

Study Guide and Working Papers

for use with



EIGHTH EDITION

MODERN ADVANCED

ACCOUNTING

E. JOHN LARSEN



Study Guide and Working Papers

for use with

Modern Advanced Accounting

DONATION-02

Eighth Edition

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University of Southern California

Prepared by
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E. John Larsen

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TO THE STUDENT

This **Study Guide** has been prepared to accompany the eighth edition of **Modern Advanced Accounting** by E. John Larsen. However, it may be used with other advanced accounting texts. The main purposes of this **Study Guide** are to help you:

1. **Master the material** as you study each chapter.
2. **Summarize the essential points** in each chapter and **test your knowledge** with objective questions, short exercises, and cases, thus making it possible for you to **review the material quickly** from time to time, particularly before examinations.
3. Make the study of accounting **more enjoyable and less tedious**. This is accomplished by presenting an informal and concise summary of each chapter, followed by three groups of objective questions, short exercises, and a case that requires an “essay” answer.

The answers to the questions, short exercises, and cases are provided at the end of each chapter of the **Study Guide** to **give you immediate feedback and point out the concepts that need additional attention**.

The manner in which students use this **Study Guide** may differ; however, I recommend the following approach:

1. Study the chapter in the textbook.
2. Read the “**Highlights of the Chapter**” section of the **Study Guide**. If you note any statements that you do not understand, refer to the textbook for a more detailed discussion of the topic or specific point covered.
3. Prepare solutions for the questions, short exercises, and cases in the **Study Guide**, and compare your solutions with those provided at the end of each chapter. This will show you how well you understand the material contained in the related chapter of the textbook. Again, if you find something you do not understand, refer to the textbook for a more detailed discussion of the specific subject matter covered in the question, short exercise, or case. Of course, your answers to cases may differ from those provided in the **Study Guide** if you took a different approach or position.
4. Prepare solutions for the exercises, cases, and problems in the textbook assigned by your instructor.

Once you have mastered the material in this manner, reading the “**Highlights of the Chapter**” section in the **Study Guide** again may provide a quick and effective way of reviewing the material before examinations. Of course, no study technique is equally effective for all students. You may modify the approach suggested above to suit your specific needs and study habits.

E. JOHN LARSEN

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CHAPTER 1

ETHICAL ISSUES IN ADVANCED ACCOUNTING

Highlights of the Chapter

1. In recent years, critics have alleged that ethical standards of accountants have deteriorated, resulting in “cute accounting” and “cooking the books” by accountants.
2. Until recently, most efforts to develop ethical standards for accountants have focused on CPAs in the practice of public accounting—primarily auditing. However both the Institute of Management Accountants (IMA) and the Financial Executives Institute (FEI) promulgated standards of ethical conduct for their members in the 1980s.
3. Despite the AICPA’s contention that the primary responsibility for financial statements and financial reporting rests with enterprise management, there has been a long-held view that the first line of defense against improper financial reporting was independent auditors.
4. An early effort to establish ethical standards for preparers of financial statements was a criticism of the lack of a code of ethics for members of the FEI, by participants in the 1970 Seaview Symposium.
5. The Equity Funding fraud, discovered in 1973 after a duration of about nine years, involved at least 10 executives of Equity, many of whom were CPAs with public accounting experience.
6. The Institute of Management Accountants (IMA) **Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management** cover the management accountant’s obligations as to competence, confidentiality, integrity, and objectivity, and provide guidance for resolutions of ethical conflict.
7. Although briefer than the IMA standards described in paragraph 6, the FEI’s **Code of Ethics** covers essentially the same areas of professional conduct as the IMA standards.
8. The Treadway Commission made 49 recommendations for curbing fraudulent financial reporting, which is defined as “intentional or misleading conduct, whether act or omission, that results in materially misleading financial statements.” The recommendations dealt with public companies; independent public accountants; the SEC, financial institution regulators, and state boards of accountancy; and education. One recommendation was that public companies should maintain accounting functions that are designed to meet their financial reporting obligations.
9. In 1988, the members of the AICPA approved a revised **Code of Professional Conduct**, which included several Rules of Professional Conduct that apply to AICPA members not practicing in a CPA firm.
10. Common requirements of the IMA, FEI, and AICPA ethics pronouncements are for competence, integrity, and objectivity; confidentiality of sensitive information; and avoidance of discreditable acts. Both the IMA and the AICPA codes specifically prohibit conflicts of interest; the FEI code addresses such conflicts only indirectly. The IMA standards and FEI code specifically require communication of complete information to users of their members’ reports; AICPA members indirectly are comparably obligated. Only the AICPA code requires compliance with generally accepted accounting principles.
11. A **conflict of interest** results when an individual reaps an inappropriate personal benefit from his or her acts in an official capacity. **Insider trading** of a publicly owned enterprise’s securities is a form of conflict of interest.
12. Data provided by the Treadway Commission indicate that “cooking the books” episodes do not evidence a wholesale breakdown of ethical conduct by management accountants and financial executives of business enterprises. However, an important question is whether the codes of

