

College Accounting

Seventh Edition

Chapters 19-32

Includes

Study Guides

- Study Plans
- Self-Check Reviews
- Demonstration Problems/Solutions

Working Papers

- Exercises
- A or B Problems
- Challenge Problems
- Critical-Thinking Problems
- Mini-Practice Sets

Price Haddock Brock

**Study Guide and
Working Papers for**

**COLLEGE
ACCOUNTING
SEVENTH EDITION**

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Accounting for Partnerships

STUDY GUIDE

Objectives

1. Explain the major advantages and disadvantages of a partnership. **2.** State the important provisions that should be included in every partnership agreement. **3.** Account for formation of a partnership. **4.** Compute and record the division of net income or loss between partners in accordance with the partnership agreement. **5.** Prepare a statement of partners' equities. **6.** Account for the revaluation of assets and liabilities prior to the dissolution of a partnership. **7.** Account for the sale of a partnership interest. **8.** Account for the investment of a new partner in an existing partnership. **9.** Account for the withdrawal of a partner from a partnership. **10.** Define the accounting terms new to this chapter.

CHAPTER ACTIVITIES

Review Questions Answer each assigned review question in Chapter 19.

Managerial Focus Answer each assigned managerial focus question in Chapter 19.

Exercises Complete each assigned exercise in Chapter 19. Use the forms provided in this SGWP. The objectives covered by an exercise are given after the exercise number. If you need help with an exercise, review the portion of the chapter related to the objective(s) covered.

Problems A/B Complete each assigned problem in Chapter 19. Use the forms provided in this SGWP. The objectives covered by a problem are given after the problem number. If you need help with a problem, review the portion of the chapter related to the objective(s) covered.

Challenge Problem Complete the challenge problem as assigned. Use the forms provided in this SGWP.

Critical Thinking Problem Complete the critical thinking problem as assigned. Use the forms provided in this SGWP.

Self-Check of Reading Comprehension

Completion In the answer column, supply the missing word or words needed to complete each of the following statements.

- The ____ is a written contract between the partners containing the major provisions of their agreement.
- General partners have ____ liability for debts of the partnership.
- Articles of Partnership are commonly referred to as the ____.
- A partnership is said to lack ____ because the partnership is terminated if a partner dies or is incapacitated.
- The ____ must pay federal income tax on a partnership's profits.
- Assets transferred to a partnership by a sole proprietor in return for a partnership interest should be recorded in the partnership's records at their ____.
- A partnership ____ occurs when the partnership is completely terminated and the business ceases to exist.

8. Payments of salaries to a partner should be charged to the ____ account. _____
9. At the end of the period each partner's Drawing account is closed into the ____ account. _____
10. If an incoming partner invests less than the book value of his or her interest, the amount of bonus involved is charged to the ____ partner's (or partners') account(s). _____

Matching For each numbered item, choose the matching term from the first column and write the identifying letter in the answer column.

- | | | |
|--------------------------|--|-------|
| a. Bonus | 1. The rule that one partner's actions can bind all other partners | _____ |
| b. Business continuity | 2. The adjustment of asset and liability accounts to reflect current value | _____ |
| c. Dissolution | 3. The situation in which all assets are sold and cash is distributed to partners | _____ |
| d. Limited partner | 4. The situation in which a business continues even though an owner dies or transfers ownership to someone else | _____ |
| e. Liquidation | 5. The situation in which one or more partners withdraw, yet the business continues in operation | _____ |
| f. Mutual agency | 6. A legal contract between the partners creating the partnership | _____ |
| g. Partner's Drawing | 7. A factor that may be used in dividing profits and losses | _____ |
| h. Partnership agreement | 8. A characteristic of partnerships under which a partner is responsible for all debts of the partnership | _____ |
| i. Revaluation | 9. The account that is debited for salary payments to a partner | _____ |
| j. Salary allowance | 10. A partner whose liability for losses and debts of a partnership is limited to that partner's investment in the partnership | _____ |
| k. Unlimited liability | 11. The amount that may be credited to the old partners' accounts when the amount invested by a new partner is greater than that partner's share of total equity | _____ |

True-False For each of the following statements, circle T in the answer column if the statement is true or F if the statement is false.

- | | | |
|---|----------|----------|
| 1. A major advantage of the partnership form of business entity is that it does not pay federal income taxes. | T | F |
| 2. General partners have personal liability for all debts of the partnership. | T | F |
| 3. Some partners, known as limited partners, may not be personally liable for the debts of the partnership. | T | F |
| 4. Unless otherwise stated in the partnership agreement, a partnership has a life of 17 years. | T | F |
| 5. A legal partnership does not exist unless there is a written partnership agreement. | T | F |
| 6. Unless the partnership agreement provides otherwise, profits and losses are shared equally by the partners. | T | F |
| 7. When the assets and liabilities of an existing sole proprietorship are transferred to a partnership, they are recorded on the partnership books at their fair market value. | T | F |
| 8. If accounts receivable are transferred from an existing sole proprietorship to a partnership, it is proper to bring forward an agreed-upon allowance for bad debts. | T | F |
| 9. If fixed assets are transferred from an existing sole proprietorship to a partnership, the accumulated balance of the Allowance for Depreciation account should be brought forward to the partnership books. | T | F |
| 10. Each partner should have a Drawing account and a Capital account. | T | F |

