IS ACC 121 BASIC PARTNERSHIP AND CORPORATE ENTITIES
MIDTERM EXAMINATION

Instructions:

1. Read each question carefully before selecting the best answer.
2. Each question has four answer choices (A, B, C, and D). Select the **most appropriate answer** for each question.
3. Use logical reasoning, application, and analysis of concepts related to partnerships when answering.
4. Write your answers clearly on the answer sheet (Test Booklet).
5. NO BORROWING OF CALCULATOR and NO CELLPHONES ALLOWED.
6. Utilize some pages of the booklet as scratch paper. (NO YELLOWPAD ALLOWED)
7. This assessment aims to evaluate your **critical thinking, problem-solving, and decision-making skills** regarding partnership formation, management, and legal implications.

TEST I. MULTIPLE CHOICE.

1. Which of the following best explains why a partnership has a juridical personality separate from its partners?
   A. Because the law treats it as an artificial entity like a corporation.
   B. Because it allows partners to have limited liability for partnership debts.
   C. Because it can own assets and enter into contracts independently.
   D. Because it automatically dissolves when a partner leaves.
2. An investor wants to contribute property to a partnership but wants to limit personal liability for debts. Which type of partnership should they join?
   A. General Partnership
   B. Limited Partnership
   C. Universal Partnership of Profits
   D. Professional Partnership
3. A and B are forming a partnership. A contributes P100,000 in cash, while B contributes professional services. If the partnership incurs a P50,000 loss, how should it be shared if there is no prior agreement?
   A. A takes all the loss.
   B. B takes all the loss.
   C. A and B share the loss equally.
   D. B does not share in the loss.
4. Which of the following is a key disadvantage of a partnership compared to a corporation?
   A. More expensive to form
   B. Subject to double taxation
   C. Limited ability to raise capital
   D. Requires government approval for formation
5. If a partner withdraws their capital contribution without consent from other partners, what could be the legal consequence?
   A. The partnership is automatically dissolved.
   B. The partner may be held liable for damages.
   C. The remaining partners lose their right to profits.
   D. The partner is automatically expelled from the partnership.
6. Why is mutual agency considered both an advantage and a disadvantage in partnerships?
   A. It allows partners to enter contracts but also exposes them to liability.
   B. It makes decision-making faster but leads to unequal profit sharing.
   C. It helps raise capital but limits business flexibility.
   D. It enables tax benefits but makes partnerships difficult to dissolve.
7. A partnership agreement does not specify how profits should be shared. How will the profits be divided?
   A. Equally among all partners
   B. Based on each partner's capital contribution
   C. Only to the partners who contributed cash
   D. Based on mutual agreement after profits are earned
8. Which of the following scenarios best describes a universal partnership of profits?
   A. Partners A and B agree to share all assets, income, and liabilities.
   B. Partners A and B agree to contribute property but keep their profits separate.
   C. Partners A and B pool only their earnings from business activities.
   D. Partners A and B form a corporation instead of a partnership.

9. A general partnership is failing due to financial difficulties. Which of the following is likely to happen?
   A. The partners can simply walk away without obligations.
   B. Only the partner who signed the loan agreement is liable.
   C. All general partners are personally responsible for debts.
   D. The partnership is automatically converted into a corporation.
10. Which of the following is true regarding a **de facto** partnership?
    A. It is a partnership that is legally registered with the SEC.
    B. It operates as a partnership despite not meeting all legal requirements.
    C. It must have at least one general partner and one limited partner.
    D. It is automatically considered a corporation by law.
11. Why might two doctors form a professional partnership instead of a general partnership?
    A. To limit liability beyond their capital contributions
    B. To avoid taxation at corporate rates
    C. To maintain full control over their practice
    D. To increase capital through public stock offerings
12. A silent partner wants to become actively involved in business decisions. What is the best course of action?
    A. They must legally dissolve the partnership.
    B. They must formally change their role in the agreement.
    C. They can start managing the business without informing others.
    D. They must contribute additional capital.
13. What is the main difference between a dormant partner and a silent partner?
    A. A dormant partner contributes money, while a silent partner does not.
    B. A dormant partner is unknown to outsiders, while a silent partner is known.
    C. A dormant partner actively participates in management, while a silent partner does not.
    D. A dormant partner has voting rights, while a silent partner does not.
14. Which situation would automatically dissolve a partnership at will?
    A. A partner passes away.
    B. A partner contributes additional capital.
    C. The partnership earns high profits.
    D. A new partner joins.
15. Which of the following must be included in the Articles of Partnership?
    A. Profit-sharing agreement
    B. A list of all future expenses
    C. Government-issued permits
    D. The employment history of partners

