# a study on accounting for PARTNERSHIPS and CORPORATIONS in the 21st century in the Philippines

Simplified discussions with illustrations
Explanations in step-by-step computations
Portrait and landscape presentations
Comparative tables
Questions to answer
Progressing problems to solve
A TEXTBOOK AND WORKBOOK
and with
A Review on Basic Accounting

2019 Edition

VIRGILIO D. REYES

# a study on accounting for PARTNERSHIPS and CORPORATIONS

in the 21st century in the Philippines

Authored by VIRGILIO D. REYES

A CPA and a Lawyer

Vice-Head Department of Taxation and Tariff

College of Business Administration University of the East, Manila

Faculty Member in Taxation: College of the Holy Spirit, Manila

De La Salle University, Manila Far Eastern University, Manila San Beda College, Manila St. Paul University, Manila St. Scholastica's College, Manila

University of the East, Manila

University of the Philippines, Quezon City

University of Santo Tomas

Special Lecturer in Taxation: (Enhancement/integration lectures)

De La Salle University, Manila San Beda College, Alabang

Pamantasan Ng Lungsod Ng Maynila San Sebastian College, Manila St. Louis University, Baguio City St. Scholastica's College, Manila

Technological Institute of the Philippines

University of the East, Kalookan University of the East, Manila

Chairholder (in Taxation)

Far Eastern University, Manila

**CPA Reviewer in Taxation** 

Institute of Professional Review and Skills

Development

De La Salle University, Manila

Manila Review Center

Professional Review and Training Center

University of the East

University of the East Center for Review and

Special Studies

University of Santo Tomas

Edited by ROSEELE B. REYES

Bachelor of Science in Accountancy

Copyright, Philippines, 2019 by VIRGILIO D. REYES and ROSELLE B. REYES

All rights reserved. Printed in the Philippines. No part of this book may be used or printed in any form or by any means, or stored in a database or retrieval system, without the prior written approval of the author.

Any copy of this book without the signature of the author on this page will be considered as coming from an illegal source.

WARNING 1: For any violation of the property rights of the author, protection and enforcement will be sought under the Philippine copyright laws, the New Civil Code of the Philippines, the Revised Penal Code of the Philippines, and the international conventions to which the Philippines is a signatory, and criminal and civil proceedings will be uncompromisingly and vigorously pursued against whoever may publish, print, or sell the unauthorized copy of the book. Violation of the rights of the author by a lawyer or CPA will also result in an administrative case for disbarment or cancellation of the CPA certificate.

WARNING 2: A possessor of any unauthorized copy of the book by purchase is in violation of the anti-fencing law that will result in a penalty on him of fine/ imprisonment.

WARNING 3: The teacher who allows the use of any unauthorized copy of this book or any unauthorized reproduction of any of its pages, or, without adopting the book as textbook, gives as materials for home study any portion of discussion, illustration or problem in this book, is a model of a teacher who is not upright and has no right to stand before the class professing what is good. He/she is teaching wrong values. On top this, he/she is exposing the school to a possible charge of conspiracy on the wrongful act, and with him/her, the authorities of the school to be open to administrative, civil and criminal cases for violation of the property right of the author.

WARNING 4: What is your religion? Who is your Creator? Do you fear your Creator? Do only what is right...to use a book from an illegal source is to dishonor Him...and He will not bless you for a good understanding and good retention of what you read...for a temporary mundane advantage, you have reduced a perfect opportunity for a blessed quest for knowledge.

ALL RIGHTS RESERVED

ISBN: 978-621-416-070-9 Published & Printed By:

GIC ENTERPRISES & CO., INC.

\*National Book Development Board Registered 2017 C.M. Recto Avenue Manila, Philippines

#### CONTENTS

#### THE PARTNERSHIP

#### **Chapter 1. INTRODUCTION**

1-1

Single proprietorship. Partnership and corporation: Definition by law of partnership. Definition by law of corporation. Registration requirements on single proprietorship, partnership and corporation. Differences under the law between partnership and corporation. Discussion questions.

#### Chapter 2. THE PARTNERSHIP AND THE PARTNERS

2-1

What is a partnership? Formalities in the formation of partnership: The law. Kinds of partners. Prohibition on partners: The law. Contributions by partners: Contribution in money. Contribution in property. Contribution in services. Discussion questions. Exercises.

### Chapter 3. TRANSACTIONS OF THE PARTNERSHIP

3-1

Transactions with partners: The law. Contribution of partner to partnership capitalization. Partner's payment of partnership obligation. Partner's collection of partnership receivable. Partnership loan to partners. Transactions with third parties. Illustrations. Discussion questions.

#### Chapter 4. DISRIBUTION OF NET INCOME OR NET LOSS

4-1

The account titles involved: Capital and Drawing accounts. Agreed sharing. No agreed sharing: Sharing will be according to capital contribution. Based on capital balances at the beginning of the year; Based on capital balances at the end of the year before distribution of income of the year. Based on simple average of capital during the year. Based on weighted average of capital during the year. Other arrangements: Interest on capital investment. Salary. Bonus as a way of profit distribution. Illustrations. Discussion questions. Exercises.

#### Chapter 5. YEAR-END PROCEDURES

5-1

The worksheet. Adjusting entries. Closing entries.

#### Chapter 6. FINANCIAL STATEMENTS.

6-1

Statement of Financial Position. Statement of Changes in Partners' Equity. Return on equity (ROE). Illustrations. Discussion questions. Exercise.

