Republic of the Philippines
SULTAN KUDARAT STATE UNIVERSITY
COLLEGE OF COMPUTER STUDIES

IS Accounting for Partnership and Corporate Entities
Midterm Examination

Names: ____ Year&Sec.________________

1. What is the defining feature of a partnership?
   A. It is a separate legal entity.
   B. It has perpetual existence.
   C. Ownership and management are shared among partners.
   D. Income is subject to double taxation.
2. What does "perpetual existence" mean in the context of a corporation?
   A. The corporation cannot be dissolved.
   B. The corporation must renew its status yearly.
   C. The corporation's legal status is tied to the founders.
   D. The corporation continues regardless of ownership changes.
3. What is one tax-related disadvantage of a corporation?
   A. Income is only taxed at the shareholder level.
   B. Income is taxed at both the corporate and shareholder levels.
   C. Shareholders must pay taxes on retained earnings.
   D. Shareholders are exempt from dividend taxation.
4. Why might a small consulting business choose a partnership structure?
   A. To benefit from perpetual existence
   B. To limit personal liability for debts
   C. To minimize regulatory oversight
   D. To attract global investors
5. A small family-owned café operates as a partnership. What is likely a reason for choosing this business structure?
   A. Collaboration among family members to share responsibilities
   B. Access to government subsidies for large corporations
   C. The café's plan to expand internationally through franchising
   D. Protection from personal liability for financial obligations
6. Why is forming a partnership generally simpler than forming a corporation?
   A. Partnerships require a board of directors.
   B. Partnerships avoid detailed legal documentation.
   C. Partnerships can issue shares easily.
   D. Partnerships have perpetual existence.
7. What happens to a general partnership when one partner declares bankruptcy?
   A. It may dissolve.
   B. It continues without interruption.
   C. It automatically converts into a corporation.
   D. It becomes a limited liability partnership.
8. A business requires substantial capital for expansion and is willing to comply with strict governance. What structure is most suitable?
   A. Partnership
   B. Corporation
   C. Sole proprietorship
   D. Limited partnership
9. A general partner invests ₱100,000 in a business that incurs ₱500,000 in debts. What is the partner's liability?
   A. ₱100,000
   B. ₱500,000
   C. ₱0 (limited to their investment)
   D. Equal to the corporation’s assets
10. Why might a newly established business, or startup, choose not to incorporate even if it has growth potential?

    A. Incorporation mandates perpetual existence.
    B. To avoid the complexity and expenses of incorporation.

C. To issue stocks for raising capital.
D. To opt for double taxation as a risk management strategy.

11. How does governance differ between partnerships and corporations?
A. Corporations require direct involvement from all owners, while partnerships require a board of directors.
B. Corporations rely on partners for daily decision-making, while partnerships require shareholder approval.
C. Partnerships mandate perpetual existence, while corporations are dissolved upon an owner’s withdrawal.
D. Partnerships allow informal governance, while corporations are bound by formal governance structures.
12. What should entrepreneurs prioritize when deciding between a partnership and a corporation?
A. The founders' willingness to share profits equally
B. The preference for minimal financial risk
C. The need for perpetual existence and limited liability
D. The desire for lower compliance requirements
13. Why might a partnership avoid double taxation compared to a corporation?
A. Partnerships use corporate tax deductions.
B. Income is taxed directly at the individual partners’ level.
C. Partnerships operate under perpetual existence.
D. Partnerships are exempt from taxation entirely.
14. A family-owned grocery store is deciding between a partnership and a corporation. Which factor should weigh most heavily in their decision?
A. The desire for shared responsibility and minimal startup costs
B. The need for limited liability and perpetual existence
C. The potential for raising capital through public investors
D. The ability to attract professional management
15. A tech startup has the option to form either a partnership or a corporation. Based on its goal to expand globally and minimize personal liability, which structure is more appropriate?
A. Corporation, because it provides access to capital and limited liability
B. Partnership, because it allows shared decision-making
C. Sole proprietorship, because it has the least regulatory requirements
D. Joint venture, because it combines resources from multiple entities
16. A group of entrepreneurs wants to create a new business structure that combines the limited liability of a corporation with the flexibility of a partnership. What should this hybrid structure prioritize?
A. Shared management and taxation at the corporate level
B. Issuance of shares and reduced compliance requirements
C. Protection of personal assets and direct involvement in management
D. Perpetual existence and minimal startup costs
17. A sole proprietor plans to expand their business and ensure a smooth transition while retaining customer trust. What should be their first step in this process?
A. Announce the expansion publicly to attract attention
B. Transition the business into a partnership agreement immediately
C. Notify customers about the changes to maintain their trust and loyalty.
D. Consult legal advisors to understand the implications and prepare necessary documents.
18. What type of partnership involves at least one general partner and one or more limited partners?
A. General Partnership
B. Limited Liability Partnership
C. Limited Partnership
D. Partnership at Will
19. Who among the following partners invests capital but does not take part in the management?
A. General Partner
B. Silent Partner
C. Industrial Partner
D. Managing Partner

