

## Partnership Accounts

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### The need for partnerships

this is a long-term commitment to operate in business together. The people who own a partnership are called partners. They do not have to be based or work in the same place, though most do. However, they maintain one set of accounting records and share the profits and losses.

### Nature of a partnership

a partnership has the following characteristics:

- 1) It is formed to make profits.
- 2) It must obey the law as given in the Partnership Act
- 3) Normally there can be a minimum of two partners and a maximum of twenty partners. Exceptions are banks, where there cannot be more than ten partners; and there is no maximum for firms of accountants, solicitors, stock exchange members, surveyors, auctioneers, valuers, estate agents, land agents, estate managers, or insurance brokers.
- 4) Each partner (except for limited partners described below) must pay their share of any debts that the partnership could not pay. If necessary, they could be forced to sell all their private possessions to pay their share of the debts. This can be said to be unlimited liability.
- 5) Partners who are not limited partners are known as general partners.

### Advantages

- Increased amount of capital available for big ventures or expansion
- Risk and Responsibilities are shared among partners
- Pooling of unique skills and abilities creating a mix and balance
- Less formalities and regulations than a company

### Disadvantages

- Limited ability to raise capital
- Unlimited Liability means all partners are individually responsible for business debts
- Conflicts and delays in decision making
- Lack of continuity upon retirement, death, illness of one or more partners
- A partner cannot sell or transfer his share without the consent of other partners
- Each partner acts as an agent of the partnership who can bind other partners in contract with other partners which may affect the personal interest of others

### Limited partnerships

Limited partnerships are partnerships containing one or more limited partners. They must be registered with the Registrar of Companies. Limited partners are not liable for the debts. Limited partners have the following characteristics and restrictions on their role in the partnership:

1) Their liability for the debts of the partnership is limited to the capital they have put in. They can lose that capital, but they cannot be asked for any more money to pay the debts unless they contravene the regulations relating to their involvement.

2) They are not allowed to take out or receive back any part of their contribution to the partnership during its lifetime.

3) They are not allowed to take part in the management of the partnership or to have the power to make the partnership take a decision. If they do, they become liable for all the debts and obligations of the partnership up to the amount taken out or received back or incurred while taking part in the management of the partnership.

4) All the partners cannot be limited partners, so there must be at least one general partner with unlimited liability.

### **Partnership agreements**

Agreements in writing are not necessary. However, it is better if a written agreement is drawn up by a lawyer or an accountant. Where there is a proper written agreement there will be fewer problems between partners. A written agreement means less confusion about what has been agreed.

### **Contents of partnership agreements / Deed**

- Names of all the partners
- The capital to be contributed by each partner.
- The ratio in which profits (or losses) are to be shared.
- The rate of interest, if any, to be paid on capital before the profits are shared.
- The rate of interest, if any, to be charged on partners' drawings.
- Salaries / Commissions to be paid to partners.
- Arrangements for the admission of new partners.
- Procedures to be carried out when a partner admits, retires or dies.
- Duration of the partnership (If any)

### **Where no partnership agreement exists (Partnership Act 1980)**

(a) Profits and losses are to be shared equally (Irrespective of Capital Contributions)

(b) There is to be no interest allowed on capital.

(c) No interest is to be charged on drawings.

(d) Salaries / Commissions are not allowed.

(e) Partners who put a sum of money into a partnership in excess of the capital they have agreed to subscribe are entitled to interest at the rate of 5% per annum on such an advance.

(f) Equal capital contribution by each partner

(g) In case of any disagreement majority will make a decision

(h) New partner cannot be admitted without consent of all others

### Loan from partners

A partnership may borrow money from one of the partners if extra finance is required. Loans from partners are not part of the capital of the business and are treated in the same way as any other loan. In absence of partnership agreement / dispute a fix rate of interest of 5% is allowed to partner, on loan.

### Minimum Guaranteed Profit

Some times a partner is guaranteed that he/she will receive a minimum stated share of profit no matter a business earns sufficient profit or not. In that case he is given his minimum share and after that only other partners will divide the remaining profit or loss

ARD Partnership  
Appropriation Account for the year ended December 31, 2015

	Profit for the year		XXX
<b>Add</b>	<b>Interest on drawings</b>		
	Mr. A	XXX	
	Mr. R	XXX	XXX
<b>Less:</b>	<b>Interest on capital</b>		
	Mr. A	XXX	
	Mr. R	XXX	(XXX)
<b>Less:</b>	<b>Salaries / Bonus / Commission:</b>		
	Mr. A	XXX	
	Mr. R	XXX	(XXX)
	<b>Residual Profits</b>		<b>XXX</b>
	Mr. A (Remaining profit X share)	XX	
	Mr.R (Remaining profit X share)	XX	(XXX)

### Current Accounts

	A	R		A	R
<b>Balance b/d (Dr)</b>	<b>XXX</b>	<b>XXX</b>	OR	<b>Balance b/d</b>	<b>XXX XXX</b>
Drawings	XXX	XXX		Interest on Capital	XXX XXX
Interest on Drawings	XXX	XXX		Salaries	XXX XXX
Share of Loss	XXX	XXX		Bonus / commission	XXX XXX
				Profit share	XXX XXX
				Interest on Loan	XXX XXX
<b>Balance c/d</b>	<b>XXX</b>	<b>XXX</b>	OR	<b>Balance c/d (Dr)</b>	<b>XXX XXX</b>
	XXX	XXX			XXX XXX
<b>Balance b/d (Dr)</b>	<b>XXX</b>	<b>XXX</b>	OR	<b>Balance b/d</b>	<b>XXX XXX</b>



## Statement of Financial Position (Extract)

<b>Equity</b>		
Capital A/cs	– A	XXX
	– B	XXX
		<b>XXX</b>
Current A/c	– A	XX
	– B	(XX) Dr
		<b>XX</b>
Total Partners Equity / Net Assets		<b>XXX</b>

### Goodwill

Goodwill is an intangible asset. It can only exist if the business was purchased and the amount paid was greater than the value of the net assets. In many cases, goodwill represents the value of the reputation of the business at the time it was purchased.

**Purchased Goodwill = Total Price less value of net identifiable assets.**

### Reasons for payment of goodwill

- A Large number of regular customers who will continue to deal with the new owner.
- The business has a good reputation.
- It has experienced, efficient and reliable employees
- The business is situated in a good location.
- It has good contacts with suppliers
- It has well-known brand names that have not been valued and included as assets.

### Existence of goodwill

Goodwill does not necessarily exist in a business. If a business has a bad reputation, an inefficient labor force or other negative factors, it is unlikely that the owner would be paid for goodwill on selling the business.

### Amalgamation

When two or more sole traders agree to merge their business, it would be known as amalgamation. When businesses are amalgamated or when a new partner admitted, GOODWILL may be considered.

Goodwill is an intangible asset it can only exist if the business was purchased and the amount paid was greater than the value of the net assets taken over. Good will has a monetary value but no physical existence.

