**Advanced Accounting Solution Manual**
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**Chapter 1**

**Problem I**

**Requirement 1:** Assuming that A and B agree that each partner is to receive a capital credit equal to the agreed values of the net assets each partner invested:

**To record adjustments:** nothing to adjust since both of them have no set of books.
**To close the books:** nothing to close since both of them have no set of books.
**To record investments:**

Partnership books:

| | | |
|---|---|---|
| *Cash……………………………………………………* | *120,000* | |
| *Inventory………………………………………………..* | *120,000* | |
| *Equipment……………………………………………* | *240,000* | |
| *A, capital……………………………………* | | *480,000* |
| *Initial investment.* | | |

| | | |
|---|---|---|
| *Cash……………………………………………………* | *120,000* | |
| *Land……………………………………………………* | *240,000* | |
| *Building………………………………………………….* | *480,000* | |
| *Mortgage payable…………………………..* | | *240,000* |
| *B, capital…………………………………….* | | *600,000* |
| *Initial investment.* | | |

**Requirement 2:** Assuming that A and B agree that each partner is to receive an equal capital interest.

**To record adjustments:** nothing to adjust since both of them have no set of books.
**To close the books:** nothing to close since both of them have no set of books.
**To record investments:**
Partnership books:

**Bonus Approach:**

| | | |
|---|---|---|
| *Cash…………………………………………………* | *120,000* | |
| *Inventory……………………………………………* | *120,000* | |
| *Equipment…………………………………………* | *240,000* | |

*A, capital……………………………………… 480,000*

*Cash…………………………………………………… 120,000*
*Land…………………………………………………… 240,000*
*Building………………………………………………… 480,000*
*Mortgage payable………………………. 240,000*
*B, capital…………………………………. 600,000*

*B, capital……………………………………………… 60,000*
*A, capital……………………………………. 60,000*

Total agreed capital (P480,000 + P600,000)….P 1,080,000
Multiplied by: Capital interest (equal)……….. 1/2
Partner's individual capital interest………… P 540,000
Less: A's capital interest……………………….. 480,000
Bonus to A……..………………………………….P 60,000

**Revaluation (Goodwill) Approach:**

*Cash……………………………………………………………………… 120,000*
*Inventory…………………………………………………………………… 120,000*
*Equipment………………………………………………………………… 240,000*
*A, capital……………………………………………………………….. 480,000*

*Cash……………………………………………………………………… 120,000*
*Land……………………………………………………………………… 240,000*
*Building…………………………………………………………………... . 480,000*
*Mortgage payable………………………………………………… 240,000*
*B, capital…………………………………………………………..…… 600,000*

*Assets (or goodwill or intangible asset)………………………………….. 120,000*
*A, capital………………….………………………………………….. 120,000*

*Total agreed capital (P600,000 / 1/2)………..…P1,200,000*
*Less: Total contributed capital (P480,000 +*
*P 600,000)…………………………………...… 1,080,000*
*Goodwill to A……………..………………………P 120,000*

**Problem II**

| Agreed Fair Values | Invested by John | Invested by Jeff | Invested by Jane |
|---|---|---|---|
| Cash | P100,000 | - - - | - - - |
| Equipment | | P 110,000 | - - - |
| Total assets | 100,000 | P 110,000 | 0 |
| Note payable assumed by partnership | - - - | 30,000 | - - - |
| Net assets invested | P100,000 | P 80,000 | P 0 |

**1. Bonus Method**

| | | |
|---|---|---|
| Cash | 100,000 | |
| Equipment | 110,000 | |
| Note Payable | | 30,000 |
| John, Capital | | 60,000 |
| Jeff, Capital | | 60,000 |
| Jane, Capital | | 60,000 |

**2. Goodwill Method (Revaluation of Asset)**

| | | |
|---|---|---|
| Cash | 100,000 | |
| Equipment | 110,000 | |
| Goodwill | 90,000 | |
| Note Payable | | 30,000 |
| John, Capital | | 90,000 |
| Jeff, Capital | | 90,000 |
| Jane, Capital | | 90,000 |

2. The bonus method is used when John and Jeff recognize that Jane is bringing something of value to the firm other than a tangible asset, but they do not want to recognize an intangible asset. To equalize the capital accounts, P40,000 is transferred from John's capital account and P20,000 is transferred from Jeff's capital account.

