Chapter 14– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. **Topic: Limited liability partnerships**
   LO 1
   Answer: b

   Rationale: A partner/investor in an LLP/LLC has personal liability for personal involvement in, or supervision of, a specific wrongful act.

2. **Topic: Partnership accounting issues**
   LO 1
   Answer: a

   Rationale: A partner's capital account reflects all equity effects, including investment, allocation of partnership income (loss), and withdrawals.

3. **Topic: Partnership formation, bonus approach**
   LO 2
   Answer: d

   Rationale: Total partnership capital is \$500,000 + \$200,000 + \$50,000 – \$100,000 = \$650,000. Each partner is allocated half: \$650,000 x 50% = \$325,000

4. **Topic: Partnership formation, goodwill approach**
   LO 2
   Answer: c

   Rationale: Ramesh's fair value contribution is \$250,000, while Rao's contribution is \$400,000. To make the capital accounts equal, Ramesh must be contributing intangible assets (goodwill) equal to \$150,000.

5. **Topic: Partnership income: bonus to partners**
   LO 3
   Answer: d

   Rationale:
   B = (\$122,000 – \$40,000 – \$40,000 – B) x 20%
   B = \$8,400 – 0.2B
   B = \$7,000

6. **Topic: Partnership income allocation**
LO 3
Answer: c

Rationale: Allocation of the partnership income of $120,000 is as follows:

	Carter	Donnelly
Salaries	$ 65,000	$ 80,000
Balance	(5,000)	(20,000)
Net allocation	$ 60,000	$ 60,000

7. **Topic: Admission of new partner**
LO 4
Answer: a

Rationale: Existing capital totals $92,000 + $86,000 + $75,000 = $253,000.
Hui pays more than the initially computed share of capital, which is 15% x ($253,000 + $60,000) = $46,950. Using the goodwill approach, the total value of the partnership implied by Hui's investment is $60,000/0.15 = $400,000. Therefore total goodwill is $400,000 – $313,000 = $87,000. This goodwill is allocated between the existing partners according to their income-sharing percentages. The following entry records Hui's admission:

Cash	60,000	
Goodwill	87,000	
Eggert, capital		34,800
Frank, capital		26,100
Gigoly, capital		26,100
Hui, capital		60,000

Frank's capital balance after the addition of Hui is $86,000 + $26,100 = $112,100

8. **Topic: Retirement of partner**
LO 5
Answer: d

Rationale: The payment is $60,000 (= $200,000 – $140,000) greater than Jackson's capital balance. The $60,000 bonus to Jackson is shared among the remaining partners in a 50:30 ratio, and is recorded as follows:

Kudrow, capital	37,500	
Langley, capital	22,500	
Jackson, capital		60,000

Jackson's capital account is then liquidated with the payment of $200,000.

Kudrow's capital balance after Jackson's retirement is $230,000 – $37,500 = $192,500.

9. Topic: Partnership liquidation
LO 6
Answer: c

Rationale: The loss on the sale of assets is $420,000 (= $600,000 – $180,000), which is allocated to the partners in a 2:5:3 ratio:

	Capital Before Loss	Loss Allocation	Capital After Loss
Partner N	$246,000	$ (84,000)	$ 162,000
Partner L	60,000	(210,000)	(150,000)
Partner U	222,000	(126,000)	96,000

With the offset of the loan payable to L, partner L's deficit is $126,000 (= $150,000 – $24,000). Allocate this deficit between N and U, in a 2:3 ratio:

Partner N: $162,000 – $50,400 = $111,600
Partner U: $ 96,000 – $75,600 = $ 20,400

Offsetting the $8,000 loan receivable from U against U's capital account, and adding the $36,000 loan payable to N to N's capital account, the $240,000 (= $60,000 + $180,000) in cash is distributed as follows:

Creditors	$ 80,000
Partner N	147,600
Partner U	12,400
Total	$240,000

10. Topic: Partnership liquidation, safe payments
LO 6
Answer: a

Rationale: First distribute the realized loss of $200,000 (= $100,000 – $300,000):

	Capital Balance	Loss Allocation	Capital After Loss
Partner N	$246,000	$ (40,000)	$206,000
Partner L	60,000	(100,000)	(40,000)
Partner D	222,000	(60,000)	162,000

Absorb the loan payable to L into L's capital balance, and assume the remaining non-cash assets (book value $300,000) are a total loss:

	Capital Balance	Loss Allocation	Capital After Loss
Partner N	$206,000	$ (60,000)	$146,000
Partner L	(16,000)	(150,000)	(166,000)
Partner D	162,000	(90,000)	72,000

continued

Reallocate L's deficit to N and D in a 2:3 ratio:

	Capital Balance	Loss Allocation	Capital After Loss
Partner N	$146,000	(66,400)	$79,600
Partner L	(166,000)	166,000	0
Partner D	72,000	(99,600)	(27,600)

Offset D's deficit to N: $79,600 – $27,600 = $52,000