**Exam Prep Notes©**

Test 2





**Past Exam 1**

**Part A: Multiple choice questions**

1. Contingent liabilities must be record if :
2. The future event is probable and the amount owed can be reasonably estimated.
3. The future event is remote
4. The future event is reasonably possible
5. The amount owed cannot be reasonably estimated
6. Collins and farina are forming a partnership. Collins is investing a building that has a market value of $80,000. And a note payable for $56,000. Farina is investing $20,000 cash. The balance of Collins’ capital account will be:
	1. $80,000
	2. $24,000
	3. $56,000
	4. $44,000
7. A partnership record the following journal entry

Cash …………………………………………………. 70,000

B . tanner, capital …………………………………... 10,000

R . Jackson, capital …………………………………10,000

 H . Rivera, capital …………………………………. 90,000

This entry reflects:

* 1. Acceptance of a new partner who invests $70,000 and receives a $20,000 bonus
	2. Withdrawal of a partner who pays a $10,000 bonus to each of the other partners
	3. Addition of a partner who pays a bonus to each of the other partners
	4. Additional investment into the partnership by tanner and Jackson.
1. When a partnership is liquidated:
	1. Any given or loss on liquidation is allocated to the partners’ capital accounts using the income and loss sharing ratio.
	2. Liabilities are paid or settled
	3. Any remaining cash is distributed to the partners based on their capital balances
	4. All the above
2. When cash is received from customer in advance for future services, it is recognized with a:
3. Debit to unearned revenue
4. Debit to revenue
5. Credit to revenue payable
6. Credit to unearned revenue
7. On March 17, Grady company agrees to accept a 60-day ,10%. $4,500 note from Alert company to extend the due date on an overdue account. What is the journal entry needed to record the transaction by Alert company ?
8. Debit notes payable $4,500 ; credit accounts payable $4,500.
9. Debit accounts payable $4,500 ; credit notes payable $4,500.
10. Debit accounts receivable $4,500 ; credit notes payable $4,500.
11. Debit cash $4,500 ; credit notes payable $4,500.

**Part B: problem solving**

**Question one** : A company sells TVs for $1,150 each, under a two year warranty. During 2013, the company sells 200 TVs on the basis of past experience, the warranty costs are estimated to be $20,000. During 2014 the actual warranty costs(paid in cash)by the company were$15,000.

Required:

Prepare general journal entries to record the :

1. Estimated warranty expense (the adjustment) on december31,2013.
2. Warranty repair costs during 2014.

|  |  |  |  |
| --- | --- | --- | --- |
| Date |  | Dr | Cr |
| Dec.31,2013 | Warranty expense | 20,000 |  |
|  |  Estimated warranty liability |  | 20,000 |
|  |  |  |  |
| During 2014  | Estimated Warranty Liability | 15,000 |  |
|  |  Cash |  | 15,000 |
|  |  |  |  |

**Question two** :On November 1, 2013 Costco company borrowed $280,000 cash from RBC bank and signed a 4-month ,12% note payable .

Required:

1. Prepare Costco’ general journal entry to record the issuance of the notes payable on November 1 ,2013.
2. Prepare Costco’ general journal entry to record the accrued interest due at December 31,2013.
3. Prepare Costco’ general journal entry to record the payment of the note on March 1,2014 (maturity date).

|  |  |  |  |
| --- | --- | --- | --- |
| Date |  | Dr | Cr |
| Nov.1,2013 | Cash  | 280,000 |  |
|  |  Notes Payable |  | 280,000 |
|  |  |  |  |
| Dec.31,2013 | Interest Expense | 5,600 |  |
|  |  Interest Payable |  | 5,600 |
|  | (280,000 x12% x2/12) |  |  |
| Mar.1,2014 | Notes Payable | 280,000 |  |
|  | Interest Expense | 5,600 |  |
|  | Interest Payable | 5,600 |  |
|  |  Cash |  | 291,200 |
|  |  |  |  |

**Question three**: Mariam and Yousef are partners. Abdulla admitted to the partnership and given a 25% interest in equity for $70,000 cash. Abdulla has exceptional talents that will enhance the partnership. Mariam’s and Yousef’s capital account balances are $100,000 and $120,000 respectively. The partner has agreed to share income or loss equally.

