**Chapter 4**

**Problem I**

**1: Gain on Realization Fully Allocated to Partner’s Capital Balances.**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-  Cash  Assets | Liabilities | Q, Loan | Q, Capital 30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Realization and distribution  of gain | 96,000 | (84,000) | \_\_\_\_\_ | \_\_\_\_\_\_ | 3,600 | 6,000 | 2,400 |
| Balances after realization | 120,000 |  | 12,000 | 2,400 | 13,200 | 54,000 | 38,400 |
| Payment of liabilities | (12,000) |  | (12,000) |  |  |  |  |
| Balances after payment of  liabilities | 108,000 |  |  | 2,400 | 13,200 | 54,000 | 38,400 |
| Payment to partners - loan | (2,400) |  |  | (2,400) | \_\_\_\_\_\_ | \_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  partners’ loans | 105,600 |  |  |  | 13,200 | 54,000 | 38,400 |
| Payment to partners -  capital | (105,600) |  |  |  | (13,200) | (54,000) | (38,400) |

**2: Loss on Realization Creates a Deficit Balance in Partner’s Capital Account Requiring Transfer from Partner’s Loan Account (Right of Offset Exercised).**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Realization and distribution  of loss | 48,000 | (84,000) | \_\_\_\_\_ | \_\_\_\_\_\_ | (10,800) | (18,000) | (7,200) |
| Balances after realization | 72,000 |  | 12,000 | 2,400 | (1,200) | 30,000 | 28,800 |
| Payment of liabilities | (12,000) |  | (12,000) |  |  |  |  |
| Balances after payment of  liabilities | 60,000 |  |  | 2,400 | (1,200) | 30,000 | 28,800 |
|  |  |  |  |  |  |  |  |
| Offset deficit versus loans | \_\_\_\_\_\_\_ |  |  | (1,200) | 1,200 | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after offsetting | 60,000 |  |  | 1,200 |  | 30,000 | 28,800 |
| Payment to partners – loan | (1,200) |  |  | (1,200) |  | \_\_\_\_\_\_\_ | \_\_\_\_\_\_ |
| Balances after payment of  partners’ loans | 58,800 |  |  |  |  | 30,000 | 28,800 |
| Payment to partners -  capital | (58,800) |  |  |  |  | (30,000) | (28,800) |

**3: Loss on Realization Creates a Deficit Balance in Partner’s Capital Account Requiring Transfer from Partner’s Loan Account (Right of Offset Exercised and Additional Capital Investment is Required and Made).**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Realization and distribution  of loss | 36,000 | (84,000) | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | (14,400) | (24,000) | (9,600) |
| Balances after realization | 60,000 |  | 12,000 | 2,400 | ( 4,800) | 24,000 | 26,400 |
| Payment of liabilities | (12,000) |  | (12,000) | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  liabilities | 48,000 |  |  | 2,400 | ( 4,800) | 24,000 | 26,400 |
| Offset loan versus deficit – | \_\_\_\_\_\_\_ |  |  | (2,400) | 2,400 | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after offsetting  partner’s loan | 48,000 |  |  |  | (2,400) | 24,000 | 26,400 |
| Additional investment by Q | \_\_2,400 |  |  |  | 2,400 | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after additional  Investment | 50,400 |  |  |  |  | 24,000 | 26,400 |
| Payment to partners -  capital | (50,400) |  |  |  |  | (24,000) | (26,400) |

**4: Loss on Realization Creates a Deficit Balance in One Partner’s Capital Account Requiring Transfer Partner’s Loan Account (Right of Offset Is Exercised) and Additional Investment is Required but not Made (Personally Insolvent).**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Realization and distribution  of gain | 42,000 | (84,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | (12,600) | (21,000) | (8,400) |
| Balances after realization | 66,000 |  | 12,000 | 2,400 | ( 3,000) | 27,000 | 27,600 |
| Payment of liabilities | (12,000) |  | (12,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  liabilities | 54,000 |  |  | 2,400 | (3,000) | 27,000 | 27,600 |
| Offset loan versus deficit | \_\_\_\_\_\_\_ |  |  | (2,400) | 2,400 | \_\_\_\_\_\_ | \_\_\_\_\_\_ |
| Balances after offsetting | 54,000 |  |  |  | ( 600) | 27,000 | 27,600 |
| Additional loss due to  insolvency of Q | \_\_\_\_\_\_\_ |  |  |  | 600 | ( 429) | ( 171) |
| Balances after additional ,  Loss | 54,000 |  |  |  |  | 26,571 | 27,429 |
| Payment to partners -  capital | (54,000) |  |  |  |  | (26,571) | (27,429) |

**5: Loss on Realization Creates a Deficit Balance in One Partner’s Capital Account Requiring Transfer Partner’s Loan Account (Right of Offset Is Exercised) and Additional Investment is Required but not Made (Personally Insolvent).**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Realization and distribution  of gain | 24,000 | (84,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | (18,000) | (30,000) | (12,000) |
| Balances after realization | 48,000 |  | 12,000 | 2,400 | ( 8,400) | 18,000 | 24,000 |
| Payment of liabilities | (12,000) |  | (12,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  liabilities | 36,000 |  |  | 2,400 | ( 8,400) | 18,000 | 24,000 |
| Offset loan versus deficit | \_\_\_\_\_\_ |  |  | (2,400) | 2,400 | \_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after offsetting | 36,000 |  |  |  | (6,000), | 18,000 | 24,000 |
| Additional investment by Q | \_3,600 |  |  |  | \_ 3,600 | \_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after additional  investment | 39,600 |  |  |  | (2,400) | 18,000 | 24,000 |
| Additional loss due to  insolvency of Q | \_\_\_\_\_\_ |  |  |  | 2,400 | (1,714) | ( 686) |
| Balances after additional  Loss | 39,600 |  |  |  |  | 16,286 | 23,314 |
| Payment to partners -  capital | (39,600) |  |  |  |  | (16,286) | (23,314) |

**6: Loss on Realization Creates a Deficit Balance in Partner’s Capital Account Requiring Transfer Partner’s Loan Account (Right of Offset Is Exercised) and All Partners are Personally Solvent.**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Payment of liquidation  expenses | (14,400) | \_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | (4,320) | (7,200) | (2,880) |
| Balances after payment of  liquidation expenses | 9,600 | 84,000 | 12,000 | 2,400 | 5,280 | 40,800 | 33,120 |
| Write-off goodwill and  prepaid expenses | \_\_\_\_\_\_\_ | (72,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | (21,600) | (36,000) | (14,400) |
| Balances after write-offs | 9,600 | 12,000 | 12,000 | 2,400 | (16,320) | 4,800 | 18,720 |
| Realization and distribution  of loss | 1,200 | (12,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | ( 3,240) | ( 5,400) | ( 2,160) |
| Balances after realization | 10,800 |  | 12,000 | 2,400 | ( 19,560) | ( 600) | 16,560 |
| Payment of liabilities | (10,800) |  | (10,800) | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  Liabilities | -0- |  | 1,200 | 2,400 | (19,560) | ( 600) | 16,560 |
|  |  |  |  |  |  |  |  |
| Offset loan versus deficit | \_\_\_\_\_\_ |  | \_\_\_\_\_\_\_ | (2,400) | 2,400 | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after offsetting | -0- |  | 1,200 |  | (17,160) | ( 600) | 16,560 |
| Additional investment by Q  and R | 17,760 |  | \_\_\_\_\_\_\_ |  | 17,160 | 600 | \_\_\_\_\_\_ |
| Balances after additional  Investment | 17,760 |  | 1,200 |  |  |  | 16,560 |
| Payment of liabilities | (1,200) |  | (1,200) |  |  |  | \_\_\_\_\_\_\_ |
| Balances after payment of  Liabilities | 16,560 |  |  |  |  |  | 16,560 |
| Payment to partners -  Capital | (16,560) |  |  |  |  |  | (16,560) |

**7: Loss on Realization Creates a Deficit Balance in Partner’s Capital Account Requiring Transfer Partner’s Loan Account (Right of Offset Is Exercised) with Revaluation of Assets.**

