Test Bank – Law 2 (fr dean nanette)

1. Which of the following is not considered a legitimate expense of a partnership?
2. Supplies used in the partners’ offices.
3. Salaries for management hired to run the business.
4. Depreciation on assets contributed to the partnership by the partners.
5. **Interest paid to partners based on the amount of their invested capital.**
6. If the partnership agreement does **not** specify how profit is to be allocated, profits or losses should be allocated
7. Equally
8. **In accordance with their capital contribution.**
9. In proportion to the average of capital invested during the period.
10. Equitably so that partners are well compensated for their time and effort.
11. The most equitable distribution of partnership profits based on capital contributions uses

which of the following capital concept?

1. Equally
2. **Average capital**
3. Ending capital
4. Beginning capital
5. Periodic withdrawals by partners are best viewed as
6. **Distribution of partnership assets to partners.**
7. Expense of doing business.
8. Taxable income to the partners.
9. Payment of partners’ personal services to the partnership.
10. The division of partnership profits on the basis of salaries, interest and an agreed ratio is

usually necessary because

1. Most investors require this method of distribution.
2. This reflects the amount of time devoted to the partnership by the partners.
3. **Partners seldom contribute time, effort and resources equally.**
4. This prevents arguments among the partners.
5. A partner who contributes money or property as well as his work or industry to the capital of the partnership is called
6. Industrial partner
7. Capitalist partner
8. Managing partner
9. **Capitalist-industrial partner**
10. The effect of the admission of a new partner is
11. To increase the capital balances of the original partners.
12. To increase the capital balances of the original partners.
13. **Impossible to determine from the information given.**
14. To have no effect on the capital balances of the original partners.
15. When a partner withdraws from a partnership taking assets that represent less than his

capital balances,

1. No bonus results.
2. **The remaining partners receive a bonus.**
3. The withdrawing partner receives a bonus.
4. The remaining partners owe the withdrawing partners the difference.
5. Which of the following will **not** result in dissolution of a partnership?
6. Incapacity of a partner.
7. **Negative capital balance of a partner.**
8. Bankruptcy of a partner.
9. Admission of a new partner.
10. Which of the following results in the dissolution of a partnership?
11. The winding up of the partnership and the distribution of remaining assets to the partners.
12. The contribution of additional assets to the partnership by an existing partner.
13. The receipt of share by an existing partner.
14. **The withdrawal of a partner from a partnership.**
15. Which of the following does **not** result in the dissolution of a partnership?
16. Admission of a new partner.
17. **Sale of partnership assets.**
18. Withdrawal of a partner.
19. Death of a partner.
20. If a partner is insolvent, his personal properties shall first be distributed
21. To the partnership creditors.
22. To the partners by way of additional contribution when the assets of the partnership were insufficient to settle all obligations.
23. To partnership and separate creditors in the ratio of their loan exposures.
24. To separate creditors.
25. In a partnership liquidation, the assets of the partnership shall be applied lastly to
26. Those owing to the partners with respect to their capital contributions.
27. **Those owing to inside creditors in the form of loans or advances or business expenses by the partners.**
28. Those owing to outside creditors.
29. Those owing to the partners with respect to their share of the profits.
30. Which of the following statements is correct regarding a partner’s capital deficiency?
31. The partner should contribute to reduce the debit balance to the extent possible.
32. **If contributions are not possible, the other partners with credit capital balances will be allocated a portion of the debit balance.**
33. Partners who absorb another’s capital deficiency have a legal claim against the deficient partner.
34. All of these statements are correct.
35. In a liquidation, the liabilities of the partnership should be paid
36. Before any sale of assets.
37. **Before the distribution of cash to partners.**
38. Before the distribution of gains and losses on the disposal of assets.
39. After a revaluation of assets.
40. Claims against partners’ personal assets by creditors if the partnership can’t pay its debt