Required: prepare the general journal entry to record the admission of Abdulla to the partnership.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Dr | Cr |
|  | Cash  | 70,000 |  |
|  | Mariam, Capital | 1,250 |  |
|  | Yousef, Capital | 1,250 |  |
|  |  Abdulla, Capital |  | 72,500 |
|  |  |  |  |

**Question four**: Rose, Whiting and Bob are partner. They decided to liquidate the business, sharing all losses and gains equally. After all assets were sold and all liabilities paid, the capital balances were follows: Rose $2,500 (debit balance). Whiting $20,000 (credit balance) and Bob $12,500 (credit balance). Also, the cash account had a balance of $30,000.

Required: prepare the required journal entries to close the books assuming Rose cannot pay her deficit.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Dr | Cr |
|  | Whiting, Capital | 1,250 |  |
|  | Bob, Capital | 1,250 |  |
|  |  Rose, Capital |  | 2,500 |
|  |  |  |  |
|  | Whiting, Capital | 18,750 |  |
|  | Bob, Capital | 11,250 |  |
|  |  Cash |  | 30,000 |
|  |  |  |  |

**Question five**: Hind, Dema and Layla have capital balances of $120,000 , $80,000 , and $60,000 , respectively , and their income ratios are 4:2:4. **Required: record the withdrawal of Layla from the partnership under each of the following assumption.**

1. **Layla received $64,000 cash from Hind in selling her equity.**
2. **Layla is paid $72,000 from partnership cash.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Accounts | Dr | Cr |
| 1. | Layla, Capital | 60,000 |  |
|  |  Hind, Capital |  | 60,000 |
|  |  |  |  |
| 2. | Layla , Capital | 60,000 |  |
|  | Hind , Capital | 8,000 |  |
|  | Layla, Capital | 4,000 |  |
|  |  Cash |  | 72,000 |

**Question six** : Fatima and Jumana are partners with beginning-year capital balances of $260,000 , and $180,000 , respectively. The partners agreed to share income and loss as follows: salary of $65,000 to Fatima , and $70,000 to jumana. an interest allowance of 10% on beginning-of-year capital balances and any remaining balance to be divided equally. The partnership reported a net income for the year of $165,000.

Required: Determine each partner’s share of income.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Fatima | Jumana | Allocated |
| Net Income |  |  | 165,000 |
| Salary Allowances | 65,000 | 70,000 | 135,000 |
| Interest Allowances | 26,000 | 18,000 | 44,000 |
| Total Salaries & Interest Allowances |  |  | 179,000 |
| Balance of Income |  |  | (14,000) |
| Allocation of Bal Equally | (7,000) | (7,000) |  |
| **Income for each Partner** | **84,000** | **81,000** |  |

**Past Exam 2**

**Question one: Multiple choice Question**

1-a capital deficiency means that:

a-the partnership has a loss

b-the partnership has more liabilities than assets

c-at least one partner has a credit balance in his/her capital account.

d- At least one partner has a debit balance in his/her capital account.

2-which of the following statements is true?

A-partners are employees of the partnership

B-salary allowances usually reflect the relative value of services provided by partners

C-salaries to partners are expenses on the partnership income

Statement

D-salary allowances are expenses

3-on November 1, 2013 carter company signed a 120-day ,10% note payable, with a face value of $9000 what is the amount of cash that has to be paid (maturity value of the note ) on march 1,2014?

a-$9,300

b-$9,150

C-$9,100

d-$9,000

4-groh and Jackson are partners. Groh's capital balance in the partnership is $64,000 and Jacksons capital balance $61,000 Groh and Jackson have agreed to share equally in income or loss. Groh and Jackson agree to accept Block with a 20% interest in equity. Block will invest $35,000 in the partnership. The bonus that is granted to Groh and Jackson equals:

a-$1,875 each

b-$3,750 each

c- $1,500 Each

d- 1,920 to Groh; $1,830 to Jackson.