QRS Partnership

Statement of Realization and Liquidation

November 1 – 30, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Cash | Non-Cash Assets | Liabilities | Q, Loan | Q, capital (30%) | R, Capital (50%) | S, Capital (20%) |
| Balances before liquidation | 24,000 | 84,000 | 12,000 | 2,400 | 9,600 | 48,000 | 36,000 |
| Increase in equipment |  | 1,200 |  |  | 360 | 600 | 240 |
| Decrease in furniture | \_\_\_\_\_\_ | (600) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_ | \_(180) | (300) | (120) |
| Balances after revaluation | 24,000 | 84,600 | 12,000 | 2,400 | 9,780 | 48,300 | 36,120 |
| Refund of prepaid  expenses | \_6,960 | (8,400) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_ | \_(432) | (720) | (288) |
| Balances after refunds | 30,960 | 76,200 | 12,000 | 2,400 | 9,348 | 47,580 | 35,832 |
| Received noncash assets | \_\_\_\_\_\_ | (10,200) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_ | \_\_\_\_\_ | (7,200) | (3,000) |
| Balances after receipt  of noncash assets | 30,960 | 66,000 | 12,000 | 2,400 | 9,348 | 40,380 | 32,832 |
| Realization and distribution  of loss | 32,400 | (66,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_ | ( 10,080) | ( 16,800) | ( 8,064) |
| Balances after realization | 63,360 |  | 12,000 | 2,400 | ( 732) | 23,580 | 26,112 |
| Payment of liabilities | (12,000) |  | (12,000) | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment of  liabilities | 51,360 |  |  | 2,400 | ( 732) | 23,580 | 26,112 |
|  |  |  |  |  |  |  |  |
| Offset loan versus deficit | \_\_\_\_\_\_\_ |  |  | ( 732) | 732 | \_\_\_\_\_\_ | \_\_\_\_\_\_ |
| Balances after offsetting | 51,360 |  |  | 1,668 |  | 23,580 | 26,112 |
| Payment to partners -  loan | (1,668) |  |  | (1,668) |  | \_\_\_\_\_\_ | \_\_\_\_\_\_\_ |
| Balances after payment  of loans | 49,692 |  |  |  |  | 23,580 | 26,112 |
| Payment to partners-  capitals | (49,692) |  |  |  |  | (23,580) | (26,112) |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**Problem II**

DISCOUNT PARTNERSHIP

Schedule of Partnership Liquidation

January 14, 20x4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | Capital Balances | | | |
| Explanation | Cash | Other Assets | Liabilities | | Dawson | Feeney | Hardin |
| Balances before realization | P25,000 | P120,000 | P(40,000) | | P(31,000) | P(65,000) | P(9,000) |
|  |  |  |  | |  |  |  |
| Sales of noncash assets | 60,000 | (120,000) | \_\_\_\_\_\_ | | 18,000 | 24,000 | 18,000 |
| Balances | 85,000 | 0 | (40,000) | | (13,000) | (41,000) | 9,000 |
|  |  |  |  | |  |  |  |
| Payment of liabilities | (40,000) | \_\_\_\_\_\_\_\_\_\_ | 40,000 | | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ |
| Balances | 45,000 | 0 | 0 | | (13,000) | (41,000) | 9,000 |
| Allocation of Hardin's debit balance |  |  |  | |  |  |  |
|  | \_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_ | | 3,857 | 5,143 | (9,000) |
| Balances | 45,000 | 0 | 0 | | (9,143) | (35,857) | 0 |
|  |  |  |  | |  |  |  |
| Distribution of cash to partners | (45,000) | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_ | | 9,143 | 35,857 | \_\_\_\_\_\_\_\_ |
| Balances | P 0 | P 0 | P 0 | | P 0 | P 0 | P 0 |