### Double Entry for Goodwill

#### 1. Creation of goodwill:

Goodwill	xxx
Capital A/cs	xxx

(Goodwill split in the **old** profit/loss sharing ratio)





If current accounts are not maintained by the company, then we record all the items in capital account, in the same way as we do in current account, using the opening balances of capital account.

### **Exam Focused theory Questions**

**Q. What do we record in partnership appropriation account?**

A. Appropriation account is the extension of income statement. It records the distribution of profit. Appropriation account records interest on drawings, interest on capital, salaries of partners, bonus or commission and at last profit share according to the ratios given.

**Q. What is the rate of interest allowed to a partner's loan, provided by a partner to a partnership? In the absence of partnership agreement.**

A. If a partner provided a loan to the partnership, he would be allowed fix rate of 5% interest in the absence of partnership agreement.

**Q. What is the difference between partnership and companies?**

Partnership	Companies
<ul style="list-style-type: none"> <li>• Minimum two and maximum twenty partners.</li> <li>• Less legal requirements as compared to companies.</li> <li>• Unlimited liability on the partners</li> <li>• Admission/death and retirement can cease partnership operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum twenty and no limits on maximum.</li> <li>• Needs to accomplish complex legal requirements.</li> <li>• Limited liability.</li> <li>• Operations cannot be affected due to admission death and retirement.</li> </ul>

**Q. What is the difference between company's appropriation and partnership appropriation account?**

A. Appropriation account is the extension of income statement. It record's the distribution of profit. Company's appropriation shows the distribution of profits as dividend together with the reserves and retained profit. But in partnership appropriation account net profit would be divided among the partners. Basic purpose of the appropriation is to distribute the profit between its partners/share holders.

**Q. State two accounting principles which support goodwill not being included in the balance sheet.**

A. Goodwill not being recorded is supported by

1. Money measurement concept
2. Prudence concept

## Goodwill for Sole Traders and Partnerships

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**Purchased Goodwill = Total Price less value of net identifiable assets.**

### Reasons for payment of goodwill

- A large number of regular customers who will continue to deal with the new owner.
- The business has a good reputation.
- It has experienced, efficient and reliable employees.
- The business is situated in a good location.
- It has good contacts with suppliers.
- It has well-known brand names that have not been valued and included as assets.

### Sole traders' books

Goodwill is only entered in a sole trader's accounts when it has been purchased. The existence of goodwill in the financial statements usually means that the business was purchased as a going concern by the owner. That is, the owner did not start the business from scratch

### Partnership books

although goodwill is not normally entered in the financial statements unless it has been purchased, sometimes it is necessary where partnerships are concerned.

This means that when something happens such as:

- (a) Existing partners decide to change profit and loss sharing ratios, or
  - (b) A new partner is admitted, or
  - (c) A partner retires or dies,
- then the ownership of goodwill by partners changes in some way.

### Change in profit sharing ratios of existing partners

sometimes the profit and loss sharing ratios have to be changed. Typical reasons are:

- A partner may now not work as much as in the past, possibly because of old age or ill-health.
- A partner's skills and ability may have changed, perhaps after attending a course or following an illness.
- A partner may now be doing much more for the business than in the past.

### Admission of new partners

New partners may be admitted, usually for one of two reasons:

- 1 As an extra partner, either because the firm has grown or because someone is needed with different skills.
- 2 To replace partners who are leaving the firm. This might be because of retirement or death of a partner.



## Goodwill on admission of new partners

The new partner will be entitled to a share in the profits. Normally, he will also be entitled to the same share of the value of goodwill. It is correct to charge him for his taking over that share of the goodwill.

## Goodwill adjustments when new partners admitted

this calculation is done in four stages:

- 1 Show value of goodwill divided between old partners in old profit and loss sharing ratios.
- 2 Then show value of goodwill divided between partners (including new partner) in the new profit and loss sharing ratio.
- 3 Goodwill gain shown: charge these partners for the gain.
- 4 Goodwill loss shown: give these partners an allowance for their losses.

## Goodwill on withdrawal or death of partners

### If there was no goodwill account

if no goodwill account already existed the partnership goodwill should be valued because the outgoing partner is entitled to his share of its value. This value is entered in double entry accounts:

- Debit goodwill account with valuation.
- Credit each old partner's capital account in profit sharing ratios.

### If a goodwill account exists

1 If a goodwill account exists with the correct valuation of goodwill entered in it, no further action is needed.

2 If the valuation in the goodwill account needs to be changed, the following will apply:

#### Goodwill undervalued

Debit increase needed to goodwill account.

Credit increase to old partners' capital accounts in their old profit-sharing ratios.

#### Goodwill overvalued

Debit reduction to old partners' capital accounts in their old profit-sharing ratios.

Credit reduction needed to goodwill account.

## Revaluation of partnership assets

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### Need for revaluation

it should be done whenever any of the following happens:

- a new partner is admitted;
- a partner leaves the firm;
- The partners change profit and loss sharing ratios.

### Accounting for revaluation

#### Revaluation account is opened

**1** For each asset showing a gain on revaluation:

Debit            asset account with gain.  
Credit            revaluation account.

**2** For each asset showing a loss on revaluation:

Debit            revaluation account.  
Credit            asset account with loss.

**3** If there is an increase in total valuation of assets:

Debit            profit to revaluation account.  
Credit            **old** partners' capital accounts in **old** profit and loss sharing ratios.

**4** If there is a fall in total valuations of assets:

Debit            **old** partners' capital accounts in **old** profit and loss sharing ratios.  
Credit            loss to revaluation account.

#### Revaluation Account

Assets (Decrease in Value)	XX	Assets (Increase in Value)	XX
Liabilities (Increase in Value)	XX	Liabilities (Decrease in Value)	XX
Capital A/cs	<u>XX</u>	Capital A/cs	<u>XX</u>
(Net Gain on Revaluation)		(Net Loss on Revaluation)	
	<u>XXX</u>		<u>XXX</u>

**Q1** Tania and Sue are in partnership. The following balances have been taken from their books of account at 31 January 2015.

	\$
Revenue	163 400
Insurance	13 260
Wages	6 500
Rent received	10 400
Rates paid	9 500
Provision for doubtful debts	174
Office expenses	28 200
Capital	
Tania	120 000
Sue	80 000

**Additional information**

- 1 On 31 January 2015, insurance prepaid amounted to \$6400 and wages accrued amounted to \$8500.
- 2 Rent received is for the period 1 February 2014 to 28 February 2015.
- 3 Office expenses include \$470 for use of Tania's home telephone.
- 4 The provision for doubtful debts is to be maintained at 3% of trade receivables. On 31 January 2015 the trade receivables totalled \$7800.
- 5 Fixtures and fittings are depreciated at 10% per annum using the straight-line method. Fixtures and fittings cost \$7500.
- 6 Motor vehicles cost \$60 000. Accumulated depreciation at 31 January 2014 was \$35 000. No vehicles were bought or sold during the year. Vehicles are depreciated at 20% using the reducing balance method.
- 7 Computer equipment was valued at \$5700 on 1 February 2014. A new computer costing \$1800 was purchased during the year. There were no sales of computer equipment during the year. On 31 January 2015 the computer equipment was valued at \$6200.