   The goodwill method is used when the partners recognize the intangible nature of the skills Jane is bringing to the partnership. However, the capital accounts are equalized by recognizing an intangible asset and a corresponding increase in the capital accounts of the partners. Unless the intangible asset can be specifically identified, such as a patent being invested, it should not be recognized, because of a lack of justification for goodwill in a new business.

**Problem III**

1. (a)

| | | |
|---|---|---|
| Cash | 13,000 | |
| Accounts Receivable | 8,000 | |
| Office Supplies | 2,000 | |
| Office Equipment | 30,000 | |
| Accounts Payable | | 2,000 |
| Tom, Capital | | 51,000 |

| | | | |
|---|---|---|---|
| | Cash | 12,000 | |
| | Accounts Receivable | 6,000 | |
| | Office Supplies | 800 | |
| | Land | 30,000 | |
| | Accounts Payable | | 5,000 |
| | Mortgage Payable | | 18,800 |
| | Julie, Capital | | 25,000 |
| (b) | Tom, Drawing | 15,000 | |
| | Cash | | 15,000 |
| | Julie, Drawing | 12,000 | |
| | Cash | | 12,000 |
| (c) | Income Summary | 50,000 | |
| | Tom, Capital P50,000 × (P51,000/P76,000) | | 33,553 |
| | Julie, Capital P50,000 × (P25,000/P76,000) | | 16,447 |
| | Tom, Capital | 15,000 | |
| | Julie, Capital | 12,000 | |
| | Tom, Drawing | | 15,000 |
| | Julie, Drawing | | 12,000 |

2.

TOM AND JULIE PARTNERSHIP

Statement of Changes in Partners' Capital

For the Year Ended December 31, 20x4

| | Tom | Julie | Total |
|---|---|---|---|
| Capital balances, Jan. 1 | P 0 | P 0 | P 0 |
| Add: Additional investments | 51,000 | 25,000 | 76,000 |
| Net income allocation | 33,553 | 16,447 | 50,000 |
| Totals | P 84,553 | P 41,447 | P126,000 |
| Less: Withdrawals | 15,000 | 12,000 | 27,000 |
| Capital balances, Dec. 31 | P 69,553 | P 29,447 | P99,000 |

**Problem IV**

**Book of H is to be retained by the new partnership**.
The following procedures are to be followed:
Individual versus Sole Proprietor

| | Books of Individual | *Books of Sole Proprietor |
|---|---|---|
| Adjusting entries | N/A | Yes |
| Closing entries (real accounts) | N/A | No |
| Investments | | Yes** |
| Balance Sheet | | Yes |

* Books of H; Partnership books
** Investments of individual; additional investments or withdrawals of sole proprietor.

***1. Books of Sole Proprietor (H):***

**a. To record adjustments:**

| | | |
|---|---|---|
| *a. H, capital……………………………………………………………………* | *1,800* | |
| *Allowance for doubtful accounts…………………………….* | | *1,800* |

*Additional provision computed as follows:*

| | |
|---|---|
| *Required allowance: 10% x P48,000 =* | *P 4,800* |
| *Less: Previous balance…………………* | *3,000* |
| *Additional provision……………………* | *P 1,800* |

| | | |
|---|---|---|
| *b. Interest receivable or accrued interest income…………………* | *3,600* | |
| *H, capital……………………………………………………………* | | *3,600* |

*Interest income for nine months computed as follows:*
*P60,000 x 8% x 9/12 = P3,000.*

| | | |
|---|---|---|
| *c. H, capital……………………………………………………………………..* | *6,000* | |
| *Merchandise inventory…………………………………………..* | | *6,000* |

*Decline in the value of merchandise.*
*P27,000 – P21,000 = P6,000.*

| | | |
|---|---|---|
| *d. H, capital……………………………………………………………………* | *4,800* | |
| *Accumulated depreciation…………………………………….* | | *4,800* |

*Under depreciation.*

| | | |
|---|---|---|
| *e. Prepaid expenses………………………………………………………..* | *2,400* | |
| *H, capital……………………………………………………………* | | *2,400* |

*Expenses paid in advance.*

| | | |
|---|---|---|
| *H, capital……………………………………………………………………* | *7,200* | |
| *Accrued expenses…………………………………………………* | | *7,200* |

*Unrecorded expenses.*

**Note:** All adjustment that reflects nominal accounts should be coursed through the capital account, since all nominal accounts are already closed at the time of formation.