**Problem III**

1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| CDG Partnership | | | | | | |
| Statement of Realization and Liquidation | | | | | | |
| Lump-sum Liquidation on December 10, 20X6 | | | | | | |
|  |  |  |  | Capital Balances | | |
|  |  | Noncash |  | Carlos | Dan | Gail |
|  | Cash | Assets | Liabilities | 20% | 40% | 40% |
|  |  |  |  |  |  |  |
| Preliquidation balances | 25,000 | 475,000 | (270,000) | (120,000) | (50,000) | (60,000) |
|  |  |  |  |  |  |  |
| Sale of assets and distribution |  |  |  |  |  |  |
| of P215,000 loss | 260,000 | (475,000) |  | 43,000 | 86,000 | 86,000 |
|  | 285,000 | -0- | (270,000) | (77,000) | 36,000 | 26,000 |
| Cash contributed by Gail to |  |  |  |  |  |  |
| extent of positive net worth | 25,000 |  |  |  |  | (25,000) |
|  | 310,000 | -0- | (270,000) | (77,000) | 36,000 | 1,000 |
| Distribution of deficit of |  |  |  |  |  |  |
| insolvent partner: |  |  |  |  |  | (1,000) |
| 20/60(P1,000) |  |  |  | 333 |  |  |
| 40/60(P1,000) |  |  |  |  | 667 |  |
|  | 310,000 | -0- | (270,000) | (76,667) | 36,667 | -0- |
|  |  |  |  |  |  |  |
| Contribution by Dan to remedy deficit | 36,667 |  |  |  | (36,667) |  |
|  | 346,667 | -0- | (270,000) | (76,667) | -0- | -0- |
|  |  |  |  |  |  |  |
| Payment to creditors | (270,000) |  | 270,000 |  |  |  |
|  | 76,667 | -0- | -0- | (76,667) | -0- | -0- |
|  |  |  |  |  |  |  |
| Payment to partner | (76,667) |  |  | 76,667 |  |  |
|  |  |  |  |  |  |  |
| Post-liquidation balances | -0- | -0- | -0- | -0- | -0- | -0- |

|  |  |  |  |
| --- | --- | --- | --- |
| 2. |  |  |  |
| CDG Partnership  Net Worth of Partners  December 10, 20X6 | | | |
|  | Carlos | Dan | Gail |
| Personal assets, excluding |  |  |  |
| partnership capital interests | 250,000 | 300,000 | 350,000 |
| Personal liabilities | (230,000) | (240,000) | (325,000) |
| Personal net worth, excluding |  |  |  |
| partnership capital interests, Dec. 1, 20X6 | 20,000 | 60,000 | 25,000 |
| Contribution to partnership |  | (36,667) | (25,000) |
| Liquidating distribution from partnership | 76,667 | -0- | -0- |
| Net worth, December 10, 20X6 | 96,667 | 23,333 | -0- |

This computation assumes that no other events occurred in the 10-day period that changed any of the partners’ personal assets and personal liabilities. In practice, the accountant must be sure that a computation of net worth is current and timely.

The table shows the effects of the transactions between the partnership and each partner. A presumption of this table is that the personal creditors of Dan or Gail would not seek court action to block the settlement transactions with the partnership. Upon winding up and liquidation, the partnership does not have any priority to the partner’s personal assets. Thus, the personal creditors may seek to block the transactions with the partnership in order to provide more resources from which they can be paid. A partner who fails to remedy his or her deficit can be sued by the other partners who had to make additional contributions or even by a partnership creditor if the failed partner is liable to the partnership creditor. But those claims are not superior to the other claims to the partner’s individual assets.

When accountants provide professional services to partnerships and to its partners, the accountant should expect, at some time, legal suits involving the partnership and/or individual partners. A strong and thorough understanding of the legal and accounting foundations of partnerships will be very important to that accountant.

**Problem IV**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Noncash |  | Capital and Loan Balances | | |
|  | Cash | Assets | Liabilities | Merz | Dechter | Flowers |
|  |  |  |  |  |  |  |
| Beginning balances | P 25,000 | P200,000 | P165,000 | P 40,000 | P30,000 | P(10,000) |
| Liquidation expense | (20,000) |  |  | (8,000) | (8,000) | (4,000) |
| Sale of non-cash assets | 160,000 | (200,000) |  | (16,000) | (16,000) | (8,000) |
| Payment of liabilities | (165,000) |  | (165,000) |  |  |  |
| Contribution by Flowers | 10,000 |  |  |  |  | 10,000 |
| Allocation of Flower's deficit |  |  |  | (6,000) | (6,000) | 12,000 |
| Distribution to partners | (10,000) |  |  | (10,000) | 0 | 0 |
| Ending balances | 0 | 0 | 0 | 0 | 0 | 0 |