**REQUIRED**

**(a)** Prepare the partnership's income statement for the year ended 31 January 2015.

**Additional information**

On 1 February 2014 the balance on Tania's current account was \$5000 (credit).  
 On 31 January 2015, the balance on her current account was \$71 068 (credit). She withdrew \$5000 during the year.

The partnership agreement provides for the following:

- 1 Partners are permitted to withdraw up to a maximum of 5% of capital invested.
- 2 Interest on drawings is charged at a rate of 7% on the annual drawings.
- 3 Interest on capital is payable at 4% per year.
- 4 Tania receives a salary of \$1450 per month.
- 5 Profits and losses are shared in the ratio of capital invested.



## REQUIRED

(b) Prepare Tania's current account for the year ended 31 January 2015 to identify her share of profit for the year.

**Q2** James and Gemma are in partnership. They have provided the following information.

A balance sheet extract at 31 December 2008 showed the following balances:

	\$
Capital Accounts	
James	90 000
Gemma	60 000
Current Accounts	
James	12 000 (Cr)
Gemma	9 000 (Cr)
Inventory (stock)	6 300
Non-current (fixed) assets at cost	204 000
Loan	45 000

The partnership agreement provides for:

- Interest on capital at 8% per annum.
- No interest on drawings
- A salary to Gemma of \$6000 a year
- Profits and losses to be shared equally

On 1 July 2009 James introduced a further \$25 000 to increase his fixed capital. This money was used to purchase additional non-current (fixed) assets on that date.

At 31 December 2009 the following information was available for the partnership.

	\$
Revenue (sales) 1 January 2009 – 30 June 2009	90 000
Revenue (sales) 1 July 2009 – 31 December 2009	150 000
Ordinary goods purchased (purchases) 1 January 2009 – 30 June 2009	70 000
Ordinary goods purchased (purchases) 1 July 2009 – 31 December 2009	104 000

Additional information

- 1 Mark up was 50% on cost.
- 2 Total expenses for the year were \$25 525.  
These included depreciation on non-current (fixed) assets at 5% per annum (charged on cost for each proportion of the year) and the interest on the loan at 6% per annum.

The remaining expenses were split equally for each half of the year.

- 3 There are no accruals or prepayments at the end of the year.
- 4 Drawings for the year were:

	\$
James	15 200
Gemma	18 300

## REQUIRED

- (a) Assuming each month is of equal length prepare the income statement (profit and loss account) and appropriation account for
- (i) the six month period ended 30 June 2009.
  - (ii) the six month period ended 31 December 2009.
- (b) Prepare the current accounts in columnar form for both partners for the year ended 31 December 2009.
- (c) State **three** advantages for James and Gemma of trading as a partnership rather than as sole traders.

**Q3** Maurice and Ravel had been in partnership for a number of years, sharing profits and losses equally.

On 1 July 2011, they decided to admit Bach as a partner. Bach paid \$39 000 capital into the partnership and also provided a motor van, valued at \$8000, for partnership use.

A new partnership agreement was drawn up, effective from 1 July 2011 which stated:

- 1 Profits and losses will be shared by Maurice, Ravel, and Bach in the ratio 2:2:1.
- 2 Interest on capital is payable at 10% per annum.
- 3 Interest on drawings is charged at 5% on annual drawings.
- 4 Ravel would receive an annual salary of \$10 000 per annum.

Goodwill in the business was valued at \$40 000 and the partners agreed that this would not remain in the books.

Capital accounts before goodwill – 1 July 2011	Maurice	\$120 000
	Ravel	\$ 80 000

## REQUIRED

- (a) Prepare the capital accounts for all **three** partners at 1 July 2011.

The following additional information relates to the year ended 30 June 2012

	\$		
Revenue	2 600 000		
Revenue (sales) returns	200 000		
Purchases	1 625 000		
Inventory: 1 July 2011	120 000		
Inventory: 30 June 2012	145 000		
General expenses	480 000		
Current accounts – 1 July 2011		Maurice	17 000
		Ravel	12 000
Drawings		Maurice	96 000
		Ravel	120 000
		Bach	35 000

## REQUIRED

- (b) (i) Prepare the income statement for the year ended 30 June 2012  
(ii) Prepare the appropriation account for the year ended 30 June 2012.
- (c) Prepare the current accounts for all three partners at 30 June 2012.
- (d) The partners are now considering changing their business from a partnership to a limited company. Explain to the partners the meaning of the term 'limited liability'.

**Q4** Carl and Daniel are in partnership. Their partnership agreement provides that:

- 1 Daniel has a partnership salary of \$3000 per annum
- 2 Interest on capital is 6% per annum
- 3 Interest on drawings is charged
- 4 Residual profits / losses are shared 3:2 respectively.

The partners have never kept full accounting records but provided the following information:

Cash book summary for the year ended 31 December 2010

	\$		\$
Balance b/d	2 178	Trade payables	195 911
Trade receivables	44 049	Wages	63 156
Cash sales	332 467	Purchase of machine	8 800
Rent received	7 000	General expenses	56 676
		Drawings – Carl	35 660
		Drawings – Daniel	26 480



The assets and liabilities were:

	1 January 2010	31 December 2010
	\$	\$
Fixed capital account – Carl	100 000Cr	100 000Cr
Fixed capital account – Daniel	70 000Cr	70 000Cr
Current account – Carl	3 210Cr	?
Current account – Daniel	1 304Cr	?
Machinery (Net Book Value)	147 000	145 000
Motor vehicle (Net Book Value)	16 000	8 000
Inventory	14 003	13 471
Trade receivables	317	183
Trade payables	4 872	5 163
Wages accrued	612	938
Rent receivable accrued	500	–
Rent receivable prepaid	–	500

Additional information:

- During the year, an old machine which had cost \$10 000 was traded in for \$3200 in part exchange for a new machine costing \$12 000. The old machine had been depreciated by \$6000 over its lifetime.
- Interest on drawings for the year amounted to:  
Carl – \$230  
Daniel – \$100

#### REQUIRED

- Prepare the income statement (trading and profit and loss account) and appropriation account for Carl and Daniel for the year ended 31 December 2010.
- Prepare the partners' current accounts (in columnar format) for the year ended 31 December 2010.

**Q5** Alex and Barry have been in partnership for many years. The terms of the partnership agreement are as follows.

- Interest is payable to the partners on their loan accounts at 10% per annum.
- Interest on capital is allowed at the rate of 5% per annum.
- Barry is entitled to a salary of \$6000 per annum.
- Interest on drawings is charged at the rate of 4% on the annual drawings.
- Profits and losses are shared in the ratio of 3:1.

The following balances were taken from their books of account at 31 May 2014.

	Alex \$		Barry \$	
Capital account	90 000		60 000	
Current account	14 000	Cr	12 500	Dr
Loan account	15 000		16 000	

During the year ended 31 May 2015, drawings for Alex totalled \$5000 and for Barry \$12 000.