refers to

1. **Unlimited liability**
2. Mutual agency
3. Dissolution
4. Liquidation
5. A partner’s loss absorption balance is calculated by
6. Dividing the partner’s capital balance by his percentage interest in capital.
7. Multiplying distributable assets by the partner’s profit sharing percentage.
8. **Dividing the partner’s total interests by his profit and loss sharing percentage.**
9. Multiplying the partner’s total interests by his profit and loss sharing percentage.
10. The following is the priority sequence in which liquidation proceeds will be distributed for a partnership
11. **Partnership liabilities, partnership loans and partnership capital balances.**
12. Partnership drawings, partnership liabilities, partnership loans and partnership capital balances.
13. Partnership liabilities, partnership loans, partnership drawings and partnership balances.
14. Partnership liabilities, partnership capital balances and partnership loans.
15. A liquidation differs from a dissolution in that liquidation
16. There may be an adjustment of partners’ capital accounts.
17. Assets maybe revalued.
18. **The business will not continue.**
19. Gains and losses are distributed according to the partnership agreement.
20. A limited partnership has A, as general partner, B as limited partner and C, as industrial

partner contributing P100,000, P50,000 and services respectively. The partnership failed and after disposing all its assets to pay partnership debts, there still remains a note payable in the sum of P30,000. Against whom can the creditor demand payment?

A B C

1. P30,000 P0 P0
2. **P15,000 P0 P15,000**
3. P15,000 P 7,500 P 7,500
4. P10,000 P10,000 P10,000
5. X, Y and Z form Y Partnership to engage in import-export business. The partners agrees that the profit will be divided on the following ratio: X – 20%, Y- 30%, Z- 50%, but no

agreement as to losses. After one year of operation, there was a loss of P10,000. How will

you apportion this losses if the capital contributions are as follows: X – P20,000; Y- P15,000; Z – P5,000.

1. According to their capital contribution: X- P5,000; Y- P3,750; Z- P1,250.
2. Equally among X, Y and Z.
3. **X – P2,000; Y – P3,000; Z – P5,000**
4. A third party may be called to make the distribution.
5. R, S and T decided to form a universal partnership of all present property. The contract of

partnership was executed on October 10, 2009 but they commenced business on October 18, 2010. One of the following is **not** correct?

1. If the partnership is for 15 years, but one of the partners withdraws from the partnership on the 12th year, the firm is dissolved.
2. The partnership began its existence on October 10, 2009.
3. If after the expiration of the its term, the partners continue to transact business, the partnership is converted to a partnership at will.
4. **In the absence of any partnership agreement specifically covering the division of losses among the partners, they will be deemed to share the losses in accordance with their capital contributions.**
5. Partners A, B and C met a tragic accident. A and B instantly died on the spot, while C was brought to the hospital but died a few hours later. Who may wind up partnership affairs?
6. Legal representative of A.
7. Legal representative of B.
8. **Legal representative of C.**
9. The court should appoint a representative who will wind up the affairs.
10. A, B and C formed a Universal Partnership of Profits. The partners contributed the following: A – 20 sewing machines; B – 14 Furniture and Fixtures; C – 4 storey building. The parties agreed that only the use of the fruits of the objects contributed shall pertain to the partnership. Which of the following statements is true?
11. The partnership upon delivery shall be the owner of the objects contributed.
12. Upon dissolution, the objects shall be converted into cash and the proceeds shall be divided equally among the partners including the fruits.
13. During the term of the partnership, the contributing partner remains to be the naked owner of the object contributed but upon dissolution all objects are to be converted into cash and proceeds shall be divided equally among the three partners.
14. **During the term of the partnership, the loss of the objects contributed shall be borne by the partners concerned.**
15. If a partner assigns his interest in the partnership to be his personal creditor or to a third

person for value, the assignee acquired the right to

1. Demand an accounting of partnership affairs.
2. Inspect the books and records of the partnership.
3. **Receive the partner- assignor’s share of the profits.**
4. Interfere in the management of the partnership.
5. Which of the following is a characteristic of partnership as a contract?
6. **Preparatory**
7. Formal
8. Innominate
9. Gratuitous
11. April, May and Jun formed a general partnership with a capital of P100,000 and the partners contributing 50%, 30% and 20%, respectively. Mars has acclaim of P160,000 against the partnership. If Mars files a suit to collect her claim, which of the following is not correct?
12. All the partners are liable to the extent of their separate property.
13. All the partners shall be liable pro-rata with all their property only after the partnership assets have been exhausted.
14. The personal liability of the partners is merely joint and not solidary.
15. **After exhaustion of the partnership assets, April, May and Jun shall be liable 50%, 30% and 20% respectively to Mars for unpaid claim.**
16. May, Jun and Jules are partners in an import and export business. Customers desiring to

place an order for imported articles are always required to make a deposit of 25% of the total cost of the order. Augie, a regular customer deposited P2,000 to May for his order. May instead of turning over the said amount of the partnership, misappropriated it. As a result, one is not correct?