**Problem V**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cash | Liabilities | Able | Bower | Cramer |
| Beginning: | P20,000 | P(30,000) | P(10,000) | P5,000 | P15,000 |
| Payment of liabilities | (20,000) | 20,000 |  |  |  |
|  | P 0 | P(10,000) | P(10,000) | P5,000 | P15,000 |
| Cramer/Bower pay in |  |  |  |  |  |
| from personal worth |  |  |  |  |  |
| to cover |  |  |  |  |  |
| deficit balances: | 12,000 | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | (2,000) | (10,000) |
|  | P12,000 | P(10,000) | P(10,000) | P3,000 | P 5,000 |
| Payment of liabilities | (10,000) | 10,000 |  |  |  |
|  | P 2,000 | P 0 | P(10,000) | P3,000 | P 5,000 |
| Allocation of |  |  |  |  |  |
| deficit balances: | \_\_\_\_\_\_ | \_\_\_\_\_\_\_\_ | 8,000 | (3,000) | (5,000) |
|  | P 2,000 | P 0 | P (2,000) | P 0 | P 0 |
| Able paid: | (2,000) |  | 2,000 |  |  |
|  | P 0 | P 0 | P 0 | P 0 | P 0 |

**Problem VI**

Answer:

Cash 70,000

Arthur, Capital 6,000

Baker, Capital 15,000

Casey, Capital 9,000

Other Assets 100,000

To record realization of assets at a loss of $30,000, divided

among Arthur, Baker, and Casey in 2:5:3 ratio, respectively.

Trade Accounts Payable 65,000

Cash 65,000

To record payment of liabilities.

Arthur, Capital 20,000

Loan Receivable from Arthur 20,000

To offset Arthur's loan account against Arthur's capital

account.

Arthur, Capital 14,000

Loan Payable to Baker 20,000

Casey, Capital 1,000

Cash 35,000

To record payments to partners, computed as follows:

**Arthur Baker Casey**

Capital account balances P70,000 P80,000 P55,000

Add: Loan payable to Baker 30,000

Less: Loan receivable from Arthur (20,000)

Loss on realization of assets,

P30,000 (6,000) (15,000) (9,000)

Balances P44,000 P95,000 P46,000

Maximum potential additional loss

of P150,000 (P250,000 – P100,000 =

P150,000) divided in 2:5:3 ratio (30,000) (75,000) (45,000)

Cash payments P14,000 P20,000 P 1,000

**Multiple Choice Problems**

1. b - (P40,000 + P10,000 – P2,000 – P4,000 = P44,000)

2. d – P80,000 – (P150,000 – P50,00) x 50% = P30,000

3. c

4. a - Phil (P35,000 + P10,000); Harry P28,000; Bill (P27,000 - P5,000)

5. c - Rick P46,000; Mary (P39,000 - P15,000); Fran (P29,000 + P10,000)

6. d - P50,000 - (P15,000 - P9,500)(.25)

7. b - P45,000 - (P15,000 - P9,500)(.30)

8. a - P108,000 + [P10,000 - (P25,000 - P18,000)](.55)

9. c - P62,000 + [P10,000 - (P25,000 - P18,000)](.20)

10. b

11. c

12. d

13. c

|  |
| --- |
| Vulnerability ranks: |
| Lang equity (P70,000 - P40,000)/.25 = P120,000 = 1 |
| Maas equity (P80,000 + P50,0000/.25 = P520,000 = 3 |
| Neal equity (P150,000/.5) = P300,000 = 2 |
|  |

Assumed loss absorption:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | 25%  Lang |  |  | 25%  Maas |  |  | 50%  Neal |  |  | Total |  |
| Equities | P |  | 30,000 |  | P | 130,000 |  | P | 150,000 |  | P | 310,000 |  |
| Loss to eliminate  Lang |  | ( | 30,000 | ) | ( | 30,000 | ) | ( | 60,000 | ) | ( | 120,000 | ) |
|  |  |  | 0 |  | P | 100,000 |  | P | 90,000 |  | P | 190,000 |  |
| Loss to eliminate  Neal |  |  |  |  | ( | 45,000 | ) | ( | 90,000 | ) | ( | 135,000 | ) |
|  |  |  |  |  | P | 55,000 |  | P | 0 |  | P | 55,000 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | c | |  | | | JJ | | CC | | TT | | Total | |
|  |  | |  | | |  | |  | |  | |  | |
|  |  | | Profit ratio | | | 40% | | 50% | | 10% | | 100% | |
|  |  | |  | | |  | |  | |  | |  | |
|  |  | | Prior capital | | | (160,000) | | (45,000) | | (55,000) | | (260,000) | |
|  |  | | Loss on sale | | |  | |  | |  | |  | |
|  |  | | of inventory | | | 24,000 | | 30,000 | | 6,000 | | 60,000 | |
|  |  | |  | | | (136,000) | | (15,000) | | (49,000) | | (200,000) | |
|  | |  | |  |  | |  | |  | |  | |
| 15. | | a | | Prior capital | (160,000) | | (45,000) | | (55,000) | | (260,000) | |
|  | |  | | Loss on sale |  | |  | |  | |  | |
|  | |  | | of inventory | 72,000 | | 90,000 | | 18,000 | | 180,000 | |
|  | |  | |  | (88,000) | | 45,000 | | (37,000) | | (80,000) | |
|  | |  | | Allocate Charles' |  | |  | |  | |  | |
|  | |  | | capital deficit: |  | | (45,000) | |  | |  | |
|  | |  | | JJ = .40/.50 | 36,000 | |  | |  | |  | |
|  | |  | | TT = .10/.50 |  | |  | | 9,000 | |  | |
|  | |  | |  | (52,000) | | -0- | | (28,000) | | (80,000) | |