5-the partnership agreement for Smith, Wesson & Davis, a general partnership provided that profits be shared between the partners in the ratio of their capital balance. Smith contributed $100,000 Wesson contributed $60,000 and Davis contributed $40,000. In the partnerships first year of operation, it incurred a loss of $210,000 what amount of the partnerships loss should be allocated to smith?

A=$116,667

b-$105,000

C-$70,000

D-$23,333

6-contingent liabilities must be recorded if

a-the amount owed cannot be reasonably estimated

b-the future event is remote

c- The future event is reasonably possible

d- The future event is probable and the amount owed can be reasonably estimated.

**Question two**

Khalid, Dina, and Jamal are partners with beginning-of-year capital balance of $200,000, $160,000, and $80,000 respectively. The partners agreed to share income and loss as follows: salary of $15,000 to Khalid $25,000 to Dina, and $27,500 to Jamal. An interest allowance of 10% on beginning-of-year capital balance. Any remaining balance is to be divided equally. The partnership net income for the year is $95,000

Required :( 1) **Determine each partners share**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| total | Jamal | Dina |  Khalid  |  |
| 95,00067,50044,000111,500(16,500) | 27,5008,000(5,500)**30,000** | 25,00016,000(5,500)**35,500** | 15,00020,000(5,500)**29,500** | Net incomeSalaries AllowancesInterest AllowancesTotal Salaries & Interest AllowancesBalance of IncomeAllocation of Bal Equally**Balance for Each Partner** |

 (2) **Prepare the appropriate journal entry to close the income summary to the capital accounts.**

|  |  |  |  |
| --- | --- | --- | --- |
| credit | debit | account | Trans |
|  | 95,000 | Income summary |  |
| 29,500 |  |  Khalid, Capital  |  |
| 35,500 |  |  Dina, Capital |  |
| 30,000 |  |  Jamal, Capital |  |

**Question three**

Brit franc, and scot who share income and loss in 2:2:1 ratio, plan to liquidate their partnership at liquidation, their balance sheet appears as follows.

Required: prepare journal entries for (a) the sale of both land and equipment for $450,000 cash, (b) the allocation of the gain or loss, (c) the payment of the liabilities, and (d) the distribution of cash to the individual partners.

Brit, franc, and scot

Balance sheet

January 31

Assets liabilities and equity

Cash $150,000 account payable $221,500

Equipment 200,000 Brit, capital 210,000

Land 400,000 Franc, capital 178,000

 Scot, capital 140,500

 Total assets $750,000 Total liabilities and equity $750,000

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account |  trans |
|  | 450,000 | Cash | A) |
|  | 150,000 | Loss on Liquidation |  |
| 200,000 |  |  Equipment |  |
| 400,000 |  |  Land |  |
|  |  |  |  |
|  | 60,000 | Brit, Capital | b) |
|  | 60,000 | Franc, Capital |  |
|  | 30,000 | Scot, Capital |  |
| 150,000 |  |  Loss on Liquidation |  |
|  |  |  |  |
|  | 221,500 | Account Payable | c) |
| 221,500 |  |  Cash |  |
|  |  |  |  |
|  | 150,000 | Brit, Capital | d) |
|  | 118,000 | Franc, Capital |  |
|  | 110,500 | Scot, Capital |  |
| 378,500 |  |  Cash |  |
|  |  |  |  |

**Question four :( A)**

A company sells its product subject to a warranty that covers the cost of parts for repairs during the six months after the date of sale. Sales for June amounted to $900,000 warranty costs are estimated to be 6% of sales. During the month of June, the company performed warranty work and used $24,000 worth of parts inventory to do the warranty work.

Required :(1)prepare the necessary journal entries to record the warranty expense for the month of June and the cost the warranty work completed in June.

(2) If the Estimated warranty liability account had a credit balance of $20,000 on May 31, what is the account balance at june30?

|  |  |  |  |
| --- | --- | --- | --- |
| Credit  | Debit | Account | Trans |
|  | 54,000 | Warranty expense | 1 |
| 54,000 |  |  Estimated warranty liability |  |
|  |  | **20,000+54,000-24,000=50,000** | 2 |

**Part(B)**

The Blue Fin partnership agrees to dissolve the cash balance after selling all assets paying all liabilities is $112,000 the final capital account balances are: smith, $66,000; Nagy, $54,000 and Russ, ($8,000). Russ agrees to pay $8,000 cash from his personal funds to settle his deficiency.