**b. To close the books:** nothing to close since the books of H will be retained.

**c. To record investment:**

| | | |
|---|---|---|
| *Cash……………………………………………………………………………….* | *116,100* | |
| *I, capital………………………………………………………………* | | *116,100* |

*Initial investment computed as follows:*

| | |
|---|---|
| *Unadjusted capital of H………………………………* | *P 246,000* |
| *Add (deduct): adjustments:* | |
| *a. Doubtful accounts..……………………..* | *( 1,800)* |
| *b. Interest income……………………………..* | *3,600* |
| *c. Decline in the value of merchandise….* | *( 6,000)* |
| *d. Under-depreciation………………………* | *( 4,800)* |
| *e. Prepaid expenses…………………………..* | *2,400* |
| *Accrued expenses………………………...* | *( 7,200)* |
| *Adjusted capital balance of H……………..……...* | *P 232,200* |
| *Divided by: Capital interest of H……………………* | *2/3* |
| *Total agreed capital………………………………….* | *P 348,300* |
| *Multiplied by: Capital interest of I…………..……* | *1/3* |
| *Investment of I…………………………………………* | *P 116,100* |

**Note:** The initial investment of H is already recorded since his books are already retained. No further entry is required since there are no additional investments or withdrawals made by H.

2. The balance sheet for both cases presented above is as follows:

HI Partnership
Balance Sheet
November 1, 20x4

| Assets | | |
|---|---|---|
| Cash | | P 236,100 |
| Accounts receivables | P 48,000 | |
| Less: Allowance for doubtful accounts……….......... | 4,800 | 43,200 |
| Notes receivable……................................................... | | 60,000 |
| Interest receivable……………................................... | | 3,600 |
| Merchandise Inventory............................................... | | 21,000 |
| Prepaid expenses………........................................... | | 2,400 |

| | | |
|---|---|---|
| Equipment (net)………................................................ | P 72,000 | |
| Less: Accumulated depreciation……………….....… | 10,800 | 61,200 |
| Total Assets.................................................................... | | P 427,500 |

Liabilities and Capital

| | |
|---|---|
| Liabilities | |
| Accrued expenses…….. ..................................... | P 7,200 |
| Accounts payable................................................. | 12,000 |
| Notes payable……….......................................... | 60,000 |
| Total Liabilities.............................................................. | P 79,200 |
| Capital........................................................................... | |
| H, capital…………………................................ | P 232,200 |
| I, capital……………….......................................... | 116,100 |
| Total Capital................................................................ | P 348,300 |
| Total Liabilities and Capital......................................... | P 427,500 |

**Problem V**

**New set of books**. The following procedures are to be followed:

Sole Proprietor versus Sole Proprietor

| | Books of Sole Proprietor (Baker) | Books of Sole Proprietor (Carter) | *New Set of Books |
|---|---|---|---|
| Adjusting entries | Yes | Yes | |
| Closing entries (real accounts) | Yes | Yes | |
| Investments | | | Yes** |
| Balance Sheet | | | Yes |

* Partnership books

** Additional investments or withdrawals of sole proprietors.

***1. Books of Sole Proprietor***

**a. To record adjustments:**

**Books of J**

a. J, capital…………………………12,000
    Merchandise Inventory……  12,000
  Worthless inventory.

b. J, capital………………………… 7,200
    Allowance for doubtful
      Accounts…………………..  7,200
  Worthless accounts.