20. Why might someone choose to be a Dormant Partner in a partnership?
A. To remain anonymous while earning returns

B. To gain limited liability
C. To actively manage the business
D. To enhance the business's reputation

21. Why is it important for partners in a General Partnership to have a clear agreement on profit sharing?
A. To avoid misunderstandings since all partners have equal liability.
B. To ensure that Silent Partners do not participate in management.
C. To establish the liability limits of each partner.
D. To comply with laws specific to Limited Partnerships
22. Two contractors collaborate on a single construction project. Which type of partnership are they forming?
A. General Partnership
B. Joint Venture Partnership
C. Particular Partnership
D. Partnership at Will
23. If a business needs both management expertise and financial investment, which types of partners should they include?
A. General Partner and Silent Partner
B. Industrial Partner and Limited Partner
C. Managing Partner and Nominal Partner
D. Dormant Partner and Capitalist Partner
24. A law firm wants to ensure all partners have limited liability. Which type of partnership should they choose?
A. General Partnership
B. Limited Partnership
C. Limited Liability Partnership
D. Joint Venture Partnership
25. A partnership has one member actively managing the business but not disclosed to the public. What type of partner is this?
A. Dormant Partner
B. Silent Partner
C. Nominal Partner
D. Secret Partner
26. In a Limited Partnership, why might a Limited Partner prefer not to participate in management?
A. To maintain liability protection
B. To avoid profit-sharing
C. To focus on other business ventures
D. To ensure public anonymity
27. Which type of partner carries the most personal risk and why?
A. Limited Partner, because they share in the profits and losses equally.
B. General Partner, because they have unlimited liability for business debts.
C. Silent Partner, because they are unaware of management decisions.
D. Nominal Partner, because they do not contribute capital.
28. Design a business plan for a partnership that includes both a general and a limited partner. What roles would each partner take to ensure smooth operations?
A. General Partner manages operations, Limited Partner provides capital and advice.
B. Both partners share responsibilities equally.
C. Limited Partner manages operations, General Partner provides capital.
D. Both partners remain silent in management.
29. In a Joint Venture Partnership, the partnership is formed for what purpose?
A. To operate indefinitely
B. To share profits equally
C. To provide limited liability for all partners
D. For a specific project or purpose
30. What type of partnership involves all partners sharing equally in management, profits, and liabilities?
A. General Partnership
B. Limited Partnership
C. Joint Venture Partnership
D. Limited Liability Partnership

31. How does a Silent Partner differ from a Dormant Partner in a partnership?
A. Silent Partners invest capital but do not manage the business, while Dormant Partners

remain unknown to the public.
B. Silent Partners actively manage the business, while Dormant Partners do not contribute capital.
C. Silent Partners are known to the public, while Dormant Partners only contribute skills.
D. Silent Partners have limited liability, while Dormant Partners are fully liable for debts.

32. What is a defining characteristic of a Nominal Partner?
A. They contribute capital but not skills or management.
B. They allow their name to be used without sharing in profits or liabilities.
C. They are actively involved in managing the business.
D. They remain secret from the public but share in profits.
33. Which combination of partners would maximize both operational expertise and reputation?
A. General Partner and Nominal Partner
B. Industrial Partner and Nominal Partner
C. Dormant Partner and Silent Partner
D. Secret Partner and Capitalist Partner
34. A real estate investment group forms a Limited Partnership to acquire and manage properties. One member, Maria, contributes funds but does not participate in day-to-day management. What type of partner is Maria?
A. General Partner
B. Limited Partner
C. Industrial Partner
D. Nominal Partner
35. A partnership consists of a General Partner, a Limited Partner, and a Silent Partner. If the business incurs debt and creditors seek repayment, who is primarily liable?
A. General Partner
B. Limited Partner
C. Silent Partner
D. None of the above
36. In a Joint Venture Partnership, two companies collaborate on a construction project but face disagreements over resource allocation. Which factor is most critical in resolving the dispute?
A. The liability limits of each partner
B. The profit-sharing terms outlined in the agreement
C. The roles and responsibilities defined for the project
D. The partnership's duration
37. If a Nominal Partner allows their name to be used for a partnership but a lawsuit is filed against the business, under what circumstance could the Nominal Partner be held liable?
A. If they actively manage the business
B. If third parties rely on their association with the partnership
C. If the partnership agreement specifies their liability
D. If they fail to invest in the partnership
38. Is a Limited Liability Partnership (LLP) the best choice for a professional services firm? Why or why not?
A. Yes, because all partners are protected from personal liability and can manage the business.
B. No, because LLP partners must be passive investors.
C. Yes, because LLPs have unlimited liability for all partners.
D. No, because LLPs are only suitable for short-term projects.
39. Imagine you are forming a Joint Venture Partnership for a renewable energy project. Which of the following should be included in your agreement to ensure success?
A. An equal sharing of all profits, regardless of contributions.
B. Clearly defined roles, duration of the project, and profit-sharing terms.
C. A requirement for all partners to contribute equally in labor and capital.
D. A clause stating that the partnership will operate indefinitely.
40. What type of account records a partner's contributions and withdrawals in a partnership?
A. Revenue account
B. Expense account

C. Capital account
D. Withdrawal account

41. In partnership accounting, how is the capital account increased?
    A. By partner withdrawals
    B. By initial or additional investments
    C. By liabilities
    D. By depreciation
42. Which journal entry is correct for a partner contributing cash of ₱50,000 to a partnership?
    A. Cash 50,000
        Capital 50,000
    B. Cash 50,000
        Capital 50,000

    C. Capital 50,000
        Cash 50,000
    D. Cash 50,000
        Revenue 50,000
43. What is recorded in the partnership books if no agreement is made on the value of contributions?
    A. Historical cost
    B. Agreed value
    C. Fair market value
    D. Net book value
44. What type of entry is made for an industrial partner's contribution?
    A. Cash entry
    B. Memorandum entry
    C. Liability entry
    D. Equipment entry
45. Why does partnership accounting require separate capital accounts for each partner?
    A. To track individual contributions and withdrawals
    B. To comply with tax laws
    C. To merge accounts from different partners
    D. To combine financial statements
46. If Partner A contributes land worth ₱1,000,000 with a mortgage of ₱100,000 to be absorbed by the partnership, how is the capital account calculated?
    A. ₱1,000,000
    B. ₱900,000
    C. ₱100,000
    D. ₱1,100,000
47. What happens if a liability attached to a contributed asset is not assumed by the partnership?
    A. The liability is ignored in the books.
    B. The liability is recorded as an expense.
    C. The liability does not affect the contributed asset's recorded value.
    D. The liability reduces the capital account.
48. In which scenario would the partnership assume liabilities?
    A. Only when explicitly agreed by all partners
    B. Always, regardless of agreement
    C. Never, liabilities are personal
    D. Only for industrial partners
49. What journal entry is made for a partner contributing equipment valued at ₱500,000?
    A. Equipment 500,000
        Liability 500,000
    B. Equipment 500,000
        Partner's Capital 500,000
    C. Partner's Capital 500,000
        Equipment 500,000
    D. Equipment 500,000
        Partner's Capital 500,000
50. When a sole proprietor joins a partnership, how are the sole proprietorship's books finalized?
    A. By adjusting the liabilities
    B. By closing the books and transferring balances