conduct for management accountants and financial executives recently established or revised by the IMA, the FEI, and the AICPA may help those key players in corporate financial reporting to resist pressures to falsify financial statements and financial reports.

Questions

True or False

For each of the following statements, circle the **T** or the **F** to indicate whether the statement is true or false.

- T F** 1. Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management were issued by the Financial Executives Institute.
- T F** 2. The Code of Ethics of the Financial Executives Institute specifically prohibits conflicts of interest.
- T F** 3. A member of the AICPA not in public practice need not comply with Rule 101 Independence of the AICPA's Rules of Professional Conduct.
- T F** 4. "Cooking the books" refers to stretching the form of accounting standards to the limit, regardless of the underlying substance of the business transactions or events.
- T F** 5. The AICPA holds that independent auditors are primarily responsible for the integrity of financial statements and financial reports.
- T F** 6. Members of the IMA are obligated not to condone violations of Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management by others in the organization.
- T F** 7. Rule 203 Accounting Principles of the AICPA Code of Professional Conduct has no counterpart in the ethics codes of either the IMA or the FEI.
- T F** 8. SEC enforcement actions against accountants, reported in **AAERs**, have involved CPAs in private industry as well as in public accounting practice.
- T F** 9. The SEC accepts the "good soldier" defense of unethical conduct by accountants for business enterprises.

Completion Statements

Fill in the necessary words to complete the following statements.

1. A term used to describe fraudulent financial reporting is _____.
2. Ethical standards issued by the Institute of Management Accountants apply to _____.
3. According to the Treadway Commission, the responsibility for reliable financial reporting resides first and foremost at the _____.

4. _____ (number) of the AICPA's Rules of Professional Conduct apply to all AICPA members, including those in private industry, governmental entities, and nonprofit organizations.
5. The IMA's Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management cover the management accountant's obligations as to _____, _____, _____, and _____.
6. The Code of Professional Conduct of the AICPA consists of _____ sections: the _____ and the _____.

Multiple Choice

Choose the best answer for each of the following questions and enter the identifying letter in the space provided.

- ____ 1. Which of the following organizations did not participate in the Seaview Symposium of 1970?
- a. AICPA
 - b. FEI
 - c. IMA
 - d. None of the foregoing
- ____ 2. The Treadway Commission's 49 recommendations did not include any directed to:
- a. The Commodity Futures Trading Commission
 - b. The Securities and Exchange Commission
 - c. Financial institution regulators
 - d. State boards of accountancy
- ____ 3. The 1988 revision of the AICPA Code of Professional Conduct was triggered by the report of the:
- a. Anderson Committee
 - b. Treadway Commission
 - c. Seaview Symposium
 - d. Cohen Commission
- ____ 4. Compliance with generally accepted accounting principles is required specifically by the ethics code of:
- a. The IMA
 - b. The FEI
 - c. The AICPA
 - d. All the foregoing
- ____ 5. According to the AICPA's Rules of Professional Conduct, the interests of clients and employers of AICPA members are best served when the members fulfill their responsibility to:
- a. Clients and employers
 - b. The AICPA
 - c. The SEC
 - d. The public