**Books of K**

a. Merchandise Inventory………… 6,000
    K, capital………………………  6,000
  Upward revaluation.

b. K, capital…………………………. 3,000
    Allowance for doubtful
      accounts…………………….  3,000
  Additional provision.
    Required allowance:

5% x P180,000…….. P9,000
Less: Previous
Balance……….. 6,000
Additional
Provision....…………P3,000

c. Rent receivable…………………12,000
J, capital……………………. 12,000
Income earned.

c. K, capital…………………………… 9,600
Salaries payable………………. 9,600
Unpaid salaries.

d. Interest receivable…………………1,200
K, capital…………................. 1,200
Interest income from August 17 to October 1.
P60,000 x 16% x 45/360

e. J, capital………………………… 8,400
Office supplies………………. 8,400
Expired office supplies.

f. J, capital………………………… 6,000
Accumulated depreciation - equipment……………… 6,000
Under-depreciated.

g. K, capital……………………………12,000
Accumulated depreciation- Furniture and fixtures……… 12,000
Under-depreciated.

h. J, capital…………………………. 1,800
Interest payable……………. 1,800
Interest expense from July 1 to October 1.
P60,000 x 12% x 3/12

i. Patent………………………………. 48,000
K, capital…………………….. 48,000
Unrecorded patent.

| | |
|---|---|
| Unadjusted capital of J……………. | P 372,000 |
| Add(deduct): adjustments: | |
| a. Worthless merchandise…….. | ( 12,000) |
| b. Worthless accounts…………. | ( 7,200) |
| c. Rent income…………………. | 12,000 |
| e. Office supplies expense……. | ( 8,400) |
| f. Additional depreciation…… | ( 6,000) |
| h. Interest expense……………… | ( 1,800) |
| Adjusted capital of J………………… | P348,600 |

| | |
|---|---|
| Unadjusted capital of K..……………... | P432,000 |
| Add(deduct): adjustments: | |
| a. Merchandise revaluation…….. | 6,000 |
| b. Worthless accounts……………. | ( 3,000) |
| c. Salaries…………………………….. | ( 9,600) |
| d. Interest income………………….. | 1,200 |
| g. Additional depreciation……… | ( 12,000) |
| h. Patent………………………………. | 48,000 |
| Adjusted capital of K………………….. | P462,600 |

**b. To close the books:**

| **Books of J** | | | **Books of K** | | |
|---|---|---|---|---|---|
| Allowance for doubtful accounts................................ | 12,000 | | Allowance for doubtful accounts................................ | 9,000 | |
| Accumulated depreciation – equipment…………………… | 60,000 | | Accumulated depreciation – furniture and fixtures ………. | 36,000 | |
| Accounts payable…………… | 159,600 | | Accounts payable……………. | 120,000 | |
| Notes payable………………… | 60,000 | | Salaries payable………………. | 9,600 | |
| Interest payable……………… | 1,800 | | K, capital………………………. | 462,600 | |
| J, capital…….……………………. | 348,600 | | Cash………………………… | | 54,000 |
| Cash………………………… | | 90,000 | Accounts receivable…….. | | 180,000 |
| Accounts receivable……. | | 216,000 | Notes receivable…………. | | 60,000 |
| Merchandise inventory…. | | 180,000 | Interest receivable………... | | 1,200 |
| Office supplies……………. | | 24,000 | Merchandise inventory….. | | 150,000 |
| Equipment…………………. | | 120,000 | Furniture and fixtures…….. | | 144,000 |
| Rent receivable…………... | | 12,000 | Patent…………….…………. | | 48,000 |
| Close the books of J. | | | Close the books of K.. | | |

**2. New Set of Books -**

**To record investments:**

| | | |
|---|---|---|
| Cash……………………………………………………………. | 90,000 | |
| Accounts receivable………………………………………….. | 216,000 | |
| Merchandise inventory……………………………………….. | 180,000 | |
| Office supplies………………………………………………….. | 24,000 | |
| Equipment (net)………………………………………………... | 60,000 | |
| Rent Receivable……………………………………………….. | 12,000 | |
| Allowance for doubtful accounts……………………. | | 12,000 |
| Accounts payable……………………………………….. | | 39,600 |
| Notes payable……………………………………………. | | 60,000 |
| Interest payable………………………………………….. | | 1,800 |
| J, capital…………………………………………………. | | 468,600 |

| | | |
|---|---|---|
| Cash……………………………………………………………. | 54,000 | |
| Accounts receivable………………………………………….. | 180,000 | |
| Notes receivable………………………………………………. | 60,000 | |
| Interest receivable…………………………………………….. | 1,200 | |
| Merchandise inventory……………………………………….. | 150,000 | |
| Furniture and fixtures (net)…..……………………………….. | 108,000 | |
| Patent………….………………………………………………... | 48,000 | |
| Allowance for doubtful accounts……………………. | | 9,000 |
| Accounts payable……………………………………….. | | 120,000 |
| Salaries payable….……………………………………… | | 9,600 |
| K, capital…………………………………………………. | | 462,600 |