    C. By merging accounts directly
    D. By creating a memorandum entry

51. What value is used for contributions if no agreement is made between partners?
    A. Historical cost
    B. Fair market value
    C. Arbitrary value
    D. Replacement cost
52. Cyclops contributes ₱400,000 in cash, and Nana contributes equipment valued at ₱500,000. What is the correct journal entry?
    A. Cash 400,000
    Equipment 500,000
    Cyclops, Capital 400,000
    Nana, Capital 500,000
    B. Cash 500,000
    Equipment 400,000
    Nana, Capital 400,000
    Cyclops, Capital 500,000
    C. Cash 400,000
    Equipment 400,000
    Cyclops, Capital 500,000
    Nana, Capital 500,000
    D. Equipment 500,000
    Cash 400,000
    Nana, Capital 400,000
53. Rafaela contributes a building valued at ₱1,000,000, with an existing mortgage of ₱300,000, and Argus contributes ₱500,000 in cash. The partnership assumes the mortgage. What is the correct journal entry?
    A. Building 1,000,000
    Cash 500,000
    Mortgage Payable 300,000
    Rafaela, Capital 1,000,000
    Argus, Capital 500,000
    B. Building 1,000,000
    Cash 500,000
    Mortgage Payable 300,000
    Rafaela, Capital 700,000
    Argus, Capital 500,000
    C. Building 700,000
    Cash 500,000
    Rafaela, Capital 700,000
    Argus, Capital 500,000
    D. Building 1,000,000
    Cash 700,000
    Mortgage Payable 500,000
    Rafaela, Capital 500,000
54. Angela contributes ₱300,000 in cash, Estes contributes inventory valued at ₱400,000 with accounts payable of ₱100,000, and Florynn contributes office equipment valued at ₱500,000. What is the journal entry?
    A. Cash 300,000
    Inventory 400,000
    Equipment 500,000
    Accounts Payable 100,000
    Angela, Capital 300,000
    Estes, Capital 300,000
    Florynn, Capital 500,000
    B. Cash 300,000
    Inventory 300,000
    Equipment 500,000
    Accounts Payable 100,000
    Angela, Capital 400,000
    Estes, Capital 400,000
    Florynn, Capital 500,000

    C. Cash 300,000
    Equipment 500,000

Inventory 400,000
Accounts Payable 100,000
Angela, Capital 300,000
Estes, Capital 300,000
Florynn, Capital 500,000

D. Cash 300,000
Inventory 300,000
Equipment 500,000
Accounts Payable 400,000
Angela, Capital 300,000

55. If a sole proprietor contributes cash and equipment valued at ₱300,000 and ₱500,000, respectively, what is the journal entry?

A. Cash 300,000
Equipment 500,000
Capital 800,000

B. Cash 300,000
Equipment 500,000
Capital 300,000

C. Cash 500,000
Equipment 300,000
Capital 800,000

D. Cash 800,000
Equipment 800,000

56. What is the next step after updating the sole proprietorship's assets to market value when transitioning to a partnership?
A. Merge accounts directly
B. Close the sole proprietorship's books
C. Record the memorandum entry
D. Create financial statements

57. What entry is made for a partner contributing services as an industrial partner?
A. Cash entry
B. Asset entry
C. Memorandum entry
D. Withdrawal entry

58. What happens to liabilities when a partnership assumes them during formation?
A. They are credited to the partner's capital account
B. They are debited from the partnership account
C. They are recorded as expenses
D. They reduce the asset value contributed

59. If a partner contributes a building valued at ₱2,000,000 with a mortgage payable of ₱500,000 and the partnership assumes the liability, what will the capital account reflect?
A. ₱2,000,000 credited
B. ₱500,000 credited
C. ₱1,500,000 credited
D. ₱2,500,000 credited

60. What is the effect of assuming liabilities on the partnership's statement of financial position?
A. Only assets increase
B. Liabilities increase, and equity remains the same
C. Liabilities increase, and equity decreases
D. Both liabilities and equity increase

61. Angela contributes ₱500,000 in cash, Estes contributes land worth ₱800,000 with a loan of ₱200,000, and Florynn contributes equipment valued at ₱400,000. How is the journal entry structured?

A. Cash 500,000
Land 800,000
Equipment 400,000
Loan Payable 200,000
Capital accounts credited

B. Cash 500,000
Land 800,000
Equipment 400,000

Bonds Payable 200,000
Equipment 400,000

Capital accounts credited
C. Cash 400,000
Loan Payable 800,000
Land 500,000
Capital accounts credited
D. Cash 800,000
Equipment 400,000
Land 800,000
Loan Payable 400,000
Capital accounts credited

62. What is the capital account balance if a partner contributes inventory valued at ₱300,000 with accounts payable of ₱50,000, and the partnership assumes the liability?
    A. ₱300,000 credited
    B. ₱250,000 credited
    C. ₱350,000 credited
    D. ₱50,000 credited