- _____ 6. Do the AICPA's Rules of Professional Conduct require members not in public practice of accounting to maintain:
- | | Independence? | Objectivity? |
|----|----------------------|---------------------|
| a. | Yes | Yes |
| b. | No | Yes |
| c. | Yes | No |
| d. | No | No |

Case

Mary Sullivan, CPA, an AICPA member who presently is an audit manager with a local CPA firm, is interviewing for the position of controller of Ace Industries, Inc., a publicly owned company that is subject to the jurisdiction of the Securities and Exchange Commission despite its common stock's being traded over the counter. During her interview with Charles Crampton, chief executive officer of Ace, Sullivan learns that Ace does not have an audit committee of its five-person board of directors. Sullivan knows that one of the recommendations of the National Commission on Fraudulent Financial Reporting (Treadway Commission) was that all publicly owned enterprises should have an audit committee composed of independent (nonmanagement) directors. In response to her question as to why Ace has no audit committee, Crampton states that Ace is too small to attract "outside" directors and has always had a board of directors composed of officers of the company. Apart from Ace's lack of an audit committee, Sullivan considers the job opportunity at Ace an attractive one.

In her decision whether to accept employment as controller of Ace Industries, Inc., what weight—if any—should Mary Sullivan give to the lack of an audit committee of Ace's board of directors? Explain.

Solutions to Questions and Case: Chapter 1

Questions

True or False

1. F 2. F 3. T 4. F 5. F 6. T 7. T 8. T 9. F

Completion Statements

1. Cooking the books. 2. Accountants in industry. 3. Corporate level. 4. Six. 5. Competence, confidentiality, integrity, objectivity. 6. Two, principles, rules.

Multiple Choice

1. c 2. a 3. a 4. c 5. d 6. b

Case

Given the importance attached to independent audit committees by the Treadway Commission and the Institute of Management Accountants (see Chapter 1 of the text), Mary Sullivan might consider the consequences of the lack of an audit committee if she were to encounter an ethical dilemma as controller of Ace Industries, Inc. The absence of an audit committee constitutes a potentially significant weakness in the internal control structure of Ace—a weakness compounded by a board of directors composed solely of officers of Ace. Sullivan might explore further the backgrounds of the Ace director-officers and attempt to determine their ethical postures before deciding to accept the controllership of Ace.

CHAPTER 2

PARTNERSHIPS: ORGANIZATION AND OPERATION

HIGHLIGHTS OF THE CHAPTER

1. The Uniform Partnership Act defines a **partnership** as “an association of two or more persons to carry on, as co-owners, a business for profit.” Although a partnership may be formed without a written contract, a carefully prepared written contract is desirable. Today, the limited liability partnership (LLP) has supplanted the general partnership as the primary form of partnership organization.
2. The basic characteristics of the limited liability partnership form of business organization are:
 - a. **Ease of formation** A limited liability partnership may be created by written agreement or may be implied by the conduct of two or more persons.
 - b. **Limited life** A partnership may be ended by the death, retirement, bankruptcy, or incapacity of any partner.
 - c. **Mutual agency** Each partner has the authority to act for the partnership.
 - d. **Co-ownership of partnership assets and earnings** Partners have an equity in the net assets and earnings of the partnership; individual partners do not own specific assets of the partnership.
3. The income tax status of a business enterprise and its owners should be considered before choosing between the corporate and the partnership forms of organization. Unlike a corporation, a partnership is not a taxable entity. A partnership is required to file an **information return** showing the computation of net income and the allocation of the net income among the partners.
4. A **Subchapter S corporation** may elect to be treated as a partnership for income tax purposes.
5. For financial accounting, a limited liability partnership is considered to be a **separate entity**, despite the fact that a partnership legally is an **association of individuals**. A limited liability partnership also is a separate legal entity because it may own property, be sued, or bring suit against others. In the fields of law, medicine, and public accounting, the limited liability partnership currently is the usual form of organization.
6. Among the points to be covered by a **partnership contract** are the following:
 - a. The date of formation and the planned duration of the partnership, the names of the partners, and the name and business activities of the partnership
 - b. The assets to be invested by each partner, the procedures for valuing noncash investments, and the penalties for a partner’s failure to invest and maintain the agreed amount of capital
 - c. The authority of each partner and the rights and duties of each
 - d. The accounting period to be used, the nature of accounting records, financial statements, and audits by independent public accountants
 - e. The plan for sharing net income or losses
 - f. The drawings allowed to partners and the penalties, if any, for excessive withdrawals
 - g. Insurance on the lives of partners, with the partnership or surviving partners named as beneficiaries
 - h. Provision for arbitration of disputes and liquidation of the partnership
7. Three types of ledger accounts generally are maintained for each partner: (a) **capital** accounts, (b) **drawing** or **personal** accounts, and (c) accounts for **loans** to or from partners. Subsequent to the original investment, partners’ equities are **increased** by net income; partners’ equities are **decreased** by withdrawals and by a share of net losses incurred by the partnership.