Prepare the journal entries to record the transactions required to dissolve this partnership.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit |  Account | trans |
|  | 8,000 | Cash |  |
| 8,000 |  |  Russ, Capital |  |
|  |  |  |  |
|  | 66,000 | Smith, Capital |  |
|  | 54,000 | Nagy, Capital |  |
| 120,000 |  |  Cash  |  |

 **Part(C)**

Armstrong plans to leave the FAP Partnership. The recorded balance in her capital account is $24,000, the remaining partners, peters and Floyd, agree to pay Armstrong $29,000 cash from the partnership and Armstrong accepts. The partners share income and loss equally.

Required: prepare the journal entry to record the withdrawal of Armstrong.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 24,000 | Armstrong, Capital |  |
|  | 2,500 | Peters, Capital |  |
|  | 2,500 | Floyd, Capital |  |
| 29,000 |  |  Cash  |  |

**Past Exam 3**

**Question 1: (Part A)**

Waleed, Fahad & Salman are partners & Share income & Loss in 3:2:2 ratios. The partnerships capital balances as follows: Waleed $332,000; $124,000 & Salman $114,000. On 31st Dec Salman decide to withdrew from the partnership & the partnership agrees to pay $120,000 cash for his equity share. **Prepare the journal entry to record the Salmans withdrawals.**

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Question 1: (Part B)**

Salman & Nasser are the partners. Salman’s Capital balances in the partnership is $64,000 & Nasser capital Balance $61,000. Salman & Nasser have agreed to share equally income or loss. On 1st Oct, Salman & Nasser agree to accept Hamad with a 20% Interest. Hamad will invest $25,000 in the partnership. **Prepare the journal entry to record the Hamad Admissions.**

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 25,000 | Cash |  |
|  | 2,500 | Salman, Capital |  |
|  | 2,500 | Nasser, Capital |  |
| 30,000 |  |  Hamad, Capital |  |

**Question 2:**

 A company Sells Equipment with 6-month warranty. On 1st Dec 2017, the company sold 1,000 Equipment for $75 each. Its estimated that 5% of all units sold need repairs under warranty at an estimated cost of $15 per unit. During the month of Jan2018,10 Equipment were turned in for repairs & total repairs cost amounted to $250 from the repairs parts inventory.

**1-prepare the adjusting entry on 31Dec,2017**

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account  | Trans. |
|  | 750 | Warranty expense |  |
| 750 |  |  Estimated warranty liability |  |

**2-what is the remaining balance for warranty liability at the end of Jan2018**

**750-250=500**

**Question 3: (Part A)**

Hamad,Nasser & Salman having a partnership business with capital Contributions of $300,000;$350,000 & $400,000 respectively. Their partnership agreement mentioned that Hamad to Receive a $36,000; Nasser $30,000 & Salman in entitled for $40,000 Annual Salaries. Also,each partner is to receive an interest allowance equal to 5% of partner capital beginning investment. The remaining income or loss is to be divided equally. The net income for the current year is $250,000. **Allocate annual net income between Partners as on Dec 31st.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net incomeSalaries AllowancesInterest AllowancesTotal Salaries & Interest AllowancesBalance of IncomeAllocation of Bal Equally**Balance for Each Partner** | Hamad36,00015,00030,500**81,500** | Nasser30,00017,50030,500**78,000** | Salman40,00020,00030,500**90,500** | Total250,000106,00052,500158,50091,500 |

Prepare general entry for income allocation on Dec31

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account  | Trans. |
|  | 250,000 | Income Summary |  |
| 81,500 |  |  Hamad, Capital |  |
| 78,000 |  | Nasser, Capital |  |
| 90,500 |  | Salman, Capital |  |

**Question 3: (Part B)**

Salman, Hamad, & Nasser who share income & loss in a 2:2:1 ratio, plan to Liquidate their partnership. At liquidation, their balance sheet appears below:

**Muharraq Partnership**

**Balance sheet**

**Assets Liabilities & Equity**

Cash 75,000 account payable 111,000

Land 300,000 Salman Capital 105,000

 Hamad, Capital 89,000

 Nasser, Capital 70,000

**Total assets 375,000 Total Liabilities & Equity 375,000**

**Prepare the journal entries for the liquidation process assuming that the business sold land for $250,000.**

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 250,000 | Cash  | 1 |
|  | 50,000 | Loss on Liquidation |  |
| 300,000 |  |  Land  |  |
|  | 20,000 | Salman, Capital | 2 |
|  | 20,000 | Hamad, Capital |  |
|  | 10,000 | Nasser, Capital  |  |
| 50,000 |  |  Loss on Liquidation |  |
|  | 111,000 | Account payable | 3 |
| 111,000 |  |  Cash |  |
|  | 85,000 | Salman, Capital | 4 |
|  | 69,000 | Hamad, Capital |  |
|  | 60,000 | Nasser, Capital  |  |
| 214,000 |  |  Cash |  |

**Question 4:**

Provide your answer for (Multiple choice) Below. Please use capital Letters(A,B,C,D)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Question No | 1 | 2 | 3 | 4 | 5 |
| Answer |  |  |  |  |  |

1. A partnership agreement:
2. **Is binding even if it’s not in writing**
3. Is the sarae as limited liability partnership?
4. Is not binding unless it’s in writing
5. Doesn’t generally address the issue of the rights & Duties of the partners
6. Ahmed wishes to withdraw from a partnership from the following which option he can exercise:
7. Selling his interest to another person in exchange for Assets
8. Receiving cash from the partnership in the amount of his interest
9. Receiving assets from the partnership in the amount of his interest
10. **All of the above**
11. Sara,Noora & Ali are dissolving their partnership. Their partnership agreement allocates equal share to each partner of all income & losses. The current periods ending capital account balances are Sara,$45,000;Noora $37,000 & Ali (5,000). After all assets are sold & all liabilities are paid there is $77,000 in cash to distributed. Ali is unable to pay the Deficiency. The journal entry to record the final distribution of cash should be:
12. Sara, Capital 25,667

Noora, Capital 25,667

Ali , Capital 25,666

 Cash 77,000

1. Sara, Capital 45,000

Noora, Capital 37,000

 Ali , Capital 5,000

 Cash 77,000

1. **Sara, Capital 42,500**

**Noora, Capital 34,500**

 **Cash 77,000**

1. Sara, Capital 40,000

Noora, Capital 25,667

Ali , Capital 25,666

 Cash 77,000

1. Khaled & Salman are forming a Partnership. Kahled is investing a building that has a market value of $80,000. However, there is a notes of $56,000 that will be assumed by the partnership. Salman is investing $20,000cash. The balance of Khaled’s Capital account will be:
2. $80,000
3. 44,000
4. 56,000
5. **24,000**
6. On Nov1st , Hidd Industrial Company signed a 120 Day,10% Note Payable face value of $9,000 & made the appropriate year end accrual. What is the journal entry as of Dec 31st to record the interest expense of the note assuming 360 days in a year?
7. Interest expense 900

 Interest payable 900

1. **Interest expense 150**

 **Interest payable 150**

1. Cash 900

 Interest payable 900

1. Interest expense 900

 Notes payable 900

**Expected questions**

**Part A :Multiple choice Questions**

1-A contingent liability:

A. Is always of a specific amount.

B. Is a potential obligation that depends on a future event arising from a past transaction or event?

C. Is an obligation not requiring future payment?

D. Is an obligation arising from the purchase of goods or services on credit?

E. Is an obligation arising from a future event?

2- On December 1, Martin Company signed a 90-day, 6% note payable, with a face value of $5,000. What amount of interest expense is accrued at December 31 on the note?

A. $0

B. $25

C. $50

D. $75

E. $300

3- A company sells computers at a selling price of $1,800 each. Each computer has a 2 year warranty that covers replacement of defective parts. It is estimated that 2% of all computers sold will be returned under the warranty at an average cost of $150 each. During November, the company sold 30,000 computers, and 400 computers were serviced under the warranty at a total cost of $55,000. The balance in the Estimated Warranty Liability account at November 1 was $29,000. What is the company's warranty expense for the month of November?

A. $26,000

B. $45,000

C. $55,000

D. $60,000

E. $90,000

4- Chen and Wright are forming a partnership. Chen will invest a building that currently is being used by another business owned by Chen. The building has a market value of $90,000. Also, the partnership will assume responsibility for a $30,000 note secured by a mortgage on that building. Wright will invest $50,000 cash. For the partnership, the amounts to be recorded for the building and for Chen's Capital account are:

A. Building, $90,000 and Chen, Capital, $90,000.

B. Building, $60,000 and Chen, Capital, $60,000.

C. Building, $60,000 and Chen, Capital, $50,000.

D. Building, $90,000 and Chen, Capital, $60,000.

E. Building, $60,000 and Chen, Capital, $90,000

5- Rice, Hepburn, and DiMarco formed a partnership with Rice contributing $60,000, Hepburn contributing $50,000 and DiMarco contributing $40,000. Their partnership agreement called for the income (loss) division to be based on the ratio of capital investments. If the partnership had income of $75,000 for its first year of operation, what amount of income (rounded to the nearest dollar) would be credited to DiMarco's capital account?

A. $20,000.

B. $25,000.

C. $30,000.

D. $40,000.

E. $75,000

6- Which of the following statements is true?

A. Partners are employees of the partnership.

B. Salaries to partners are expenses on the partnership income statement.

C. Salary allowances usually reflect the relative value of services provided by partners.

D. Salary allowances are expenses.

E. Interest allowances are expenses

7- The partnership agreement for Smith Wesson & Davis, a general partnership, provided that profits be shared between the partners in the ratio of their financial contributions to the partnership. Smith contributed $100,000, Wesson contributed $60,000 and Davis contributed $20,000. In the partnership's first year of operation, it incurred a loss of $210,000. What amount of the partnership's loss, rounded to the nearest dollar, should be absorbed by Smith?

A. $70,000

B. $116,667

C. $23,333

D. $105,000

E. $52,500

8- Regina Harrison is a partner in Pressed for Time. An analysis of Regina Harrison's capital account indicates that during the most recent year, she withdrew $20,000 from the partnership. Her share of the partnership's net loss was $16,000 and she made an additional equity contribution of $10,000. Her capital account ended the year at $150,000. What was her capital balance at the beginning of the year?

A. $124,000

B. $144,000

C. $192,000

D. $176,000

E. $134,000

9- A bonus may be paid:

A. By a new partner when the current value of a partnership is greater than the recorded amounts of equity.

B. By a withdrawing partner to remaining partners if the recorded value of the equity is overstated.

C. To a new partner with exceptional talents.

D. By remaining partners to a withdrawing partner if the recorded equity is understated.

E. All of these.

10- Groh and Jackson are partners. Groh's capital balance in the partnership is $64,000, and Jackson's capital balance $61,000. Groh and Jackson have agreed to share equally in income or loss. Groh and Jackson agree to accept Block with a 20% interest. Block will invest $35,000 in the partnership. The bonus that is granted to Groh and Jackson equals:

A. $1,500 each.

B. $1,875 each.

C. $3,750 each

D. 1,920 to Groh; $1,830 to Jackson.

E. $0, because Groh and Jackson actually grant a bonus to Block.

11-Refer to the above question the bonus if Groh and Jackson agree to accept Block with a 25% interest that is granted to Block equals:

A. $5,000.

B. $2,500.

C. $6,667

D. $3,333

E. $0, because Block must actually grant a bonus to Groh and Jackson

12- When a partnership is liquidated:

A. Noncash assets are converted to cash.

B. Any gain or loss on liquidation is allocated to the partners' capital accounts using the income and loss sharing ratio.