63. What happens to a partner's capital account when they make a permanent withdrawal?
    A. It increases
    B. It decreases
    C. It remains unchanged
    D. It is closed to income
64. If no agreement is made on asset valuation, at what value should the contributions be recorded?
    A. Book value
    B. Agreed value
    C. Fair market value
    D. Historical cost
65. If a partnership's total liabilities are ₱300,000 and its assets are ₱1,000,000, what is the equity balance?
    A. ₱1,300,000
    B. ₱700,000
    C. ₱300,000
    D. ₱1,000,000
66. Why is it necessary to create a new set of books for a partnership?
    A. To update for taxes
    B. To reflect the combined contributions of partners
    C. To separate personal and business accounts
    D. To avoid liabilities
67. What distinguishes the treatment of industrial partner contributions from that of financial contributions?
    A. Recorded as equity
    B. Recorded as liabilities
    C. Recorded as revenue
    D. Recorded in memorandum entries only
68. Which factor best supports the partnership assuming a liability during formation?
    A. The liability is related to an industrial partner
    B. There is an agreement between all partners
    C. The liability is less than the value of the asset contributed
    D. The liability is part of the partner's personal obligations
69. What is the most appropriate valuation method for contributed assets in the absence of an agreement?
    A. Book value
    B. Historical cost
    C. Fair market value
    D. Depreciated value
70. Which journal entry scenario best reflects proper application of liability assumptions in a partnership?
    A. Debiting liabilities while crediting capital
    B. Ignoring liabilities entirely

    C. Recording liabilities only when contributed assets exceed equity
    D. Assuming liabilities without partner agreement

71. What is the primary reason for recording liabilities assumed by the partnership in the journal entry during the formation process?
    A. To reduce the capital accounts of all partners equally
    B. To ensure the partnership's financial statements accurately reflect obligations
    C. To offset the asset values contributed by the partners
    D. To comply with personal liability agreements of individual partners
72. Which aspect of partnership formation best demonstrates fairness in capital account allocation?
    A. Contributing partners receive equal capital account credits regardless of contributions
    B. Ignoring industrial partner contributions in the equity computation
    C. Recording liabilities as revenue to balance the books
    D. Assessing contributions based on mutual agreement or fair market value
73. Journalize a partnership formation where Partner A contributes their expertise as an industrial partner, and Partner B contributes a vehicle valued at ₱500,000 with an attached liability of ₱100,000. Include a memorandum entry for the expertise and properly account for the vehicle and liability.

A.

Vehicle	500,000	
Liability Payable		100,000
Partner B, Capital		400,000

B.

Vehicle	500,000	
Partner B, Capital		500,000

C.

Vehicle	500,000	
Liability Payable		100,000
Partner A, Capital		200,000
Partner B, Capital		200,000

D.

Vehicle	500,000	
Liability Payable		100,000
Partner A, Capital		500,000

74. Design a complete journal entry for the following scenario and explain the rationale for each entry: Partner A contributes ₱500,000 in cash, Partner B contributes equipment valued at ₱300,000, and Partner C contributes land valued at ₱700,000 with an attached mortgage of ₱200,000, which the partnership assumes. Ensure proper allocation of liabilities and equity in the entry.

A.

Cash	500,000	
Equipment	300,000	
Land	700,000	
Mortgage Payable		200,000
Partner A, Capital		500,000
Partner B, Capital		300,000
Partner C, Capital		500,000

B.

Cash	500,000	
Equipment	300,000	
Partner A, Capital		500,000
Partner B, Capital		300,000

C.

Cash	500,000	
Equipment	300,000	
Land (Book Value)	500,000	
Partner A, Capital		500,000
Partner B, Capital		300,000
Partner C, Capital		500,000

D. No financial entries recorded.

75. Journalize a partnership formation where three partners contribute equally (₱300,000 each). Partner C's contribution includes a liability of ₱50,000. Adjust the capital accounts to reflect the liability accurately.

A.

Cash	300,000	
Cash	300,000	
Equipment	300,000	
Liability Payable		50,000
Partner A, Capital		300,000
Partner B, Capital		300,000
Partner C, Capital		250,000

B.

Cash	300,000	
Cash	300,000	

Equipment	300,000	
Liability Payable		50,000
Partner A, Capital		300,000
Partner B, Capital		300,000
Partner C, Capital		300,000

C.

Cash	300,000	
Cash	300,000	
Equipment	300,000	
Liability Payable		50,000
Partner A, Capital		250,000
Partner B, Capital		250,000
Partner C, Capital		250,000

D.

Cash	300,000	
Cash	300,000	
Equipment	300,000	
Liability Payable		50,000
Partner A, Capital		275,000
Partner B, Capital		275,000
Partner C, Capital		275,000

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