# Chapter 7. DISSOLUTION OF PARTNERSHIP - 1 ADMISSION OF NEW PARTNER

7-1

The law: Legal implications on admission of new partner. No cash inflow from the new partner. With cash inflow from the new partner: Capitalization of new partner is equal to his investment. Revaluation of partnership assets and capitalization of new partner is equal to his investment. Admission of new partner with bonus to old partners. Admission of new partner with bonus to new partner. Admission of new partner with goodwill to old partners. Admission of new partner with goodwill to new partner. Old books of accounts to be used. New books of accounts to be used. Illustrations. Discussion questions. Exercises.

# Chapter 8. DISSOLUTION OF PARTNERSHIP – 2 RETIREMENT AND DEATH OF PARTNER

8-

Retirement of all partners. Retirement of partner and remaining partners to continue the business. Retirement of a partner, bonus to the remaining partners, remaining partners to continue the business. Retirement of a partner, bonus to the retiring partner, remaining partner to continue the business. Death of a partner and the remaining partners will continue the business. Death of a partner and the remaining partners will continue the business. Old books of

accounts to be used. New books of accounts to be used. Illustrations. Discussion questions. Exercises.

## Chapter 9. DISSOLUTION OF PARTNERSHIP - 3 SALE OR INCORPORATION OF PARTNERSHIP

9-1

Sale of partnership to a buyer (not a corporation). Books of accounts of the partnership. Books of accounts of the buyer. Sale of partnership to a corporation. Books of accounts of the partnership. Books of accounts of the corporation. Incorporation of an existing partnership. Illustrations. Discussion questions. Exercises.

# Chapter 10. OTHER CAUSES OF DISSOLUTION

10-1

The law. Discussion questions.

#### Chapter 11. LIQUIDATION

11-1

The process of liquidation: Sale of assets, payment of liabilities and distribution of remaining assets to partners. Schedule of liquidation. Illustration. Discussion questions. Exercise.

#### Chapter 12. INCOME TAX

General professional partnership: Not subject to income tax. Other than general professional partnership. Subject to the income tax rules on corporations. Illustrations. Discussion questions.

#### THE CORPORATION

# Chapter 13. THE CORPORATION AND THE GOVERNING BODY

13-1

Organization of the corporation. "Right of succession". "Trust fund doctrine". Books of the corporation. Organization of the Board of Directors. Organization costs. The capitalization of the corporation. Discussion questions. Exercise.

# Chapter 14. PAR VALUE SHARES

14-1

Kinds of contributed capital. What is a par value share? Only fully paid shares are issued certificates of stock. Pro-forma journal entries: Issue of shares at par value. Issue of shares above par value. Recording the capitalization of the corporation: Memorandum entry method; Journal entry method. Comparative recording of transactions on shares under the memorandum method and the journal entry method. Account titles on issue of shares. When ordinary shares only: Subscription receivable, Share subscribed, Share capital, share premium. When ordinary shares with preference shares: On ordinary shares: Subscription receivable, Share subscribed - ordinary, Share capital - ordinary, Share premium - ordinary, On preference shares: Subscription receivable, shares subscribed - preference, share capital - preference, share premium - preference. Issue of share for cash: Issue at par value. Issue above par value. Issue below par value - the "watered stock". Issue of shares of stock for property. Property paid has value equal to the par value. Property paid for common and preferred shares together: Premium can be identified as to what pertains to common and what pertains to preference. If premiums cannot be identified: allocation of premium under the proportional method or incremental method. Shares of stock issued for services. The billing to the corporation for the services. If there is no billing, the fair market value of the services. Subscription receivable. Call for unpaid subscription. Sale at public auction of delinquent share: The highest bidder. Lack of a bidder. Illustrations. Discussion questions. Exercises,

#### Chapter 15. TREASURY SHARES

What is treasury share? Treasury shares are not entitled to dividend. Treasury shares cannot vote in any meeting of the stockholders. What is the cost of treasury shares? The cost of treasury shares on hand is a restriction on Retained Earnings: It reduces the amount that can be paid as dividend. Acquisition by the corporation of treasury shares. What may the corporation do with the treasury shares? Keep the treasury shares. The Stockholders' Equity in the Statement of Financial Position when: The Retained Earnings account has a balance and all the treasury shares are still held. Reissue of treasury shares: Reissue at cost. Reissue at a gain. Reissue at a loss. Illustrations. Discussion questions. Exercises.

#### Chapter 16. ISSUE OF NO PAR VALUE SHARE

16-1

Two kinds of no par value shares: No par with stated value and no par with no stated value. Comparative features and rules on no par with stated value share and no par with no stated value share. Illustrations. Discussion questions. Exercises.

#### Chapter 17. RETAINED EARNINGS

17-1

What transactions go into the Retained Earnings account. Appropriation of Retained Earnings; Release from appropriation of Retained Earnings. Penalty on improper accumulation of profits. Discussion questions.

#### Chapter 18. DIVIDEND

18-1

What is dividend? The dividend dates: Date of declaration, date of record, and date of payment. Cash dividend. Cash dividend to preference shares. Kinds: Non-cumulative, non-participating; Cumulative, non-participating; Non-cumulative, participating; Cumulative, participating. Share dividend. Property dividend. Liquidating dividend. Illustrations. Discussion questions. Exercises.

#### **Chapter 19. FINANCIAL STATEMENTS**

19-1

Statement of Financial Position. A Challege to the student. A suggestion. The parts of the Equity Section of the Statement of Financial Position. Statement of Changes in Equity. Statement of Cash Flows: the direct method. Discussion questions. Exercises.

# Chapter 20. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

20-1

Formulas. Illustrations. Discussion questions. Exercises.

#### Chapter 21. INCOME TAX

21-1

The formula. Normal tax. Minimum corporate income tax. Discussion questions. Exercises.

#### APPENDIX. A REVIEW ON THE BASICS OF ACCOUNTING

A-1