Glencoe Accounting

Chapter 27: Introduction to Partnerships

I-Summary

Partnerships may range in size from a small local retail business to a multinational operation. Regardless of the size, these businesses have unique accounting concerns when it comes to the investments of the partners and the distribution of profits or losses. In this chapter you learned how to record investments and allocate profits and losses to partners using different methods.

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I-Quiz

1. The decision to end a partnership is an example of which characteristic of partnerships?

A. mutual agency
B. limited life
C. unlimited liability

2. If the partnership agreement does not specify how net income or loss should be divided, what does the law dictate?

A. division equally among partners
B. division by ratio of partners' investments
C. no division can take place

3. The advantages to a partnership do NOT include which of the following?

A. ease of formation
B. unlimited liability
C. few legal restrictions

4. How is a contribution of cash to the partnership by *Partner A* journalized?

A. Debit Cash in Bank; Credit Partner A, Capital
B. Debit Cash in Bank; Credit Income Summary
C. Debit Partner A, Capital; Credit Cash in Bank

5. If a partnership incurs a net loss for the period, what will the journal entry to divide the loss between the partners include?

A. debits to the partners' capital accounts
B. a debit to Income Summary
C. both of these

Answer Key
1. B
2. A
3. B
4. A
5. A