capital balances and salaries to the partners.
  - c. on a ratio based average capital balances.
  - d. salaries to the partners and the remainder on a fixed ratio.
19. The partnership of Nott and Reese reports net income of \$60,000. The partners share equally in income and losses. The entry to record the partners' share of net income will include a
- a. credit to Income Summary for \$60,000.
  - b. credit to Nott, Capital for \$30,000.
  - c. debit to Reese, Capital for \$30,000.

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- d. credit to Reese, Drawing for \$30,000.
20. If the partnership agreement specifies salaries to partners, interest on partners' capital, and the remainder on a fixed ratio, and partnership net income is not sufficient to cover both salaries and interest,
- only salaries are allocated to the partners.
  - only interest is allocated to the partners.
  - the entire net income is shared on a fixed ratio.
  - both salaries and interest are allocated to the partners.
21. A partners' capital statement explains
- the amount of legal liability of each of the partners.
  - the types of assets invested in the business by each partner.
  - how the partnership will be capitalized if a new partner is admitted to the partnership.
  - the changes in each partner's capital account and in total partnership capital during a period.
22. Each of the following is used in preparing the partners' capital statement *except* the
- balance sheet.
  - income statement.
  - partners' capital accounts.
  - partners' drawing accounts.
23. Which of the following would *not* cause an increase in partnership capital?
- Drawings
  - Net income
  - Additional capital investment by the partners
  - Initial capital investment by the partners
24. The partners' drawing accounts are
- reported on the income statement.
  - reported on the balance sheet.
  - closed to Income Summary.
  - closed to the partners' capital accounts.
25. The liquidation of a partnership may result from each of the following *except* the
- bankruptcy of the partnership.
  - death of a partner.
  - retirement of a partner.
  - sale of the business by the partners.
26. In the liquidation of a partnership, any gain or loss on the realization of noncash assets should be allocated
- first to creditors and the remainder to partners.
  - to the partners on the basis of their capital balances.
  - to the partners on the basis of their income-sharing ratio.
  - only after all creditors have been paid.
27. In the liquidation of a partnership, any partner who has a capital deficiency
- has a personal debt to the partnership for the amount of the deficiency.
  - is automatically terminated as a partner.
  - will receive a cash distribution only on the basis of his or her income-sharing ratio.

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- d. is not obligated to make up the capital deficiency.
28. Partners A, B, and C have capital account balances of \$120,000 each. The income and loss ratio is 5:2:3, respectively. In the process of liquidating the partnership, noncash assets with a book value of \$100,000 are sold for \$40,000. The balance of Partner B's Capital account after the sale is
- \$90,000.
  - \$102,000.
  - \$108,000.
  - \$132,000.
29. When a partnership terminates business, the sale of noncash assets is called
- liquidation.
  - realization.
  - recognition.
  - disposition.
30. The liquidation of a partnership is a process containing the following steps:
1. Pay partnership liabilities in cash.
  2. Allocate the gain or loss on realization to the partners on their income ratios.
  3. Sell noncash assets for cash and recognize a gain or loss on realization.
  4. Distribute remaining cash to partners on the basis of their remaining capital balances.
- Identify the proper sequencing of the steps in the liquidation process.
- 3, 2, 4, 1.
  - 3, 2, 1, 4.
  - 1, 3, 2, 4.
  - 1, 4, 3, 2.
31. In the final step of the liquidation process, remaining cash is distributed to partners
- on an equal basis.
  - on the basis of the income ratios.
  - on the basis of the remaining capital balances.
  - regardless of capital deficiencies.
32. Before distributing any remaining cash to partners in a partnership liquidation, it is necessary to do each of the following *except*
- sell noncash assets for cash.
  - recognize a gain or loss on realization.
  - allocate the gain or loss to the partners based on their capital balances.
  - pay partnership liabilities in cash.
33. A, B and C are partners, sharing income 2:1:2. After selling all of the assets for cash, dividing gains and losses on realization, and paying liabilities, the balances in the capital accounts are as follows: A, \$10,000 Cr; B, \$10,000 Cr; and C, \$30,000 Cr. How much cash should be distributed to A?
- \$6,000
  - \$20,000
  - \$10,000
  - \$16,667

34. Bryant is admitted to a partnership with a 25% capital interest by a cash investment of \$90,000. If total capital of the partnership is \$390,000 before admitting Bryant, the bonus to Bryant is
- \$30,000.
  - \$15,000.
  - \$45,000.
  - \$60,000.
35. If Lerner invests \$200,000 in the partnership, what is Kingman's capital balance after Lerner's admittance?
- \$175,000
  - \$160,000
  - \$157,500
  - \$150,000
36. Stine and Watson have partnership capital balances of \$320,000 and \$240,000, respectively. Watson negotiates to sell his partnership interest to Leary for \$280,000. Stine agrees to accept Leary as a new partner. The partnership entry to record this transaction is
- |                         |         |         |
|-------------------------|---------|---------|
| a. Cash.....            | 280,000 |         |
| Leary, Capital.....     |         | 280,000 |
| b. Watson, Capital..... | 280,000 |         |
| Leary, Capital.....     |         | 280,000 |
| c. Cash.....            | 40,000  |         |
| Watson, Capital.....    | 240,000 |         |
| Leary, Capital.....     |         | 280,000 |
| d. Watson, Capital..... | 240,000 |         |
| Leary, Capital.....     |         | 240,000 |
37. When a partnership interest is purchased
- every partner's capital account is affected.
  - the transaction is a personal transaction between the purchaser and the selling partner(s).
  - the buyer receives equity equal to the amount of cash paid.
  - all partners will receive some part of the purchase price.
38. When admitting a new partner by investment, a bonus to old partners
- is usually unjustified because book values clearly reflect partnership net worth.
  - is sometimes justified because goodwill may exist and it is not reflected in the accounts.
  - results if the debit to cash is less than the new partner's capital credit.
  - results if the debit to cash is equal to the new partner's capital credit.
39. When admitting a new partner by investment, a bonus to old partners is allocated on
- the basis of capital balances.
  - the basis of the original investment of the old partners.
  - the basis of income ratios before the admission of the new partner.
  - a seniority basis.
40. An entry is *not* required in the liquidation of a partnership to record the
- payment of cash to creditors.
  - distribution of cash to the partners.

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- c. sale of noncash assets.
- d. allocation of a capital deficiency to partners with credit balances when the deficient partner is expected to pay the deficiency.