After the deduction of loan interest, the draft profit for the year ended 31 May 2015 was \$90 000.

#### REQUIRED

- (a) Prepare the partnership appropriation account for the year ended 31 May 2015.
- (b) Prepare the current accounts of Alex and Barry for the year ended 31 May 2015.

#### Additional information

The partners agreed that it would be beneficial to admit another partner and on 1 June 2015 Cesar joined the partnership.

#### REQUIRED

- (c) State two possible advantages to Alex and Barry of the admission of a new partner.

#### Additional information

Cesar joined the partnership on 1 June 2015 and paid \$100 000 into the partnership bank account as his capital.

It was agreed that the goodwill was to be valued at \$60 000 and that no goodwill account would remain in the books of account.

The new profit sharing ratio for Alex, Barry and Cesar from 1 June 2015 was to be 3:2:1.

#### REQUIRED

- (d) Prepare the capital accounts of Alex, Barry and Cesar to show the admission of Cesar on 1 June 2015.

#### Additional information

When the books of account were finally checked the following errors were discovered.

- The sales day book had been undercast by \$20 000.
- Closing inventory valued at cost of \$5000 had a net realisable value of \$3000.
- Repairs to motor vehicles of \$7000 had been wrongly debited to the motor vehicles at cost account. (Ignore any depreciation.)
- A purchase invoice of \$4000 had been wrongly entered in the books as \$400.

#### REQUIRED

- (e) Prepare a statement to show the corrected profit for the year ended 31 May 2015.

## **FORMATION OF A PARTNERSHIP:**

**Q1.** Jay and Kay traded separately up to 31 December 1996, at which date their Statements of Financial position were as shown below:

	<b>Jay \$</b>	<b>Kay \$</b>		<b>Jay \$</b>	<b>Kay \$</b>
Premises	30000	24000	Capital	72000	39600
Equipment	21000	13200	Loan		12000
Inventory	13800	8700	Trade Payables	6000	3000
Trade Receivables	9600	11100	Bank		2400
Bank	3600				
	<u>78000</u>	<u>57000</u>		<u>78000</u>	<u>57000</u>

Jay and Kay agreed to amalgamate their business and become equal partners as from 1 January 1997. It was agreed that:

1. The partnership should take over all the assets and liabilities of the two businesses except for the premises belonging to Jay and the loan owned by Kay.
2. Equipment should be revalued at \$18000 for Jay and at \$15000 for Kay.
3. \$600 of Kay's Trade Receivables were bad and should be written off.
4. Goodwill was to be valued at \$9000 for Jay and \$7200 for Kay.
5. All other items were to be taken over by the partnership at the Statement of Financial position values.

### **REQUIRED:**

- (a) Draw up the two capital accounts for the partners showing clearly how the final balances at 1 January 1997 are obtained.
- (b) Prepare the Statement of Financial position of the partnership at 1 January 1997.
- (c) Briefly explain the meaning of Goodwill.



**Q2.** On 1 May 1994, H. Pandit and T. Rowe entered into partnership agreement included the following provisions:

- (i) T.Rowe to be credited with a partners' salary of \$15000 p.a.
- (ii) A current account and a capital account is to be maintained for each partner.
- (iii) Interest at the rate of 5% p.a. to be credited for partners' capital account balances.
- (iv) Interest at the rate of 10% p.a. to be charged for partners' cash drawings.
- (v) The balance of net profits or net losses to be transferred to H. Pandit and T. Rowe in the ratio of 3:1 respectively.
- (vi) The following net assets of the existing business to be transferred to the partnership on 1 May 1994.

		\$
<b>From H. Pandit</b>	Fixtures and fittings	16000
	Motor vehicle	10000
<b>From T. Rowe</b>	Motor vehicle	13000
	Inventory	16300
	Trade Receivables	7400
	Trade Payables	3100

- (vii) The agreed values of the business transferred to the partnership were as follows:

	\$
<b>From H.Pandit</b>	42000
<b>From T.Rowe</b>	34000

- (viii) No goodwill account is to be raised in the partnership's books of account.  
Additional information for the year ended 30 April 1995:

- (1) The partnership's trial balance as at 30 April 1995 includes the following items:

	\$	\$
Net profit for the year ended 30 April 1995		43500
Drawings – H. Pandit	16500	
T. Rowe	14700	

- (2) Interest on partners' cash drawings has been determined as follows:

	\$
<b>From H.Pandit</b>	800
<b>From T.Rowe</b>	650

- (3) Provision has not been made yet in the partnership's books for the following goods, at cost, withdrawn for use of partners

<b>From H.Pandit</b>	\$300
<b>From T.Rowe</b>	\$110

**REQUIRED:**

- (a) The partnership's profit and loss appropriation account for the year ended 30 April 1995.
- (b) The partners' capital account and current accounts for the year ended 30 April 1995.

**Q3.** Hugh Bean and David Keen who have traded separately as watch and clock makers and repairers decided to trade in partnership as from 1 January 1992, the values of business transferred to the partnership being:

	\$
<b>Hugh Bean</b> (including net tangible assets of \$30000)	36000
<b>David Keen</b> (there were no tangible assets)	10000

**David Keen** who is nearing retirement, recently sold all his business tangible assets. A partnership agreement was prepared which included the following provisions.

- (i) A capital account and a current account are to be opened and maintained for each partner.
- (ii) Whilst recognition will be given in the partnership books to the values of the transferred business of Hugh Bean and David Keen, accounts will not be opened for any intangible assets.
- (iii) Partners' annual salaries are to be credited to the partners as follows:
 

<b>Hugh Bean</b>	8000
<b>David Keen</b>	14000
- (iv) Interest is to be charged on partners' cash drawings at the rate of 15% per annum,.
- (v) Interest is to be provided at the rate of 10% per annum on partners' capital account balances.
- (vi) The balance of net profit or loss is to be shared between the partners as follows:
 

<b>Hugh Bean</b>	2/5 th
<b>David Keen</b>	3/5 th

Additional information for the year ended 31 December 1992.