16. c – (P234,000 – P434,000) x 20% = P40,000

17. b

T D H

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 40,000 | 10,000 | 15,000 |  |
| Loss on sale (85,000 – 33,000) | (26,000) | (15,600) | (10,400) |  |
|  | 14,000 | ( 5,600) | 4,600 |  |

Additional loss (5:2) (4,000) 5,600 ( 1,600)

10,000 3,000

18. a

T D H

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 40,000 | 10,000 | 15,000 |  |
| Loss on sale (85,000 – 21,100) | (31,950) | (19,170) | (12,780) |  |
|  | 8,050 | ( 9,170) | 2,220 |  |

Additional loss (5:2) (6,550) 9,170 (2,620)

1,500 ( 400)

Additional loss ( 400) 400

1,100

19. b

K L M

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 60,000 | 40,000 | 80,000 |  |
| Liquidation expenses | (2,000) | ( 4,000) | ( 4,000) |  |
| Loss on sale (300 - 180) | (24,000) | (48,000) | ( 48,000) |  |
|  | 34,000 | (12,000) | 28,000 |  |

Additional loss (2:4) ( 4,000) 12,000 ( 8,000)

30,000 20,000

20. d

H I J Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 80,000 | 110,000 | 140,000 | 330,000 |
| Loss on sale (2:4:4) | (61,000) | (122,000) | (122,000) | (305,000) |
|  | 19,000 | (12,000) | 18,000 | 25,000 |

Additional loss (2:4) ( 4,000) 12,000 ( 8,000)

15,000 10,000

21. d – [(P240,000 – P96,000) /30% = P480,000]

22. a

|  |  |  |
| --- | --- | --- |
| Capital before realization – C | 130,000 |  |
| Liquidation expenses (12,000 x 50%) | (6,000) |  |
| Share on loss on realization | (132,000) |  |
| Capital balance after realization | ( 8,000) |  |

Total loss on realization: P132,000/50% (264,000)

Non-cash assets 434,000

Proceeds 170,000

23. b

Ding Laurel Ezzard Tillman Total

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Capital before realization | 60,000 | 67,000 | 17,000 | 96,000 | 240,000 |
| Loss on sale (4:2:2:2) | (52,800) | ( 26,400) | (26,400) | (26,400) | (132,000) |
|  | 7,200 | 40,600 | ( 9,400) | 69,600 | 108,000 |

Possible insolvency loss (4:2:2) ( 4,700) ( 2,350) ( 9,400) ( 2,350) -0-

Safe payments 2,500 38,250 0 67,250 108,000

24. e – refer to No. 23

25. b

Gonda Herron Morse Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 60,000 | 70,000 | 40,000 | 170,000 |
| Loss on sale (30:45:25); [200 – 150] | (15,000) | ( 22,500) | (12,500) | (50,000) |
|  | 45,000 | 47,500 | 27,500 | 120,000 |

26. c

S D F Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital | 40,000 | 15,000 | 5,000 | 60,000 |
| Loan | \_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_ | 5,000 | 5,000 |
| Total interests | 40,000 | 15,000 | 10,000 | 65,000 |
| Loss on sale (5:3:2) - [90,000 – 26,000] | (32,000) | ( 19,200) | (12,800) | (64,000) |
|  | 8,000 | ( 4,200) | ( 2,800) | 1,000 |
| Possible insolvency (5:3) | (1,750) | ( 1,050) | 2,800 | 0 |