- | | | |
|--|----------|----------|
| 11. A salary allowance called for in the partnership agreement is disallowed if the partnership has a net loss for the year. | T | F |
| 12. If a salary is allowed to one partner, other partners must also receive a salary allowance. | T | F |
| 13. Salaries allowed a partner should not be deducted in arriving at the partnership's net profit or loss for the year. | T | F |
| 14. The partnership's accounting entry to record sale of a partnership interest by a former partner to a new partner does not depend on the sales price. | T | F |
| 15. If a new partner purchases an interest from an old partner, no cash comes into the partnership, and the only entry necessary is one to record the transfer between the Capital accounts. | T | F |
| 16. A gain or loss on revaluation of assets should be allocated to the partners according to the balances of their Capital accounts. | T | F |
| 17. If a new partner's investment is greater than the corresponding partnership equity, it may be said that a bonus has been allowed the new partner. | T | F |
| 18. A withdrawing partner may receive cash from the partnership in excess of that partner's Capital account balance. | T | F |

DEMONSTRATION PROBLEM

For several years Valerie Martin has operated the Martin Sundries Shop as a sole proprietor. On January 1, 19X6, she agreed to form a partnership with Paul Dyson to operate the shop under the name Martin-Dyson Sundries Shop. Pertinent terms of the partnership agreement follow.

1. Martin is to transfer to the partnership the accounts receivable, merchandise inventory, furniture and equipment, and all liabilities of the sole proprietorship in return for a partnership interest of 60 percent of the partnership capital. Assets are to be appraised and transferred to the partnership at the appraised values.

Balances in the relevant accounts of Martin's sole proprietorship at the close of business on December 31, 19X5, were:

Accounts Receivable	\$ 53,400	Dr.
Allowance for Doubtful Accounts	4,200	Cr.
Merchandise Inventory	76,500	Dr.
Furniture and Equipment	114,000	Dr.
Allowance for Depreciation of Furniture and Equipment	40,000	Cr.
Accounts Payable	35,000	Cr.

2. The two parties agreed to unrecorded accounts payable of \$1,000 and unrecorded accrued expenses of \$500. They also agreed that \$2,000 of the accounts receivable were definitely uncollectible and should not be transferred to the partnership and that the balance for Allowance for Doubtful Accounts should be \$4,000. The appraised values of the other assets were: Merchandise Inventory, \$75,000, and Furniture and Equipment, \$70,000.

3. In return for a 40 percent interest in partnership capital, Dyson is to invest cash in an amount equal to two-thirds of Martin's net investment.
4. Each partner is to be allowed a salary, payable on the 15th day of each month. Martin's salary is to be \$4,000 per month and Dyson's, \$3,000 per month.
5. The partners are to be allowed interest of 10 percent of their beginning Capital balances.
6. Profits and losses are to be divided in the ratio of 60% to Martin and 40% to Dyson.
7. Revenues for 19X6 were \$960,000, expenses were \$320,000, and cost of goods sold was \$530,016.70. Payments for salary allowances were charged to the Drawing accounts.

Instructions

1. Record the general journal entries for the following transactions. Omit explanations.
 - a. Receipt by the partnership of assets and liabilities from Martin
 - b. Investment of cash by Dyson
 - c. Summary of cash withdrawals for salaries for the two partners during the year
 - d. Profit or loss division (including partners' salary allowances and interest allowances)
2. Prepare a schedule showing the division of net income to the partners as it would appear on the income statement for 19X6.

GENERAL JOURNAL

PAGE **1**

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	19X6 Jan.	1 Accounts Receivable		51	4	0	0	00				1
2		Merchandise Inventory		75	0	0	0	00				2
3		Furniture and Equipment		70	0	0	0	00				3
4		Allowance for Doubtful Accounts							4	0	0	4
5		Accounts Payable							36	0	0	5
6		Accrued Expenses							5	0	0	6
7		Valerie Martin, Capital							155	9	0	7
8												8
9		1 Cash		103	9	3	3	00				9
10		Paul Dyson, Capital							103	9	3	10
11												11
12		1 Valerie Martin, Drawing		48	0	0	0	00				12
13		Paul Dyson, Drawing		36	0	0	0	00				13
14		Cash							84	0	0	14
15												15
16	Dec.	31 Income Summary		84	0	0	0	00				16
17		Valerie Martin, Capital							48	0	0	17
18		Paul Dyson, Capital							36	0	0	18
19												19
20		31 Income Summary		25	9	8	3	30				20
21		Valerie Martin, Capital							15	5	9	21
22		Paul Dyson, Capital							10	3	9	22
23												23

MARTIN-DYSON SUNDRIES SHOP

Income Statement (Partial)

Year Ended December 31, 19X6

Net Income for Year									640	0	0	0	00
	M a r t i n				D y s o n								
Salary Allowance	48	0	0	0	00	36	0	0	0	00			
Interest Allowance	15	5	9	0	00	10	3	9	3	30			
Remainder in 50:50 Ratio	265	0	0	8	35	265	0	0	8	35			
	328	5	9	8	35	311	4	0	1	65	640	0	0

Name _____

PAGE _____

EXERCISE 19-2

PAGE _____

EXERCISE 19-3

[illegible]

EXERCISE 19-5

GENERAL JOURNAL

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	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1													1
2													2
3													3
4													4

EXERCISE 19-6

GENERAL JOURNAL

PAGE 18

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8													8
9													9
10													10

EXERCISE 19-7

EXERCISE 19-8

Name _____

EXERCISE 19-9

[illegible]

[illegible]

GENERAL JOURNAL

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1						1
2						2
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EXERCISE 19-11

EXERCISE 19-12

PAGE 1

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PAGE 1

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	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
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