- (vii) On 1 July 1992, David Keen paid \$12000 into the partnership bank account, \$4000 of which was to be credited to his capital account and the balance was a loan to the partnership. Unfortunately, in preparing the draft final accounts for the year, the \$12000 was credited, in error, to sales.
- (viii) Partners' cash drawings were as follows:

	\$
<b>Hugh Bean</b>	8500
<b>David Keen</b>	12000

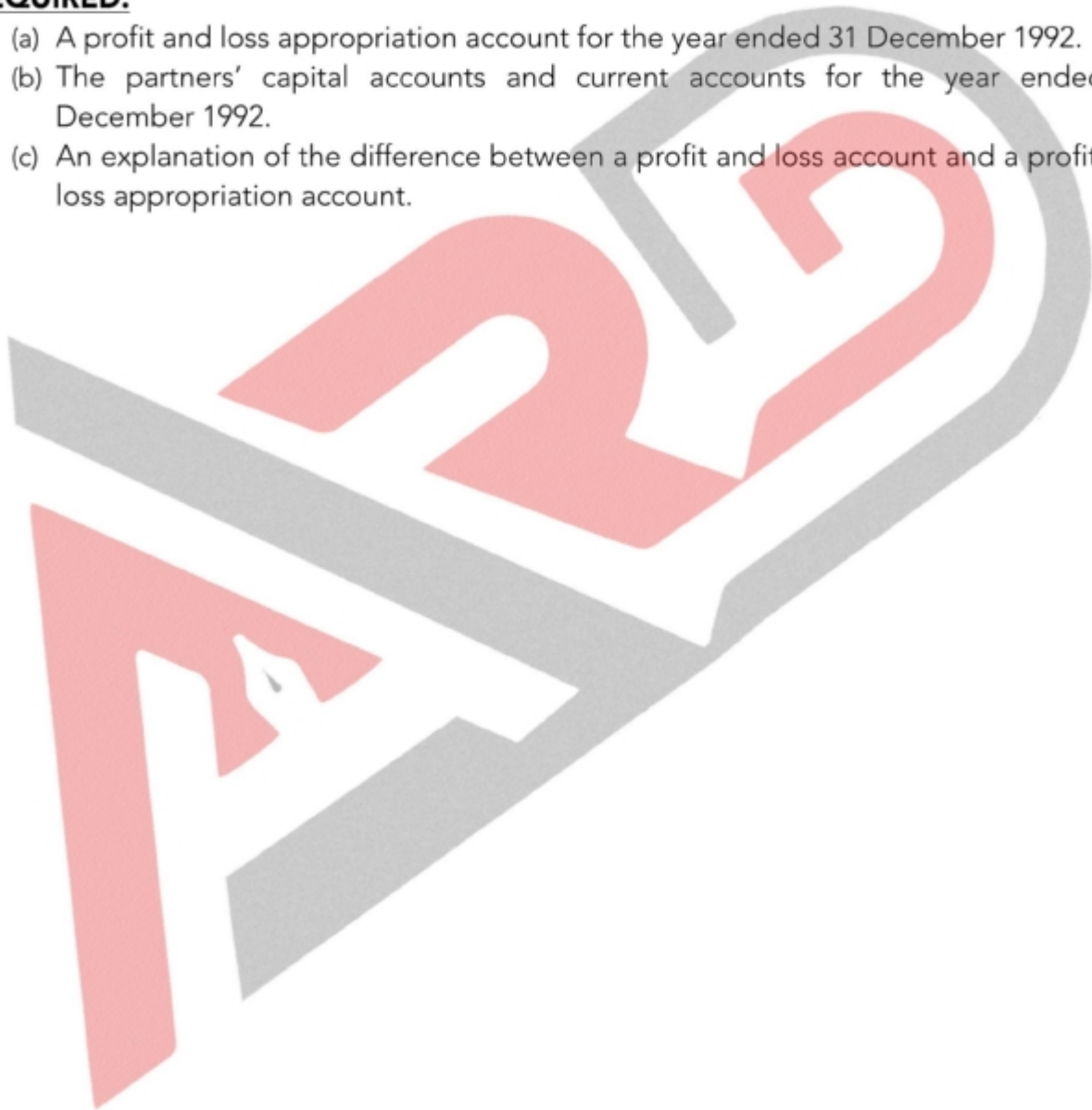
After the completion of the draft final accounts, it was discovered that no entry had been made in the accounts for goods costing \$800 withdrawn from the business, for his own use, by Hugh Bean and interest on partners' cash drawings had not been entered into the accounts. The interest to be charged as follows:

	\$
<b>Hugh Bean</b>	420
<b>David Keen</b>	1200

- (ix) The net profit for the year according to the draft final accounts is \$42000.  
Note: A profit and loss appropriation account for the year has not yet been prepared.
- (x) After considering the draft accounts for the year, the partners have decided that a provision for doubtful debts, at the date, of \$2000 should be created.

**REQUIRED:**

- (a) A profit and loss appropriation account for the year ended 31 December 1992.
- (b) The partners' capital accounts and current accounts for the year ended 31 December 1992.
- (c) An explanation of the difference between a profit and loss account and a profit and loss appropriation account.





**Q4.** Annie and Fanny each traded as sole traders until 1 May 1999, when they set up a partnership.

The value of the businesses brought into the new partnership was as follows:

<b>Annie</b>	\$120000 of which \$40000 was Goodwill
<b>Fenny</b>	\$30000 of which \$20000 was Goodwill.

A partnership agreement was drawn up, and included the following:

- (i) Annual salary to Fanny of \$10000.
- (ii) Interest to be awarded on partners' capital accounts at 10% per annum on the capital account balances at 30 April 2000.
- (iii) Interest to be charged on partners' drawings at 5% on the end of year balances.
- (iv) Residue of profits and losses to be split in the ratio of : Annie 3/4  
Fenny 1/4
- (v) Goodwill not be retained in the partnership accounts and is to be written off immediately.
- (vi) Both a capital and a current account to be opened for each partner.

The net profit for the year ended 30 April 2000 was \$85000.

During the year ended 30 April 2000 drawings were as follows:

<b>Annie</b>	\$10500
<b>Fenny</b>	\$9000

In addition, goods costing \$500 had been withdrawn from the business by Fenny, for the own use, and no account had been taken of this in the accounts.

**Required:**

- (a) Draw up a profit and loss appropriation account for the year ended 30 April 2000.
- (b) Draw up the partners' capital accounts for the same period, in columnar form, and calculate the closing balances on their current accounts.
- (c) State two advantages to the partners of keeping current accounts in addition to capital accounts.

**Q5.** Aneeqa and Emilita are two sole traders who decided to form a partnership combining their businesses. At 31 March 2010 their Statement of Financial Position were as follows:

**Statements of Financial Position at 31 March 2010**

	<b>Aneeqa</b>		<b>Emilita</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Non-current assets</b>				
Property		–		86,000
Equipment		12,000		19,000
Fixtures		6,000		3,000
Motor vehicles		<u>8,200</u>		<u>–</u>
		26,200		108,000
<b>Current assets</b>				
Inventory	15,000		5,700	
Trade receivables	17,000		18,000	
Cash and cash equivalents	<u>9,050</u>		<u>–</u>	
	41,050		23,700	
<b>Less: Current liabilities</b>				
Trade payables	(11,000)		(12,000)	
Cash and cash equivalents	<u>–</u>		<u>(10,850)</u>	
<b>Net current assets</b>		<u>30,050</u>		<u>850</u>
		<u>56,250</u>		<u>108,850</u>
<b>Capital</b>		<u>56,250</u>		<u>108,850</u>

The new partnership was formed on 1 April 2010 when their assets were valued at:

	<b>Aneeqa</b>	<b>Emilita</b>
	<b>\$</b>	<b>\$</b>
Property	–	120,000
Equipment	16,000	20,000
Fixtures	6,500	2,800
Motor vehicle	12,100	–
Inventory	14,800	5,100
Goodwill	9,000	5,000

It was agreed that a provision for doubtful debts of 5% would be created, that the bank accounts will be amalgamated and that goodwill will not be retained in the books. Profits were to be shared between Aneeqa and Emilita in the ratio 2:3 respectively.

**REQUIRED**

Prepare the statement of financial position of the partnership at the start of the business on 1 April 2010.

**CHANGES IN PARTNERSHIP:**

**Q1.** Ahmed, Baber and Charlie are partners sharing profits and losses in the ratio of 5:3:2. The partnership Balance Sheet as at 31 December 2005 is as follows:

\$

<b>Non-Current Assets</b>		
Motor Van	20,000	
Office Equipment	10,000	
Machinery	20,000	
		50,000
<b>Current Assets</b>		
Inventory	20,000	
Trade Receivables	15,000	
Bank	10,000	
		45,000
Less current Liabilities	(5,000)	
		40,000
<b>Working Capital</b>		<b>40,000</b>
<b>Capital Employed</b>		<b><u>90,000</u></b>
<b>Financed By:</b>		
Capital A	30,000	
Capital B	40,000	
Capital C	20,000	
		<b><u>90,000</u></b>

The partners have decided to change their existing profit and loss sharing ratio. In future, they will share profits and losses equally. For this purpose, the goodwill at \$18,000 will remain in the books. Additionally the assets are to be revalued as follows:

Motor Van	18000
Machinery	25000
Inventory	14000
Trade Receivables	12000

It was also decided to create a provision for doubtful debts at 10% of Trade Receivables.

**REQUIRED:**

- (a) Draw a revaluation account and partners' capital accounts to show adjustments resulting from a change in profit sharing ratio.
- (b) Prepare a Statement of Financial position (Balance Sheet) after the adjustments.



**Q3.** D and P were in partnership sharing profit in the ratio 3:2. They decided to admit Q as a partner on this date that is willing to bring cash \$12,000 as his capital. The profit sharing will become D 1/2, P 1/3 and Q 1/6. The Balance Sheet as on 1<sup>st</sup> January 2005 before the admission of new partner is as follows:

<b>Non-Current Assets</b>	\$		\$
Buildings	10,000	Capital – D	15,000
Motor Van	6,000	Capital – P	<u>10,000</u>
Office Furniture	<u>4,000</u>	Partnership Funds	25,000
	<u>20,000</u>		
<b>Current Assets:</b>			
Inventory	2,000		
Trade Receivables	1,200		
Bank	<u>2,500</u>	<b>Current Liabilities</b>	<u>700</u>
	<u>5,700</u>		<u>25,700</u>
	<u>25,700</u>		

It is agreed that the assets shall be revalued as follows:

	<b>\$</b>
Buildings	25,000
Motor Van	4,000
Office Furniture	7,000
Inventory	1,800

No provision had been made for doubtful debts and it is agreed that a provision of 10% of Trade Receivables should be created.

Goodwill is valued at \$9,000 and will remain in the books.

**REQUIRED:**

- (a) Draw a revaluation account.
- (b) Draw capital accounts in columnar form to show the effect of revaluation and goodwill in admission of new partner.
- (c) Prepare a Balance Sheet after admission of new partner.

**Q5.** Chan, Tan and Eric were in partnership sharing profits and losses in the ratio Chan  $\frac{2}{3}$ , Tan  $\frac{1}{4}$  and Eric  $\frac{1}{12}$ . Their summarized Balance Sheet as at 31<sup>st</sup> October 2005 was as follows:

	\$	\$	\$
<b><u>Non-Current Assets: (at Book Value):</u></b>			
Premises		120,000	
Machinery		60,000	
Motor Vehicles		<u>9,000</u>	189,000
<b><u>Current Assets:</u></b>			
Inventory		14,200	
Trade Receivables	18,000		
Less: Provision for doubtful debts	<u>360</u>	17,640	
Bank		<u>16,160</u>	
		48,000	
<b><u>Current Liabilities:</u></b>			
Trade Payables		(12,000)	<u>36,000</u>
			<u>225,000</u>
<b><u>Long-term Liabilities:</u></b>			
Loan from Chan			<u>(9,000)</u>
			<u>216,000</u>
<b><u>Capital Accounts:</u></b>			
Chan			100,000
Tan			70,000
Eric			<u>46,000</u>
			<u>216,000</u>

Chan left the partnership on 31 October 2005 to start his own business. Tan and Eric continued the partnership, sharing profits in the ratio Tan  $\frac{3}{4}$  and Eric  $\frac{1}{4}$ .

The following adjustments were made.

- (i) Premises were revalued at \$150,000 and Machinery was revalued at \$50,000.
- (ii) Inventory was reduced in value by \$1,200 and Increase the Provision for doubtful debts by \$800.

The value of Goodwill was agreed at \$48,000 and the Goodwill account will remain the partnership books. Chan agreed to take a machine valued at \$20,000 and cash \$50,000. The remaining balance of his capital account is to be transferred to his loan account. Other partners introduced \$25,000 each, as their additional capital.

**REQUIRED:**

- (a) Draw up the revaluation account to show the above adjustments.
- (b) Draw up the three partner's Capital Accounts, in columnar form, after the adjustments have taken place.
- (c) Prepare the Statement of Financial position as at 1<sup>st</sup> November 2005 after the retirement of Chan.

**Q8.** Lau and Wang are partners in a business. Their partnership agreement is as follows:

- (a) Wang was to receive a salary of \$30,000 per annum.
- (b) Interest was allowed at 10% per annum on capital.
- (c) After allowing for (a) and (b), profits / losses were shared in the ratio Lau three-fifths. Wang two-fifths.

Their capital at 1<sup>st</sup> January 1987 was:

Lau	\$140,000
Wang	\$100,000

The Current Account balance at 1<sup>st</sup> Jan 1987

Lau	\$5000 Cr
Wang	\$2000 Dr

Lau and Wang agreed to admit Chung to the partnership with effect from 1<sup>st</sup> July 1987.

The terms under which Chung was admitted were:

- (a) Chung would bring in \$80,000 as capital.
- (b) Goodwill of firm would be valued at two years purchase of the average profits for the last four complete years.

The actual profits were:

1983	\$37,500
1984	\$40,500
1985	\$50,000
1986	\$52,000

It was agreed that goodwill account should not be retained in the books.

- (c) The three partners' capital would be made equal by Lau and Wang either paying in additional cash or withdrawing.
- (d) No interest would be allowed on capital.
- (e) Wang's annual salary would remain at \$30,000 and Chung would receive an annual salary of \$25,000.
- (f) The residue of profits would be divided equally.