6,250 ( 5,250) 1,000

Additional investment \_\_\_\_\_\_\_ 5,250 5,250

6,250 6,250

27. b

28. a –

Since the partnership currently has total capital of P350,000, the P150,000 that is available would indicate maximum potential losses of P200,000 that is hypothetically split among the partners.  
 White Sands Luke Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 50,000 | 100,000 | 200,000 | 350,000 |
| Loss on sale (30:20:50); [350 – 150] | (60,000) | ( 40,000) | (100,000) | (200,000) |
|  | (10,000) | 60,000 | 100,000 | 150,000 |
| Possible insolvency (2:5) | 10,000 | (2,857) | (7,143) | 0 |

Safe payments 57,143 92,857 150,000

29. b - (P13,000 – P1,000 share of gain = P12,000, refer to entries below)

*Revaluation entry:*

*Accumulated depreciation 3,000*

*Gym, capital 1,000*

*Hob, capital 1,000*

*Ing, capital 1,000*

*Withdrawal of equipment:*

*Accumulated depreciation (8,000 – 3,000) 5,000*

*Hob, capital 13,000*

*Equipment 18,000*

30. b –

Accumulated depreciation 70,000

K, capital (P150,000 + P10,000 + P10,000 – P70,000) 100,000

Machinery, at cost 150,000

Rice [P110,000 – (P150,000 – P70,000)] x 1/3 10,000

Long [P110,000 – (P150,000 – P70,000)] x 1/3 10,000

31. c

X Y Z Total

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital before realization | 90,000 | 60,000 | 30,000 | 180,000 |
| Loss on sale (35%:35%:30%) | (42,000) | (42,000) | (36,000) | \*(120,000) |
|  | 48,000 | 18,000) | ( 6,000) | 60,000 |

*\*balancing figure – total reduction in capital*

**Theories**

**Completion Statements**

1. a. partnership creditors other than partners

b. partners’ loans—if subordinated

c. partners’ capital

2. statement of realization and liquidation

3. schedule of safe payments

4. marshalling of assets

5. rule of setoff

6. legal recourse against

7. bringing the capital balances into the profit and loss ratio

**True or False**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | True | 13. | True | 18. | False | 23. | False | 28. | True | 33. | True |
| 9. | False | 14. | False | 19. | True | 24. | True | 29. | False | 34. | True |
| 10. | False | 15. | False | 20. | True | 25. | False | 30. | False | 35. | False |
| 11. | False | 16. | True | 21. | False | 26. | True | 31. | False |
| 12. | True | 17. | True | 22. | True | 27. | True | 32. | False |

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

***9. The accountant is liable if he/she fails to meet the fiduciary responsibility of protecting the creditors’ interest during the liquidation process.***

***10. The amount of cash distributed to each partner is a function of the capital balances and the profit and loss ratios. It is unlikely that partners will receive the same amount of cash.***

***11. Partnership creditors have priority claims against partnership assets and partner creditors have priority claims against partner assets.***

***14. Partner creditors have claims first against partner assets. They can also have a claim against partnership assets to the extent of the partner’s equity in the partnership.***

***15. The accountant has a fiduciary responsibility to the partnership’s creditors to ensure that sufficient assets exist to pay the creditors. It does not mean that creditors must be fully paid before any partner distributions occur.***

***18. Gains and losses realized during the liquidation process are generally allocated using the residual profit and loss ratio. Other profit and loss allocation components are not considered because these items are generally relevant to the partnership’s operation and the current issue is the partnership’s liquidation.***

***21. This is called an installment liquidation***

***23. This document is called a Statement of Realization and Liquidation.***

***25. The Statement of Realization and Liquidation does not include income statement accounts. All income statement amounts are allocated directly to partnership equity.***

**Multiple Choice Theories**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | a | 41. | b | 46. | c | 51. | b |
| 37. | a | 42. | d | 47. | a |  |  |
| 38. | c | 43. | b | 48. | c |
| 39. | d | 44. | d | 49. | d |
| 40. | c | 45. | b | 50. | b |