8. Periodic drawings are recognized by debits to the partners' drawing accounts. At the end of an accounting period the net income or loss is transferred to the partners' capital ledger accounts in the income-sharing ratio, and the debit balances in the drawing accounts are closed to the partners' respective capital accounts.
9. When a partnership receives a loan from a partner, the Loans Payable to Partners ledger account is credited; when a partnership makes a loan to a partner, the Loans Receivable from Partners account is debited.
10. Noncash assets invested in a partnership should be appraised and recognized at their current fair values at the time the assets are invested. Any gain or loss on the disposal of noncash assets invested by the partners is divided among the partners in the income-sharing ratio.
11. Partners may agree on any type of income-sharing plan; however, if partners do not formulate an explicit plan for sharing net income or losses, the Uniform Partnership Act requires that net income or losses be shared equally among the partners. Some possible plans for sharing net income or losses are:
 - a. Equally, or in some other ratio
 - b. In the ratio of the partners' capital account balances on a particular date, or in the ratio of average capital account balances during the year
 - c. Allowing interest on partners' capital account balances and dividing the remaining net income or loss in a specified ratio
 - d. Allowing salaries to partners and dividing the resultant net income or loss in a specified ratio
 - e. Bonus to managing partner based on income
 - f. Allowing salaries and interest on capital account balances, and dividing the remaining net income or loss in a specified ratio
12. When average capital account balances are used as a basis for income sharing, or as the basis for interest computations, debits to the partners' drawing accounts generally are not considered in the computation of the average capital account balances, because these changes are considered to be withdrawals of current earnings. The partnership contract should specify the items to be included in the computation of the average capital account balances. Computation of the average capital account balance for partner Clark is illustrated as follows:

Clark, Capital				
Apr. 1	12,000	Jan 1 bal.	60,000	
		Aug. 31	15,000	
Capital account balance				
Fraction of year unchanged				
\$60,000	1/4		\$15,000	
48,000	5/12		20,000	
63,000	1/3		<u>21,000</u>	
Average capital account balance			<u>\$56,000</u>	

13. If a partnership contract includes interest on capital and/or salaries in the division of net income or loss, interest and salaries are provided in full even if the partnership incurs a net loss (before allowances for interest and salaries). A partnership contract that permits partners to make regular drawings should specify whether such drawings are intended to be a factor in the division of net income or loss.

