

Practice Quiz

1. Topic: Limited liability partnerships

LO 1

Which statement below is *false* concerning the characteristics of limited liability partnerships (LLPs) and limited liability companies (LLCs)?

- a. LLPs and LLCs both limit the amount of liability to a partner or investor's investment.
- b. LLCs allow investors to avoid personal liability for supervision of a wrongful act, but personal liability still exists for LLP partners.
- c. Virtually all the large CPA firms are LLPs.
- d. For both LLPs and LLCs, no income tax is levied on the LLP/LLC itself.

2. Topic: Partnership accounting issues

LO 1

A partner's capital account consists of:

- a. Total investment of capital plus (minus) total allocations for the partner's share of partnership income (loss), less total withdrawals
- b. Total investment of capital
- c. Total investment of capital plus (minus) total allocations for the partner's share of partnership income (loss)
- d. Total investment of capital less total withdrawals

Use the following information to answer Questions 3 and 4:

Rao and Ramesh form a partnership. Rao contributes property with a fair value of \$500,000, subject to a mortgage of \$100,000, which the partnership assumes. Ramesh contributes \$200,000 in cash plus property with a fair value of \$50,000. The partners specify a 50-50 split for initial partner capital.

3. Topic: Partnership formation, bonus approach

LO 2

If the bonus approach to partnership formation is used, each partner's initial capital balance will be:

- a. \$375,000
- b. \$225,000
- c. \$250,000
- d. \$325,000

4. Topic: Partnership formation, goodwill approach

LO 2

If the goodwill approach to partnership formation is used, the initial entry to record the formation of the partnership will recognize goodwill of:

- a. \$250,000
- b. \$ 75,000
- c. \$150,000
- d. \$300,000

5. Topic: Partnership income: bonus to partners

LO 3

Allen and Bart have interests in a partnership. Partnership income for the current year is \$122,000. The partnership agreement specifies a salary of \$40,000 for each of the partners. Bart is also entitled to a bonus of 20% of partnership income, after deducting salaries and bonus.

Bart's bonus for the year is:

- a. \$ 6,720
- b. \$10,500
- c. \$ 8,400
- d. \$ 7,000

6. Topic: Partnership income allocation

LO 3

Carter and Donnelly have interests in a partnership. The partnership agreement specifies that Carter receives a salary of \$65,000 each year, and Donnelly receives a salary of \$80,000 each year. This provision is to be fully implemented. Net income or loss is shared 20% to Carter and 80% to Donnelly. Partnership income for the current year is \$120,000.

What is the net addition to Donnelly's capital account, for salary and income?

- a. \$ 80,000
- b. \$100,000
- c. \$ 60,000
- d. \$ 70,000

7. Topic: Admission of new partner

LO 4

An existing partnership reports the following capital accounts:

Eggert, capital	\$92,000
Frank, capital	86,000
Gigoly, capital	75,000

The three partners share income as follows: Eggert, 40%; Frank, 30%; Gigoly, 30%. Hui buys a 15% interest in the partnership by paying \$60,000 into the partnership.

Using the recognition of implied goodwill approach, Frank's capital balance after the addition of Hui to the partnership will be:

- a. \$112,100
- b. \$130,100
- c. \$ 93,900
- d. \$104,000

8. Topic: Retirement of partner

LO 5

An existing partnership reports the following capital accounts:

Jackson, capital	\$140,000
Kudrow, capital	230,000
Langley, capital	400,000

Jackson, Kudrow and Langley share income in a 20:50:30 ratio. Jackson decides to retire from the partnership, and the partners agree to pay Jackson \$200,000.

Using the bonus method, Kudrow's capital balance after Jackson's retirement is:

- a. \$207,500
- b. \$130,000
- c. \$200,000
- d. \$192,500

9. Topic: Partnership liquidation**LO 6**

Suppose that the pre-liquidation balance sheet of NLU partnership is as follows:

Cash	\$ 60,000	Liabilities	\$ 80,000
Loan receivable-U	8,000	Loan payable-N	36,000
Other assets	600,000	Loan payable-L	24,000
		Capital-N	246,000
		Capital-L	60,000
		Capital-U	<u>222,000</u>
Total assets	<u>\$668,000</u>	Total liabilities and capital	\$668,000

The three partners share income in a 2:5:3 ratio. The other assets are sold for \$180,000. No partner can invest further resources in the partnership.

How much cash is distributed to Partner U in liquidation?

- a. \$50,200
- b. \$20,400
- c. \$12,400
- d. \$-0-

10. Topic: Partnership liquidation, safe payments**LO 6**

Suppose that the pre-liquidation balance sheet of NLD partnership is as follows:

Cash	\$ 32,000	Liabilities	\$ 80,000
Other assets	600,000	Loan payable-L	24,000
		Capital-N	246,000
		Capital-L	60,000
		Capital-D	<u>222,000</u>
Total assets	<u>\$632,000</u>	Total liabilities and capital	\$632,000

The three partners share income in a 2:5:3 ratio. Suppose that other assets with a book value of \$300,000 are sold for \$100,000.

How much cash is distributed to Partner N, using the safe payment approach?

- a. \$52,000
- b. \$47,600
- c. \$-0-
- d. \$79,600