3.

| | H | I |
|---|---|---|
| Unadjusted capital (refer to 1a) | P372,000 | P432,000 |
| Adjusted capital (refer to 1b) | 348,600 | 462,600 |
| Net adjustments (debit)/credit | (P 23,400) | P 30,600 |

4. The balance sheet after formation is as follows:

J and K Partnership
Balance Sheet
October 1, 20x4

| | | |
|---|---|---|
| Assets | | |
| Cash............................................................................ | | P 144,000 |
| Accounts receivables ............................................... | P396,000 | |
| Less: Allowance for doubtful accounts……........ | 21,000 | 375,000 |
| Notes receivable……................................................. | | 60,000 |
| Interest receivable………………............................... | | 1,200 |
| Rent receivable……………….................................... | | 12,000 |
| Merchandise Inventory............................................... | | 330,000 |
| Office supplies............................................................. | | 24,000 |
| Equipment (net)………............................................ | | 60,000 |
| Furniture and fixtures (net)…………………............... | | 108,000 |
| Patent……………………............................................. | | 48,000 |
| Total Assets.................................................................. | | P1,162,200 |
| Liabilities and Capital | | |
| Liabilities | | |
| Salaries payable……………................................. | | P 9,600 |
| Accounts payable................................................ | | 159,600 |
| Notes payable………............................................ | | 60,000 |
| Interest payable……………................................. | | 1,800 |
| Total Liabilities............................................................ | | P 231,000 |
| Capital | | |
| J, capital……………………….............................. | | P 468,600 |
| K, capital…………………........................................ | | 462,600 |
| Total Capital................................................................ | | P 931,200 |
| Total Liabilities and Capital........................................ | | P1,162,200 |

**Problem VI**

1. Total assets – P1,094,000, at fair value
2. Total liabilities - P540,000, at fair value

3. Total capital - P554,000 (P1,094,000 – P540,000)

Balance Sheet
January 1, 2009

| **Assets** | | **Liabilities and Capital** | |
|---|---|---|---|
| Cash | P 70,000 | Liabilities | |
| Account Receivable (net) | 108,000 | Accounts Payable | P 190,000 |
| Merchandise Inventory | 208,000 | Mortgage Payable | 350,000 |
| Building (net) | 600,000 | Total Liabilities | P 540,000 |
| Furniture and Fixture (net) | 108,000 | Capital: | |
| Accounts Payable | | L, Capital | P 260,000 |
| Mortgage Payable | | M, Capital | 294,000 |
| | | Total Capital | P 554,000 |
| Total Assets | P1,094,000 | Total Liabilities and Capital | P 1,094,000 |

**Multiple Choice Chapter 1**

1. c – P45,000

2. a – the prevailing selling price which is also the fair market value.

3. c The capital balances of each partner are determined as follows:

| | Apple | Blue | Crown |
|---|---|---|---|
| Cash | P50,000 | | |
| Property | | P 80,000 | |
| Mortgage assumed | | (35,000) | |
| Equipment | | | P 55,000 |
| Amount credited to capital accounts | P50,000 | P 45,000 | P 55,000 |

4. c – (P190,000 – P160,000) x 1/2 = P15,000

5. d – the prevailing selling price which is also the fair market value.