14. A partner acting as manager of a partnership may be allowed a bonus, based on either income **before** or income **after** the bonus. If income before the bonus is \$22,000, a bonus of 10% of income after the bonus would be \$2,000 ($\$22,000 \times 1/11 = \$2,000$).
15. After each partner's share (including bonus, interest, salary, and any balance) of net income is computed, the credit balance of the Income Summary ledger account is closed to the partners' capital accounts. Each partner's share of net income or loss may be displayed in the income statement or in a separate exhibit accompanying the income statement. If salaries allowed to partners are included in operating expenses, the amount of such salaries should be disclosed.
16. A **statement of partners' capital** is a financial statement prepared for a partnership at the end of the accounting period. It shows for each partner the beginning capital, additional investments or withdrawals of a permanent nature, share of net income or loss for the period, regular drawings, and the ending capital. In addition, a Combined column is used to show totals of all items included in the statement.
17. Errors in the measurements of partnership net income or loss for prior accounting periods should be analyzed carefully when the income-sharing ratio is changed or when changes in membership of a partnership take place. Each partner's capital should be restated based on that partner's share of the adjustment to net income or loss for each prior period.
18. The operation of a limited liability partnership generally is not interrupted by a change in the membership of the partnership. Legally, a change in membership terminates the existing partnership and creates a new partnership. Changes in membership result when a partner is admitted to the firm, retires, or dies.
19. Before admission of a new partner is recorded, the partnership accounting records should be brought up to date. Current fair values of assets should be considered in setting the amount to be invested by the incoming partner for a share of the net assets of the partnership. The admission of a new partner may take place in one of two ways: (a) through the **acquisition of all or part of the interest** of one or more of the existing partners or (b) through the **investment of assets in the partnership** by the new partner.
20. If the new partner acquires an ownership interest from one or more of the existing partners, the transaction is recorded by a debit to the capital account of each selling partner and a credit to the capital account of the new partner. For example, if Young has a capital account balance of \$10,000 representing a 20% equity in a partnership, and Young sells the entire equity directly to Zeno for \$15,000, the transaction is recorded in the partnership accounting records as follows:

Young, Capital	10,000	
Zeno, Capital		10,000

To record transfer to Young's interest in partnership to Zeno.

The amount paid by Young to Zeno is not entered in the partnership accounting records because no assets are received by the partnership.
21. When a new partner **makes an investment** in a limited liability partnership, the following three situations may be encountered:
 - a. The new partner's capital account is credited for the **current fair value** of the assets he or she is investing, and the capital accounts of the existing partners remain unchanged.
 - b. The new partner may invest an amount that is larger than his or her percentage share of the net assets, thus potentially requiring the recognition of a **bonus or goodwill to the existing partners**.
 - c. The new partner may invest an amount that is less than his or her percentage share of net assets, thus potentially requiring the recognition of a **bonus or goodwill to the new partner**.

22. When the net assets (assets less liabilities) of the limited liability partnership are fairly stated in the accounting records, the bonus and goodwill methods of recording the admission of a new partner are illustrated by the examples below:

Assume that Ames and Borg, partners of Ames & Borg LLP, have capital account balances of \$80,000 and \$100,000, respectively, and that they share net income or losses equally. Chun is to be admitted as a new partner for an investment of the net assets specified in (1) and (2) below of a single proprietorship for a 25% interest in the net assets of the partnership. Chun is to have a 30% interest in net income or losses, and Ames and Borg each will have a 35% interest.

**Net Assets Invested by New Partner
in a Limited Liability Partnership**

Type of solution	(1) \$50,000 (bonus or goodwill to new partner)	(2) \$70,000 (bonus or goodwill to existing partners)
Bonus	<p>Net Assets 50,000</p> <p>Ames, Capital 3,750</p> <p>Borg, Capital 3,750</p> <p>Chun, Capital 57,500</p> <p>New total capital: $\\$180,000 + \\$50,000 = \\$230,000$. Bonus to Chun: $(\\$230,000 \times 0.25) - \\$50,000 = \\$7,500$, divided equally between Ames and Borg.</p>	<p>Net Assets 70,000</p> <p>Ames, Capital 3,750</p> <p>Borg, Capital 3,750</p> <p>Chun, Capital 62,500</p> <p>New total capital: $\\$180,000 + \\$70,000 = \\$250,000$ Bonus to Ames and Borg: $\\$70,000 - (\\$250,000 \times 0.25) = \\$7,500$, divided equally between Ames and Borg.</p>
Goodwill	<p>Net Assets 50,000</p> <p>Goodwill 10,000</p> <p>Chun, Capital 60,000</p> <p>Capitalize existing partners' investment $(\\$180,000 \div 3/4 = \\$240,000)$. $\\$240,000 \times 1/4 = \\$60,000$. Goodwill to Chun: $\\$60,000 - \\$50,000 = \\$10,000$</p>	<p>Net Assets 70,000</p> <p>Goodwill 30,000</p> <p>Ames Capital 15,000</p> <p>Borg, Capital 15,000</p> <p>Chun, Capital 70,000</p> <p>Capitalize Chun's investment $(\\$70,000 \div 1/4 = \\$280,000)$. Goodwill to Ames and Borg: $\\$280,000 - \\$250,000 = \\$30,000$, divided equally between Ames and Borg.</p>