The net profit for 1987 was \$94,000 and this occurred evenly throughout the year. Drawings by all partners were \$6000 each

**REQUIRED:**

- (a) Capital Account showing admission of the new partner
- (b) The Profit and Loss Appropriation Account for the year ended 31<sup>st</sup> December 1987 and Current Accounts for the year



**Q10.** Barbie, Dolly and Mandy have been in partnership business for a number of years sharing profits and losses in the ratio equally, after allowing interest on capital at 8% and an annual salary of \$8,000 to Dolly. Their balance sheet at 30 June 2007 was as follows:

**NON-CURRENT ASSETS:**

Premesis	60000	
Equipment	20000	
Vehicles	<u>15000</u>	95000

**CURRENT ASSETS:**

Inventory	9000	
Trade Receivables	4000	
Bank	<u>2000</u>	
	15000	

**TRADE PAYABLES: Amount due within one year**

Trade Payables	-7000	8000
		<u>103000</u>

**CAPITAL ACCOUNTS**

Barbie	30000
Dollie	30000
Mandy	30000

**CURRENT ACCOUNTS**

Barbie	9000
Dolly	-2000
Mandy	6000
	<u>103000</u>

On 31<sup>st</sup> December 2007 Dolly decided to reduce he involvement in the business due to ill health. The partners drew up the following new partnership agreement which would take effect from 1<sup>st</sup> January 2008.

1. Mandy is to be credited with a partnership salary of \$6,000 per annum.
2. Interest on capital account balances is to be credited at 6% per annum.
3. Residual profits are to be shared in the ratio of Barbie 50%, Dolly 20% and Mandy 30%.

4. The following assets values were agreed by the partners:

	\$
Premises	54,000
Equipment	15,000
Vehicles	12,000
Goodwill	15,000

It was further agreed that goodwill would not appear in the partnership books of account and any adjustments were to be made through the partner's capital accounts. However the total capital of the partnership business should not change and the capital account balances should reflect the new profit and loss sharing ratio. For this purpose partners were to introduce or withdraw capital to achieve the required balance.

The partnership business depreciates Non-Current Assets, except premises, at 20% per annum.

**REQUIRED:**

- (a) Prepare capital accounts at 31<sup>st</sup> December 2007 after the restructuring of the partnership.

The partnership net profit for the year ended 30 June 2008, before depreciation, was \$ 42,500.

60% of profits were earned in the period 1 July 2007 to 31<sup>st</sup> December 2007.

The partners' drawings for the year were:

Barbie	\$18,000
Dolly	\$10,000
Mandy	\$16,000

- (b) Draw Profit and Loss Appropriation Account for the year ended 30 June 2008.
- (c) Prepare partnership current accounts for the year ended 30 June 2008.

**Q13.** Norman, Beard and David have traded in partnership for some years. Norman decided to retire on 30 September 2005 but no accounts were prepared for the partnership until the end of the financial year on 31<sup>st</sup> December 2005. The following balances have been extracted from the trial balance at 31 December 2005:

	<b>Debits</b>	<b>Credits</b>
	\$	\$
Gross profit		324,000
Wages	100,000	
Rent	24,000	
Heating & Lighting expenses	19,800	
Sundry expenses	12,000	

Non-Current Assets at 1<sup>st</sup> January 2005 at cost were as follows:

Plant and Machinery	\$80,000
Office Equipment	\$10,000

Depreciation of Non-Current Assets is to be provided at 10% per annum on cost.

Goodwill was valued at \$45,000 but no Goodwill was to be recorded in the books.

The partners' Capital and Current account balances at 1<sup>st</sup> January 2005 were as follows:

	<b>Capital</b>	<b>Current accounts</b>
Norman	\$50,000	\$8,000 (Credit)
Beard	\$40,000	\$9,000 (Credit)
David	\$20,500	\$3,000 (Credit)

Norman left \$60,000 of his capital in the business as a loan with interest at 10% per annum. The interest was payable on 30 June and 31 December each Year.

The partnership agreement up 30 September 2005 allowed for the following:

- Interest on capital 8% per annum, based on 1<sup>st</sup> January 2005 balances.
- Salary: David \$6,000 per annum.
- Profit and losses to be shared: Norman  $\frac{1}{2}$ , Beard  $\frac{1}{3}$ , and David  $\frac{1}{6}$ .

The agreement was amended on 1<sup>st</sup> October 2005 as follows:

- Interest on capital: 10% per annum, based on 1<sup>st</sup> October 2005 balances.
- Salary: David \$10,000 per annum.
- Profit and losses to be shared: Beard  $\frac{3}{5}$ , David  $\frac{2}{5}$ .

The partners' drawings during the year were as follows

Norman (up to 30 September 2005)	\$30,000
Beard	\$50,000
David	\$32,000

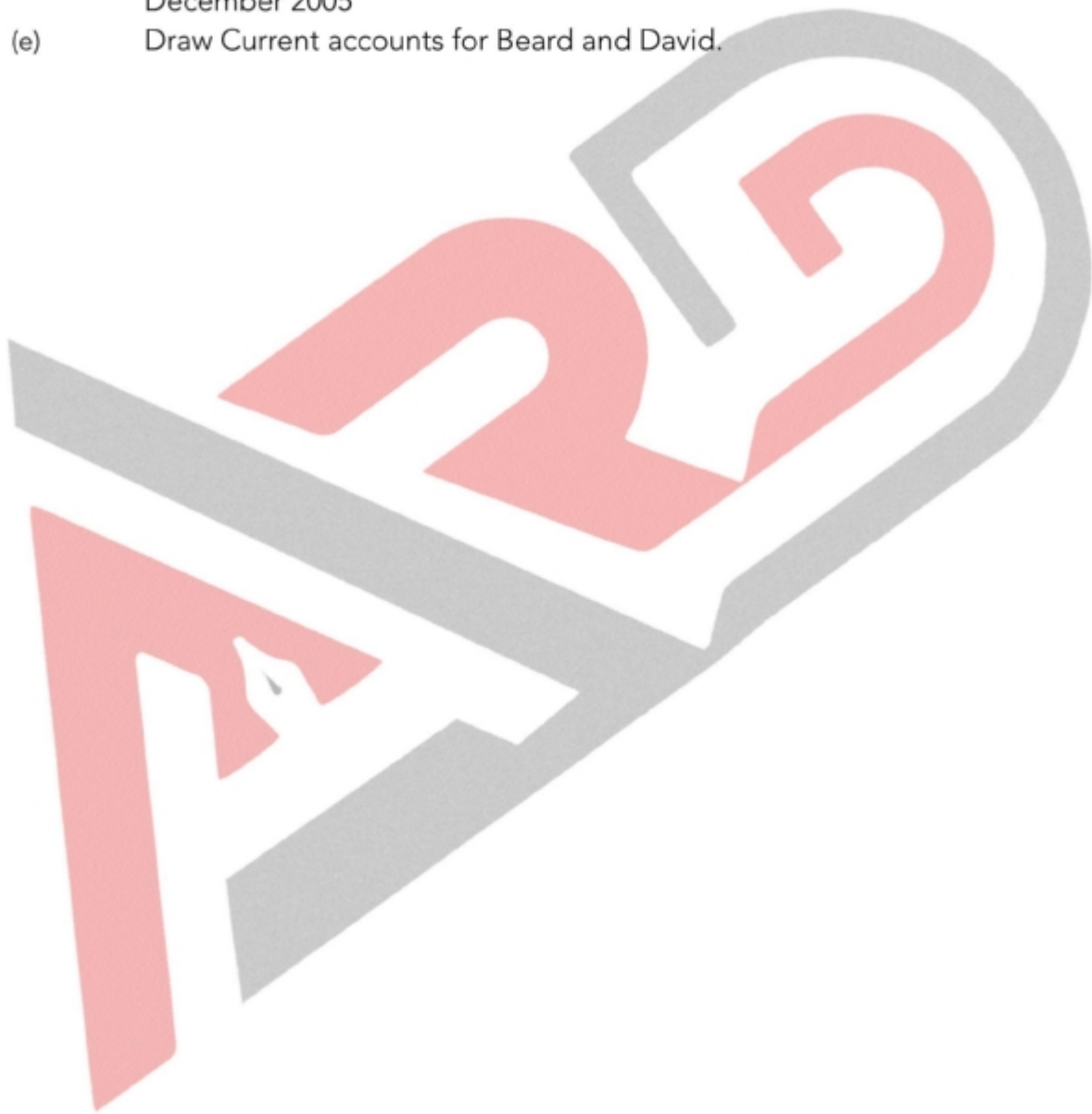
The assets were not revalued at 30 September 2005.