1. Augie may institute a claim against the partnership and all the partners.
2. **The personal liability of the partners is merely joint and not solidary.**
3. The partnership is bound to make good the loss where one partner acting within the scope of his apparent authority received money or property of a third person and misapplies it.
4. All the partners are liable solidarily with the partnership for everything chargeable to the partnership.
5. A, B and C formed a partnership with A as a general partner, B, as a limited partner and C as an industrial partner. A and B contributed P50,000 each. The partnership failed and after disposing all of its assets to pay partnership debts, there still remains a note payable in the sum of P15,000. Against whom can the creditor demand payment of the note of P15,000.
6. Only A is liable to pay P15,000 indebtedness.
7. A and B are liable to pay P7,500 each.
8. **A and C are liable to pay P7,500 each.**
9. A, B and C are liable to pay P5,000 each.
10. This feature distinguishes a partnership from co-ownership.
11. **The purpose is to make profits.**
12. It has no juridical personality.
13. The profits are divided in proportion to one’s interest.
14. Created not only by agreement of the parties but also by law.
15. A and B are partners. On January 2, 2010, C was admitted as a new partner. At the time of C’s admission, the partnership creditors were M for P50,000 and N for P30,000. After

January 2, 2010, the partnership borrowed from O – P20,000 and P40,000 from P. On May 15, 2010, the partnership became insolvent leaving an obligation amounting to P140,000 and partnership assets amounting to P30,000. The creditors are going after the separate properties of the partners to satisfy their remaining claims. How are the creditors’ claims satisfied?

Statement 1 – M and N can go after the separate properties of A and B but C’s separate

properties are not answerable to their claims.

Statement 2 – O and P can go after the separate properties of A, B and C.

1. **True; True**
2. True; False
3. False; True
4. False; False
5. A partner who is not known to be a partner by outside parties but who takes active part in the business is
6. Silent partner
7. Nominal partner
8. Dormant partner
9. **Secret partner**
10. On April 1, 2010, A and B entered into a contract of partnership for the purpose of buying and selling textbooks, with the former as capitalist partner and the latter as industrial partner. It was agreed that A shall contribute P100,000 to the common fund on May 2, 2010. Upon the arrival of the designated date, A failed to deliver the contribution he promised. As a result
11. B should make a demand upon A for the delivery of his contribution to render A in default.
12. The contract of partnership becomes void because A failed to give his contribution to the common fund.
13. **B can compel A to deliver his contribution with interest and damages without the necessity of demand.**
14. The contract of partnership was never perfected because there was no delivery of contributions by the partners.
15. If the law or contract does not state the diligence which is to be observed in the performance of an obligation, the obligor is expected to observe
16. **Ordinary diligence.**
17. Extraordinary diligence.
18. Diligence of a father of a good family.
19. Utmost care.
20. In an obligation to give a determinate thing, what rights are available to the creditor?

**First Answer** – To compel specific performance.

**Second Answer** – To recover damages in case of breach of the obligation.

**Third Answer** – To ask that the obligation be complied with at the expense of the debtor.

1. All answers are correct.
2. **Only the first and second answers are correct.**
3. Only the first answer is correct.
4. All answers are wrong.
5. Three of the following are rights of a partner, which one is not? Right to
6. Associate another person to his share.
7. **Admit another partner.**
8. Inspect and copy partnership books.
9. Ask dissolution of the firm at the proper time.
10. A partnership which comprises all the partners may acquire by their work or industry during the existence of the partnership is
11. Universal partnership of present property.
12. **Universal partnership of profits.**
13. Particular partnership.
14. General partnership.
15. As regards a limited partner, which of the following is correct?
16. He is automatically an agent for the partnership with apparent authority to bind the limited partnership in a contract.
17. He can not own limited partnership interest in other competing limited partnership.
18. He has no liability to creditors even if he takes part in the control of the business as long as he is held out as being a limited partner.
19. **He can contribute money and/or property but not services.**
20. Which of the following is capacitated to give consent?
21. A senior citizen who is insane.
22. A person under civil interdiction.
23. No read, no write deaf mute
24. **An emancipated minor.**