23. A new partner may invest an amount that involves the recognition of a **bonus or goodwill to existing partners** for the privilege of becoming a member of a limited liability partnership with high earning power. In contrast, existing partners may allow a **bonus or goodwill to the new partner** when he or she has unusual ability or invests the net assets of a business enterprise of superior earning power in the partnership.
24. When a new partner invests an amount of cash larger than the carrying amount of the interest in net assets that he or she acquires, the transaction should be recorded by the bonus method. Recording the implied goodwill in such situations is not acceptable (in the opinion of the author) because the implied goodwill has not been acquired by the partnership.
25. The restatement of partnership assets to current fair values before a new partner is admitted to a limited liability partnership may be the most convenient method of achieving equity among the partners.

26. A retiring partner may receive an amount in settlement for his or her equity from the partnership or may sell his or her equity, either to an existing partner or to an outsider. A settlement price to be paid from partnership assets should be determined pursuant to the partnership contract. In most cases, the equity of the retiring partner is based on the current fair values for all partnership assets. The current fair values may or may not be entered in the accounting records of the partnership.
27. If the amount paid to a retiring partner differs from the carrying amount of his or her equity, the difference should be recorded as a bonus to the retiring partner or a bonus to the continuing partners. Goodwill should not be recognized by the partnership when the amount paid to the retiring partner exceeds the carrying amount of the partner's equity.
28. The final settlement with a retiring partner often is deferred for some time after withdrawal to permit the measurement of net income or loss to date of withdrawal and the accumulation of sufficient cash to pay the retiring partner.
29. Terms of settlement with the estate of a deceased partner generally are specified in the partnership contract. The journal entries to record payments to a deceased partner's estate are similar to journal entries to record the settlement with a retiring partner.
30. Legal provisions governing limited partnerships are provided by the Uniform Limited Partnership Act. Limited partnerships differ in several respects from limited liability partnerships, especially with respect to the rights and obligations of limited partners.
31. The formation of a limited partnership is evidenced by a **certificate** filed with the county recorder, which includes a number of items in addition to those found in the typical partnership contract of a limited liability partnership.
32. The membership **units** offered to prospective limited partners are subject to the Securities Act of 1933, which may require registration of the units with the Securities and Exchange Commission.
33. The SEC has provided standards for financial statements of limited partnerships subject to the SEC's jurisdiction. A significant requirement is the disclosure of **per-unit** information in the income statements and balance sheets of limited partnerships.

Questions

True or False

For each of the following statements, circle the **T** or the **F** to indicate whether the statement is true or false.

- T F** 1. The creation of a limited liability partnership requires a written contract and approval by the state in which the partnership is organized.
- T F** 2. The admission of a new member to an existing limited liability partnership, or the death or bankruptcy of a partner, legally ends the partnership.
- T F** 3. Each partner has the authority to negotiate contracts on behalf of the limited liability partnership.
- T F** 4. If a judgment is entered against a limited liability partnership by a court, each partner is liable for the full amount of the judgment, and the creditor may collect from any of the partners.
- T F** 5. A partnership is not a taxable entity; however, a partnership may elect to be taxed as a corporation.