6. a

| | |
|---|---|
| Total Agreed Capital (P50,000/40%)………………………….............. | P125,000 |
| Less: Total Contributed Capital (P65,000 + P50,000)……................. | 115,000 |
| Goodwill (revaluation of assets upward)…………………................. | P 10,000 |

| | |
|---|---|
| Assets, fair value (P20,000 + P60,000 + P15,000)………………………… | P 95,000 |
| Less: Liabilities assumed…………………………………………………..… | 30,000 |
| Bill, capital..…………………………………………………………………… | P 65,000 |

7. b P330,000 = P50,000 + (P310,000 - P30,000)

8. b The capital balances of William (WW) and Martha (MM) at the date of partnership formation are determined as follows:

| | William | Martha |
|---|---|---|
| Cash | P20,000 | P 30,000 |

| | | |
|---|---|---|
| Inventory | - | 15,000 |
| Building | - | 40,000 |
| Furniture and equipment | 15,000 | - |
| Total | P35,000 | P 85,000 |
| Less mortgage assumed by partnership | | (10,000) |
| Amounts credited to capital | P35,000 | P 75,000 |

9. c

| | Evan | Helen |
|---|---|---|
| Unadjusted capital | 59,625 | 33,500 |
| Add (deduct) adjustments: | | |
| Allowance | ( 555) | ( 405) |
| Depreciation | | ( 900) |
| Adjusted capital | 59,070 | 32,195 |

10. c: Jones – P80,000 + P400,000 – P120,00 = P360,000
Smith – P40,000 + P280,000 – P60,000 = P260,000

11. c – P35,374 – refer to No. 12

12. c – P17,687

| | |
|---|---|
| Unadjusted capital of CC…………………………………………………………… | P 33,000 |
| Add (deduct): adjustments- | |
| Allowance for doubtful accounts (3% x P14,200)………………………………...( | 426) |
| Increase in merchandise inventory (P23,000 – P20,000)………………………… | 3,000 |
| Prepaid salary…………………………………………………………………... | 600 |
| Accrued rent expense……………………………………………………………( | 800) |
| Adjusted capital balance of CC……………………………………………………… | P 35,374 |
| Divided by: Capital interest of CC……………………………………………….... | 2/3 |
| Total capital of the partnership……………………………………………………… | P 53,061 |
| Less: Adjusted capital balance of CC………………………………………………. | 35,374 |
| Capital balance of DD…………………………………………………………….. | P 17,687 |

13. a

| | | |
|---|---|---|
| Total assets: | | |
| Cash | P 70,000 | |
| Machinery | 75,000 | |
| Building | 225,000 | P 370,000 |
| Less Liabilities (Mortgage payable) | | 90,000 |
| Net assets (equal to FF's capital account) | | P 280,000 |

14. d

| | |
|---|---|
| FF, capital (see no.13) | P 280,000 |

| | | |
|---|---|---|
| Divide by FF's P & L share percentage | 70% | |
| Total partnership capital | P 400,000 | |
| Required capital of CC (P400,000 x 30%) | | P 120,000 |
| Less Assets already contributed: | | |
| Cash | P 30,000 | |
| Machinery and equipment | 25,000 | |
| Furniture and fixtures | 10,000 | 65,000 |
| Cash to be invested by CC | | P 55,000 |

15. (a)

| | | |
|---|---|---|
| Adjusted capital of LL (2/3): | | |
| Unadjusted capital | P 158,400 | |
| Adjustments: | | |
| Prepaid expenses | | 17,500 |
| Accrued expenses | | (5,000) |
| Allowance for bad debts (5% x P100,000) | (5,000) | |
| Adjusted capital | | P 165,900 |

| | | |
|---|---|---|
| Total partnership capital (P165,900/2/3) | P 248,850 | |
| Multiply by MM's interest | 1/3 | |
| MM's capital | | P 82,950 |
| Less Merchandise contributed | 50,000 | |
| Cash to be invested by MM | P 32,950 | |

16. d

| | | |
|---|---|---|
| Adjusted capital of LL | | P 165,900 |
| Contributed capital of MM | 82,950 | |
| Total capital | | P 248,850 |

17. a

| | | |
|---|---|---|
| FF, capital: | | |
| Unadjusted balance | | P 57,000 |
| Adjustments: | | |
| Accumulated depreciation | | ( 1,500) |
| Allowance for doubtful account | (12,000) | |
| Adjusted balance | | P 43,500 |
| GG, capital: | | |
| Unadjusted balance | | P 49,500 |
| Adjustments: | | |
| Accumulated depreciation | | ( 4,500) |

| | |
|---|---|
| Allowance for doubtful account | ( 4,500) |
| Adjusted balance | P 40,500 |