C. Liabilities are paid or settled.

D. Any remaining cash is distributed to the partners based on their capital balances.

E. All of these

13- When a partner is unable to pay a capital deficiency:

A. The partner must take out a loan to cover the deficient balance

B. The deficiency is absorbed by the remaining partners.

C. The partnership ends.

D. The deficient partner has a personal liability to pay the deficiency. .

E. Both B and D

14- A capital deficiency means that:

A. The partnership has a loss.

B. The partnership has more liabilities than assets.

C. At least one partner has a debit balance in his/her capital account.

D. At least one partner has a credit balance in his/her capital account.

E. The partnership has been sold at a loss.

15- Unearned revenues are:

A. Also called deferred revenues.

B. Amounts received in advance from customers for future delivery of products or services.

C. Also called collections in advance.

D. Also called prepayments.

E. All of these

**Part B : problem solving**

**Question one :**

On December 1, Blue Company borrowed $45,000 cash from a bank by signing 90-day, 9% note payable.

Prepare the journal entries for:

(a)  Issuing the note.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 45,000 | Cash  | Dec,1 |
| 45,000 |  |  Notes Payable |  |

(b)  The accrued interest on 31 December.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 337.5 | Interest Expense | Dec,31 |
| 337.5 |  |  Interest Payable |  |

(c)  The settlement of the note on 1 March next year.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 45,000 | Notes payable |  |
|  | 675 | Interest Expense |  |
|  | 337.5 | Interest Payable |  |
| 46,012.5 |  |  Cash  |  |

**Question two** :

 A company sells machines for $4,600 each.  The price includes a two-year warranty. During the current year, the company sells 250 machines. On the basis of past experience, the warranty costs are estimated to be $120 per machine. The actual warranty costs during the current year were $28,000 from the parts inventory.

Prepare the journal entries for:

(a)  Estimated warranty expense.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account  | Trans. |
|  | 30,000 | Warranty expense |  |
| 30,000 |  |  Estimated warranty liability |  |

(b)  Actual warranty costs.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 28,000 | Estimated warranty liability |  |
| 28,000 |  |  Parts inventory |  |

**Question three :**

Yusuf and Nooh are partners, with capital balances of $32,000 and $30,500, respectively. Yusuf and Nooh have agreed to share equally in income or loss. They currently agreed to accept Ebrahim in the partnership.

Prepare the journal entry, if:

(a)  Ebrahim purchased half of Yusuf's interest for $20,000 cash.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 16,000 | Yusuf, Capital |  |
| 16,000 |  |  Ebrahim, Capital |  |

(b)  Ebrahim invested $37,500 cash and was given 30% interest in the partnership.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 37,500 | Cash  |  |
| 30,000 |  |  Ebrahim, Capital |  |
| 3,750 |  |  Yusuf, Capital |  |
| 3,750 |  |  Nooh, Capital |  |

**Question four** :

 Suha, Ali and Mariam share income and loss in a 2:1:2 ratio, plan to liquidate their partnership. At liquidation, their balance sheet appears as follows:

|  |  |  |
| --- | --- | --- |
| Assets |   | Liabilities and Equity |
| Cash | 174,900 |   | Accounts payable | 171,300 |
| Inventory | 8,000 |   | Suha, Capital | 100,200 |
| Equipment | 300,000 |   | Ali, Capital | 97,900 |
|   |   |   | Mariam, Capital | 113,500 |
| Total assets | 482,900 |   | Total liabilities and equity |  482,900 |

Prepare the journal entries for:

(a) the sale of inventory and equipment for $100,000 cash.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 100,000 | Cash  |  |
|  | 208,000 | Loss on Liquidation |  |
| 8,000 |  |  Inventory |  |
| 300,000 |  |  Equipment |  |

(b) the allocation of gain or loss.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 83,200 | Suha, Capital |  |
|  | 41,600 | Ali, Capital |  |
|  | 83,200 | Mariam, Capital |  |
| 208,000 |  |  Loss on Liquidation |  |

(c) the payment of liabilities

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 171,300 | Account payable |  |
| 171,300 |  |  Cash  |  |

(d) the final distribution of cash.

|  |  |  |  |
| --- | --- | --- | --- |
| Credit | Debit | Account | Trans. |
|  | 17,000 | Suha, Capital |  |
|  | 56,300 | Ali, Capital |  |
|  | 30,300 | Mariam, Capital |  |
| 103,600 |  |  Cash  |  |