It is assumed that gross profit has been earned evenly throughout the year.



**REQUIRED**

- (a) Prepare Profit & Loss & Appropriation account for nine months ended 30 September 2005.
- (b) Draw current account for Norman.
- (c) Draw capital accounts of partners' to show the effect of retirement.
- (d) Prepare Profit & Loss & Appropriation account for three months ended 31<sup>st</sup> December 2005
- (e) Draw Current accounts for Beard and David.



## **DISSOLUTION OF A PARTNERSHIP:**

**Q1.** Dougal and Florence, who have been in partnership for many years, decided to retire and dissolve the partnership on 30 September 2003. profits and losses were shared in the ratio of the partners' capital account balances, which were fixed at Dougal \$80 000 and Florence \$40 000. The partnership Statement of Financial position at 30 September 2003 was as follows.

	\$	\$	\$
<b>Non-Current assets(net book values)</b>			
Building	104 000		
Fixtures and fittings	35 000		
Motor Vehicles	<u>26 000</u>		165 000
<b>Current Assets</b>			
Inventory	10 500		
Trade Receivables	17 230		
Bank	<u>950</u>	28 680	
<b>Current liabilities</b>			
Trade Payables		9230	19 450
			<u>184 450</u>
<b>Capital accounts</b> Dougal	80 000		
Florence	<u>40 000</u>		120 000
<b>Current accounts</b> Dougal	14 430		
Florence	<u>(2580)</u>		11 850
<b>Loan from Dougal</b>			<u>52 600</u>
			<u>184 450</u>

The partnership ceased trading on 30 September 2003 and the assets were realized

	\$
Buildings	100 000
Fixtures and fittings	37 000
One motor vehicle	15 000
vehicle was taken by Dougal at valuation	9500
Inventory	5200

All debts were collected and banked except for bad debts totalling \$900.

Discounts allowed amounted to \$200.

Trade Payables were paid in full.

Dissolution expenses of \$1200 were paid by cheque.

Dougal's loan was repaid from the bank account.

### **REQUIRED:**

- Dissolution (Realisation) account.
- Partners' capital accounts in columnar form.
- The partnership bank account.

**Q2.** King, Queen and Jack have been conducting business in partnership for several year sharing profits in the ratio 3:2:1. On 31 May 1993 they decide to dissolve their partnership.

<b>Non-Current assets</b>	<b>Cost \$</b>	<b>Depn. To date \$</b>	<b>Net Book Value \$</b>
Leasehold premises	120 000	36 000	84 000
Delivery vans	47 000	17 000	30 000
Fixtures and fittings	11 000	8 500	2 500
Office equipment	15 500	4000	<u>11 500</u>
			<u>128000</u>
<b>Current assets</b>			
Inventory		32000	
Trade Receivables		17 800	<u>54 100</u>
Bank		4 300	182 100
<b>Current liabilities</b>			
Trade Payables			<u>36900</u>
			145 200
<b>Less loan from solo</b>			<u>80 000</u>
			<u>\$65 200</u>
<b>CAPITALS</b>			
King	28 000		
Queen	10 000		
Jack	12 000		50 000
<b>CURRENT ACCOUNTS</b>			
King	8 700		
Queen	(3 700)		
Jack	<u>10 200</u>		<u>15 200</u>
			<u>\$65 200</u>

The following arrangements were made in connection with the dissolution:

- Jack to take ownership of one of the two delivery vans – at a valuation of \$12 000. The van’s original cost was \$22 000 and the written down value was \$11 000.
- King to take ownership of Inventory – cost price \$8 000 at a valuation of \$6 700.



The remaining assets realized the following amounts when sold on 1 June 1993.

	\$
Leasehold premises	79 000
Delivery van	13 500
Fixtures and fittings	1 500
Office equipment	9 900
Trade Receivables	16 600
Inventory	20 500

All Trade Payables were paid and discounts received amounted to \$1 350. The expenses of dissolution amounted to \$1 910

**REQUIRED:**

(a) The entries to record the above events in:

- (i) the realisation account;
- (ii) the partners' capital accounts (use columnar form);
- (iii) the firm's bank account

**Q3.** Apple, Beech and Cherry have been trading for several years and sharing profit on the basis 2:2:1. They decided to dissolve their partnership on 1 October 1994 because of bad trading conditions. The Statement of Financial position of the business at 30 September 1994 showed:

		\$
<b>Non-Current assets(at written down value)</b>		
Plant machinery		55 000
Motor vehicles		<u>27 000</u>
		82 000
<b>Current assets</b>		
Inventory	12 000	
Investments	33 000	
Trade Receivables	45 000	
Bank	<u>4 000</u>	
	94000	
<b>Less: Current liabilities</b>		
Trade Payables	29000	<u>65000</u>
		<u>\$147000</u>
<b>Financed by</b>		
<b>Capital account</b>		
Apple	40 000	
Beech	30 000	
Cherry	<u>40 000</u>	110 000
<b>Current account</b>		
Apple	5 000	
Beech	6 500	
Cherry	<u>7 500</u>	<u>19 000</u>
		129 000
<b>Loan</b>		
Beech		<u>18 000</u>
		<u>\$147 000</u>

The loan from Beech was repaid, the Plant & Machinery was sold at auction for a net \$41000 and Apple took over a car (written down value \$4000) for an agreed value of \$5500. The remaining vehicles were sold for \$19,200. Inventory realized \$10,200 and Trade Receivables realized \$38,700. The Trade Payables of \$29000 were paid off with cheques totalling \$28100 and the investments realized \$3,700. Dissolution expenses incurred were \$1,910.

**REQUIRED:**

- (a) the Bank account;
- (b) the Realization account;
- (c) the Partners' accounts (Combining capital and current items); to cover the dissolution of the Partnership.