- T F** 6. A limited liability partnership is not considered a separate entity, for either financial accounting or legal purposes.
- T F** 7. The display of salaries to partners among expenses in a limited liability partnership income statement tends to distort the net income or loss of the partnership and makes comparisons with similar business enterprises operating as corporations less meaningful.
- T F** 8. Disputes arising among partners that cannot be resolved by reference to the limited liability partnership contract may be settled by the managing partner of the partnership.
- T F** 9. Debit balances of partners' drawing ledger accounts are closed to the Income Summary account at the end of the accounting period.
- T F** 10. Noncash assets invested in a limited liability partnership are recognized at current fair values rather than at the carrying amounts in the accounting records of the investing partner.
- T F** 11. A partner may be entitled to receive a larger share of net income than of net assets of the limited liability partnership.
- T F** 12. If a partner receives a bonus of 10% of income after the bonus, and if the income before the bonus amounts to \$44,550, the amount of the bonus is \$4,050.
- T F** 13. The main purpose of allowing partners salaries and interest on their capital account balances is to achieve a more equitable distribution of partnership net income.
- T F** 14. Xeno & Yang LLP had income of \$10,000 for 1999 before salaries to partners. Yang's share of net income would be the same whether Yang was allowed a salary of \$12,000 or guaranteed a minimum of \$12,000 as a share of partnership net income.
- T F** 15. Corrections to net income or losses of prior years should be displayed in the income statement of a limited liability partnership as extraordinary items.
- T F** 16. If after the death of a partner the surviving partners decide to continue as a new partnership, creditors of the former limited liability partnership also are creditors of the new partnership.
- T F** 17. If after the death of a partner the surviving partners of a limited liability partnership fail to reach settlement with the estate of the deceased partner, the estate may have the value of the deceased partner's interest determined as of the date of death and may recover this amount from the new partnership.
- T F** 18. The acquisition of an interest by a new partner from an existing partner in a private transaction does not require a journal entry in the accounting records of a limited liability partnership.
- T F** 19. It is preferable not to recognize in the accounting records any goodwill allowed to the existing partners on admission of a new partner, and goodwill to the new partner should be recognized only when the new partner invests a highly profitable business enterprise in the limited liability partnership.
- T F** 20. A **limited liability partnership** is a special form of **limited partnership**.
- T F** 21. The legal requirements for organizing a limited partnership are the same as the legal requirements for organizing a limited liability partnership.

T F 22. Limited partners may not provide services as their investment in a limited partnership.

Completion Statements

Fill in the necessary words or amounts to complete the following statements.

1. If a law firm is incorporated, the organization would be known as a _____.
2. The three types of limited liability partners' ledger accounts are _____, _____, (or _____), and _____ to or from partners.
3. If limited liability partners do not agree on a plan for sharing net income or losses, the presumption is that they intended to share _____.
4. A limited liability partnership is _____ by the retirement or death of one of the partners.
5. Partners Ang and Bon share net income or losses in a 3:2 ratio and have capital account balances of \$18,000 and \$17,000, respectively. If Clay invests the identifiable net assets of a business enterprise with a current fair value of \$15,000 for a 25% equity in the net assets of the limited liability partnership, a bonus is allowed to the (new or existing) _____ partner(s).
6. Assuming that the bonus method is used to record the admission of Clay as described in question 5, the ending balances of the partners' capital ledger accounts are as follows: (a) Partner Ang \$_____, (b) Partner Bon \$_____, and (c) Partner Clay \$_____.
7. The _____ method generally is not acceptable for recording the withdrawal of a partner from a limited liability partnership.
8. The formation of a limited partnership is evidenced by a _____ filed with the county recorder of the principal place of business of the limited partnership.
9. Membership in a limited partnership is offered to prospective limited partners in _____.

Multiple Choice

Choose the best answer for each of the following questions and enter the identifying letter in the space provided.

- _____ 1. A limited liability partnership is considered an accounting entity separate from the individual partners for purposes of:
- a. Both financial accounting and federal income taxes
 - b. Federal income taxes but not financial accounting
 - c. Financial accounting but not federal income taxes
 - d. Neither financial accounting nor federal income taxes