I. Please answer the following statements as true or false.

1. When partners invest in a partnership, their capital accounts are credited for the amount invested.

2. The withdrawals account of each partner is closed to retained earnings at the end of the accounting period.

3. Salary allowances are reported as salaries expense on a partnership income statement.

4. When a partnership is liquidated, its business is ended.

5. The equity section of the balance sheet of a partnership can report the separate capital account balances of each partner.

6. If a partner is unable to cover a deficiency and the other partners absorb the deficiency, then the partner with the deficiency is thus relieved of all liability.

7. Corporations are subject to substantially fewer regulations and laws than are proprietorships and partnerships.

8. Stock is attractive to investors because stockholders are not liable for the corporation’s actions and debts and because stock is easily transferred.

9. Retained earnings generally consist of a company’s cumulative net income less any net losses and dividends declared since its inception.

10. Organization costs are sometimes paid for by giving stock to the promoters of a corporation in exchange for their services in organizing the corporation.

11. A stock dividend reduces a corporation’s assets and its stockholders’ equity.

12. Callable preferred stock gives its holders the option of exchanging their preferred shares into common shares at a specified rate.

II. Complete the following statements with the proper word(s).

1. A new partner can be admitted into a partnership by ____________________________

   ____________________________ or by ____________________________.
2. List two reasons why a partnership can dissolve. ____________________________
   and ____________________________.

3. After all partnership assets have been converted to cash and all liabilities paid, why
does the remaining cash equal the balances in the partnership accounts? ____________________________
   ____________________________.

4. Sue Smart gifts her interest in a partnership to her son-in-law, Lenny Larue, when
Sue’s capital balance is $285,600. What entry will be recorded on the partnership books?
   ____________________________ Dr and ____________________________ Cr.

5. A partnership can be defined as
   ____________________________
   ____________________________
   ____________________________.

6. A corporation is responsible for its own acts and debts. This is because a corporation
is considered a ____________________________.

7. A ____________________________ keeps stockholder records and prepares official lists
of stockholders for stockholder meetings and dividend payments.

8. Stock that has been issued and is held by stockholders is ____________________________
stock.

9. ____________________________ are corrections of material
   errors in prior period financial statements which are corrected in the Retained Earnings
   account.

10. When do dividends in arrears occur? ____________________________
    ____________________________
    ____________________________.

III. Select the best answer to the following statements.
    1. Partnership accounting:
a. uses a capital account for each partner
b. uses a withdrawals account for each partner
c. allocates net income to each partner according to the partnership agreement
d. allocates net loss to each partner according to the partnership agreement
e. all of the above
2. Joe and Sarah are partners. Joe's capital balance in the partnership is $64,000 and Sarah's capital balance is $61,000. They have agreed to share equally in income or loss. Joe and Sarah agree to accept John with a 20% interest and John will invest $35,000 in the partnership. The bonus that is granted to Joe and Sarah equals:
   a. $1,500 each
   b. $1,875 each
   c. $3,750 each
   d. $1,920 to Joe and $1,830 to Jackson
   e. $0 because Joe and Sarah actually grant a bonus to John

3. 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

4. In a partnership agreement, if the partners agreed to an interest allowance of 10% annually on each partner's investment, the interest allowance:
   a. is ignored when earnings are not sufficient to pay interest.
   b. can make up for unequal capital contributions
   c. is an expense of the business
   d. must be paid because the partnership contract has unlimited life
   e. legally becomes a liability of the general partner

5. Which of the following statements is generally correct?
   I. A limited partner in a limited partnership has the right to take part in the management of the partnership.
   II. A limited partner is subject to personal liability for the limited partnership's debts.
   a. I only
   b. II only
   c. Neither I nor II
   d. Both I and II
   e. impossible to answer without knowing the state in which the partnership was formed

6. The board of directors of a corporation:
   a. are elected by the corporate registrar
   b. are responsible for the day-to-day operations of the business
   c. do not have the power to bind the corporation to contracts, due to lack of mutual agency
   d. may not also be executive officers of the corporation due to the separate entity principle
   e. are responsible for and have final authority for managing corporate activities

7. Par value of stock refers to the:
8. A corporation’s minimum legal capital is often defined to be the total par value of the shares:
   a. issued
   b. authorized
   c. subscribed
   d. outstanding
   e. in treasury

9. A liability for dividends exists:
   a. when cumulative preferred stock is sold
   b. on the date of declaration
   c. on the date of record
   d. on the date of payment
   e. when dividends in arrears accrue on cumulative preferred stock

10. A stock dividend transfers:
    a. Paid-in capital to Retained Earnings
    b. Retained Earnings to paid-in capital
    c. Retained Earnings to assets
    d. Paid-in capital to assets
    e. Assets to paid-in capital

IV. Essay

1. List and explain the steps in a liquidation of a partnership.

2. Identify and describe the main two components of stockholders’ equity.
V. Treasury Stock Transactions for Winter Follies, Inc.
a. Prepare the proper journal entries for the following transactions.

April 9, 2009  Purchased 4,800 shares of treasury stock at $60 per share

June 9, 2009  Sold 2,200 shares of treasury stock at $63 per share

Sept 17, 2009 Sold 2,600 shares of treasury stock at $57 per share

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VI. Cash and Stock Dividend Transactions for Hart’s Adventures, Inc.
a. Declared a cash dividend on July 15, 2009, of $1.25 per common share, for stockholders of record on July 23. Shares of 800,000 have been issued with a $15 par value.
b. Paid the cash dividend on August 5, 2009
c. Declared a 8% stock dividend on October 12, 2009, to stockholders of record on October 21, to be distributed on November 1, 2009.
d. Distributed the stock dividend on November 1, 2009.
VII. Partnership Income Allocation
Terri and Tristan formed a partnership on January 1, 2008, with Terri contributing an investment of $200,000 and Tristan contributing $150,000. Net income for 2008 was $130,000 and for 2009 was $105,000. Distribute the income for each year, assuming profits are divided as follows:

a. Based on a 2:3 ratio
b. The partners failed to specify an income-loss-sharing ratio.
c. Based on the ratio of the partners' original investments
d. The partners are allowed salary allowances of $50,000 for Terri and $40,000 for Tristan, a 11% interest allowance based on their original investments, and the remainder to be divided equally.

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<td>Terri</td>
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SHOW SUPPORTING CALCULATIONS BELOW:

VIII. Book Value per Share
The Stockholders' Equity of Ski Montana, Inc. appears as follows at 12/31/08:
Preferred Stock, $50 par value, 8% cumulative, 100,000 shares authorized, 50,000 shares issued and outstanding $2,500,000
Paid-in Capital in excess of par value, Preferred 125,000
Common Stock, $10 par value, 500,000 shares authorized, 400,000 shares issued and outstanding 4,000,000
Paid-in Capital in excess of par value, Common 1,200,000
Total Paid-in Capital 7,825,000
Retained Earnings 10,775,000
Total Stockholders' Equity 18,600,000

1. What are the book values of the corporation's shares of stock?
   Book Value of Preferred $ ________ Book Value of Common $ ________

2. Assuming a call price of $80 per preferred stock and three years of cumulative dividends in arrears, what are the book values of the corporation's shares of stock?
   Book Value of Preferred $ ________ Book Value of Common $ ________

SHOW SUPPORTING CALCULATIONS BELOW: