**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** | | | **2. Goodwill Method (Revaluation of Asset)** | | |
|  |  |  | Cash | 100,000 |  |
| Cash | 100,000 |  | Equipment | 110,000 |  |
| Equipment | 110,000 |  | Goodwill | 90,000 |  |
| Note Payable |  | 30,000 | Note Payable |  | 30,000 |
| John, Capital |  | 60,000 | John, Capital |  | 90,000 |
| Jeff, Capital |  | 60,000 | Jeff, Capital |  | 90,000 |
| Jane, Capital |  | 60,000 | 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** | **Books of K** |
| a. J, capital…………………………12,000  Merchandise Inventory…… 12,000  Worthless inventory. | a. Merchandise Inventory………… 6,000  K, capital……………………… 6,000  Upward revaluation. |
| b. J, capital………………………… 7,200  Allowance for doubtful  Accounts………………….. 7,200 | 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. Doubtful 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. Doubtul 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  Accumulated depreciation –  equipment…………………… 60,000  Accounts payable……………159,600  Notes payable………………… 60,000  Interest payable………………. 1,800  J, capital…….…………………. 348,600  Cash………………………… 90,000  Accounts receivable……. 216,000  Merchandise inventory…. 180,000  Office supplies……………. 24,000  Equipment…………………. 120,000  Rent receivable…………... 12,000  Close the books of J. | Allowance for doubtful  accounts................................. 9,000  Accumulated depreciation –  furniture and fixtures ………. 36,000  Accounts payable……………. 120,000  Salaries payable………………. 9,600  K, capital…….…………………. 462,600  Cash…………………………. 54,000  Accounts receivable…….. 180,000  Notes receivable…………. 60,000  Interest receivable………... 1,200  Merchandise inventory….. 150,000  Furniture and fixtures.…….. 144,000  Patent………….……………. 48,000  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 Problems**

1. c – P45,000

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

3. b - (P400,000 - P190,000) + [P270,000 - (P400,000 - P190,000)]/3 = P230,000

4. c

5. b - P60,000 + P80,000 + P100,000 = P240,000

6. c - P30,000 + P50,000 + P25,000 = P105,000/3 = P35,000 - P30,000 = P5,000

7. 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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Agreed Fair Values | | | | Invested  by John | | Invested  by Jeff | Invested  by Jane | |
| Cash | | | | 100,000 | | - - - | - - - | |
| Equipment | | | |  | | 110,000 | - - - | |
| Total assets | | | | 100,000 | | 110,000 | 0 | |
| Note payable assumed by partnership | | | | - - - | | 30,000 | - - - | |
| Net assets invested | | | | 100,000 | | 80,000 | 0 | |
| Bonus Method | | | | Goodwill Method | | | | | |
|  |  |  | | Cash | | | 100,000 | |  |
| Cash | 100,000 |  | | Equipment | | | 110,000 | |  |
| Equipment | 110,000 |  | | Goodwill | | | 90,000 | |  |
| Note Payable |  | 30,000 | | Note Payable | | |  | | 30,000 |
| John, Capital |  | 60,000 | | John, Capital | | |  | | 90,000 |
| Jeff, Capital |  | 60,000 | | Jeff, Capital | | |  | | 90,000 |
| Jane, Capital |  | 60,000 | | Jane, Capital | | |  | | 90,000 |

***Note:***

*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.*

16. c – refer to No. 15 for computation.

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 PP Total

(60%) (40%)

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**

**Completion statements:**

1. accounting

2. GAAP

3. a. *cash basis* instead of *accrual basis*

b. prior period adjustments

c. use of *fair (or current) values* instead of *historical cost*

d. recognition of goodwill in situations *not* involving business combinations

4. drawings

5. fair (or current) values

6. achieving *equity* among the partners

7. capital balances

8. professional corporation

**True or False**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9 | False | 14. | True | 19. | False | 24. | False | 29. | False |
| 10. | True | 15. | False | 20. | True | 25. | True | 30. | True |
| 11. | False | 16. | False | 21. | False | 26. | False |  |  |
| 12. | True | 17. | False | 22. | True | 27. | True |  |  |
| 13. | False | 18. | True | 23. | False | 28. | True |  |  |

***Note for the following numbers:***

***17. Individuals, partnerships, and corporations are allowed to be partners in a partnership.***

***19. All of the general partners are liable for all the partnership’s debts.***

***21. Most small partnerships maintain their financial information using the tax basis.***

***23., While the partnership does not pay income taxes, it is responsible for other taxes such as payroll taxes and franchise taxes.***

***24. The proprietary theory is based on the notion that the business entity is an aggregation of the owners***

***26. This is an example of the proprietary theory of equity.***

***28. Any basis (i.e., carrying value, tax basis, or market value) can be used to value noncash assets contributed to a partnership***

Multiple-Choice Questions

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | a | 36. | d | 41. | c | 46. | a | 51. | d |
| 32. | B | 37. | b | 42. | c | 47. | c | 52. | b |
| 33. | a | 38. | c | 43. | a | 48. | b | 53. | b |
| 34. | e | 39. | a | 44. | d | 49. | b |  |  |
| 35. | d | 40. | a | 45. | b | 50. | c |  |  |