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Partnerships

STUDY GUIDE QUESTIONS

PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

- T F 1. A gain or loss on the sale of assets involved in a partnership liquidation is allocated to partners in the profit and loss ratio.
- T F 2. In allocating partnership net income to partners, a salary allowance represents a withdrawal by a partner for personal use.
- T F 3. If a partner dies, the partnership is dissolved, but when a partner retires from the partnership, the partnership automatically continues.
- T F 4. In the case of a liquidation of a partnership, the effect is primarily a change in the names listed in the partnership agreement and in the division of net income.
- T F 5. Partners' allowances for salaries and interest are not made if the net income is not large enough to cover them.
- T F 6. Each partner's liability for losses the partnership has incurred is limited to the amount of that partner's investment.
- T F 7. Mutual agency means that each partner can enter into contracts in the name of the firm.
- T F 8. Assets invested by a partner should be debited in the amount of the cost to the partner.
- T F 9. When a partnership is liquidated, available cash is distributed to partners before creditors are paid, so that partners are assured their share.
- T F 10. The main difference between accounting for sole proprietorships and accounting for partnerships is in the owners' equity accounts.

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

1. The share of net income (or net loss) allocated to each partner is called their _____.
2. A situation in which each party owns a fractional share of all the assets is known as _____.
3. Another term for conversion of assets into cash is _____.

4. _____ are partners who actively and publicly participate in the transactions of the firm and have unlimited liability.
5. _____ is the ending of a partnership because of a change in its ownership.
6. _____ occurs when a partnership ends, the assets are sold, creditors are paid, and the remaining cash is distributed among the partners.
7. An association of two or more persons to carry on, as co-owners, a business for profit is called a(n) _____.
8. When each partner has the ability to act as an agent of the firm, thereby committing the entire firm to a binding contract, it is called _____.

PART 3 Determining Net Income for Partners

A and B are partners, having Capital balances at the beginning of the year of \$50,000 and \$30,000, respectively. Given the following conditions, determine each partner’s share of the net income.

1. Net income to be divided equally
2. Net income to be divided in the ratio of Capital accounts at the beginning of the year
3. Interest allowances of 9 percent on balances of Capital accounts at the beginning of the year and the remainder of the net income to be divided equally
4. Interest allowances of 9 percent on balances of Capital accounts at the beginning of the year, salary allowance for A of \$18,000, salary allowance for B of \$12,000, and the remainder of the net income to be divided equally

Net Income of \$60,000		Net Income of \$12,000	
A's Share	B's Share	A's Share	B's Share