18. c

| | | |
|---|---|---|
| GG's adjusted capital (see no. 17) | | P 40,500 |
| Divide by GG's P & L share percentage | 40% | |
| Total partnership capital | P 101,250 | |
| Multiply by FF's P & L share percentage | 60% | |
| FF's capital credit | | 60,750 |
| FF's contributed capital (see no. 1) | | 43,500 |
| Additional cash to be invested by FF | | P 17,250 |

19. d

| | | |
|---|---|---|
| Total capital of the new partnership (see no. 20) | P 296,875 | |
| Multiply by RR's interest | | 20% |
| Cash to be invested by RR | | P 59,375 |

20. (a)

| | OO (60%) | PP (40%) | Total |
|---|---|---|---|
| Unadjusted capital balances | P133,000 | P108,000 | P241,000 |
| Adjustments: | | | |
| Allowance for bad debts | ( 2,700) | ( 1,800) | ( 4,500) |
| Inventories | 3,000 | 2,000 | 5,000 |
| Accrued expenses | ( 2,400) | ( 1,600) | ( 4,000) |
| Adjusted capital balances | P130,900 | P106,600 | P237,500 |

| | | |
|---|---|---|
| Total capital before the formation of the new partnership (see above) | P 237,500 | |
| Divide by the total percentage share of OO and PP (50% + 30%) | | 80% |
| Total capital of the partnership after the admission of RR | | P 296,875 |

21. a

| | Agreed Capital | Contributed Capital | Settlement |
|---|---|---|---|
| OO | P148,437.50 (50% x P296,875) | P 130,900 | P 17,537.50 |
| PP | 89,062.50 (30% x P296,875) | 106,600 | (17,537.50) |

Therefore, OO will pay PP P17,537.50

22. c

| | | |
|---|---|---|
| Total partnership capital (P113,640/1/3) | P 340,920 | |
| Less DD's capital | | 113,640 |
| CC's capital after adjustments | P 227,280 | |
| Adjustments made: | | |

| | | | | |
|---|---|---|---|---|
| Allowance for doubtful account (2% x P96,000) | | | 1,920 | |
| Merchandise inventory | | | ( 16,000) | |
| Prepaid expenses | | | | ( 5,200) |
| Accrued expenses | | | | 3,200 |
| CC's capital before adjustments | | | P 211,200 | |

23. a

| | | | | |
|---|---|---|---|---|
| Assets invested by CC: | | | | |
| Cash: | | | | |
| Capital | P211,200 | | | |
| Add Accounts payable | 49,600 | | | |
| Total assets (excluding cash) | | 260,800 | | |
| Less Noncash assets (96,000 + P144,000) | | 240,000 | P20,800 | |
| Accounts receivable (96,000 – P1,920) | | | 94,080 | |
| Merchandise inventory | | | 160,000 | |
| Prepaid expenses | | | 5,200 | P 280,080 |
| Cash invested by DD | | | | 113,640 |
| Total assets of the partnership | | | | P 393,720 |

24. d

| | | |
|---|---|---|
| Total partnership capital (P180,000/60%) | | P 300,000 |
| | | |
| GG's Capital (P300,000 x 40%) | P 120,000 | |
| Less Cash investment | | 30,000 |
| Merchandise to be invested by GG | | P 90,000 |

25. a

| | | | |
|---|---|---|---|
| Adjusted capital of JJ: | | | |
| Total assets (at agreed valuations) | P 180,000 | | |
| Less Accounts payable | 48,000 | P 132,000 | |
| Required capital of JJ | | | 180,000 |
| Cash to be invested by JJ | | | P 48,000 |

**Theories**

| | | | |
|---|---|---|---|
| 1. d | 6. a | 11. a | 16. c |
| 2. b | 7. c | 12. c | 17. b |
| 3. c | 8. a | 13. b | 18. b |
| 4. A | 9. d | 14. c | |
| 5. B | 10, b | 15, d | |