Problem Solving Instructions:

1. Read each question carefully and analyze the given partnership agreements regarding profit and loss sharing before solving.
2. Show complete and detailed solutions for each computation. Answers without proper explanation or computation may not receive full credit.

TEST II. PROBLEM SOLVING.

16. Antonio and Billy formed a partnership, each contributing P50,000. They agreed to share profits and losses equally. If the partnership earned a net income of P30,000 for the year, how much will each partner receive?
17. X, Y, and Z formed a partnership with capital contributions of P20,000, P30,000, and P50,000, respectively. They agreed to share profits and losses based on their capital contributions. If the partnership had a net profit of P40,000, how much will each partner receive?
18. Mariano, Ninoy, and Ofiaza are partners in a business. Their capital contributions are P25,000, P35,000, and P40,000, respectively. They agreed to share profits in a 2:3:5 ratio. If the business had a net profit of P50,000, how much will each partner receive?
19. Philip and Quizon formed a partnership with capital contributions of P60,000 and P90,000, respectively. They did not specify a profit or loss-sharing ratio in their agreement. If the business incurs a net loss of P30,000, how much loss will each partner bear?
20. Arthur, Bianca, and Collin formed a partnership. Arthur and Bianca contributed P40,000 and P60,000, respectively, while Collin contributed only his services. They agreed that Collin would receive a 20% share of the profits. If the business earned a profit of P50,000, how much will each partner receive?

21. Dina, Earl, and Fiona formed a partnership where Dina and Earl contributed P50,000 and P70,000, respectively, while Fiona contributed his expertise. The business incurred a loss of P24,000. If there is no agreement on how losses should be shared, how much loss will each partner bear?
22. X, Y, and Z invested P20,000, P30,000, and P50,000, respectively. They agreed to share profits in a 3:2:5 ratio but agreed to share losses in proportion to their capital contributions. If the partnership earned a profit of P40,000 in Year 1 and a loss of P20,000 in Year 2, how much will each partner receive in Year 1 and bear in Year 2?
23. A, B, and C formed a partnership with capital contributions of P50,000, P70,000, and P80,000, respectively. They agreed to share profits and losses in the ratio of their capital contributions. Over three years, the firm experienced:

    Year 1: Profit of P60,000
    Year 2: Loss of P30,000
    Year 3: Profit of P90,000

    Compute each partner's total net earnings after three years.
24. Partners G and H started a business with equal capital contributions. Initially, they agreed to share profits equally. However, after two years, they changed the agreement, with G receiving 40% and H receiving 60% of the profits. If the total profit in the first two years was P50,000 and in the next two years was P80,000, how much will each partner receive over four years?
25. X, Y, and Z formed a partnership where:
    - X and Y contributed P80,000 and P120,000, respectively, while Z contributed only his expertise.
    - They agreed that Z would receive 30% of the profits before the remaining profits are distributed to X and Y in a 2:3 ratio.
    - However, if a loss occurs, Z will not share in the losses, and X and Y will bear the losses in proportion to their capital contributions.

    In the current year, the partnership incurred a net loss of P50,000 instead of a profit. How much loss will each partner bear?

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Prepared by:

SHEILU AMOR Q. WAWA
Faculty

Reviewed by:

ALEXIS D. APRESTO, PhD
Program Chairman BSIS

Approved by:

ELBREN O. ANTONIO, DIT
Dean, College of Computer Studies