3 - Partnership Accounts

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

Partnership changes
A partnership change occurs when there is a change in structure of the partnership . The partnership is not dissolved it is only changed. i.e Admission of a new partner, Retirement of an existing partner , or simply a change in existing profit sharing ratio.

ARD Partnership
Appropriation Account
For the year ended December 31, 2019

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

Current Account

	A	R			A	R
Balance (Dr) b/d	**XXX**	**XXX**	OR	**Balance b/d**	**XXX**	**XXX**
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
Balance c/d	**XXX**	**XXX**	OR	**Balance (Dr) c/d**	**XXX**	**XXX**
	XXX	XXX			XXX	XXX
Balance (Dr) b/d	**XXX**	**XXX**	OR	**Balance b/d**	**XXX**	**XXX**

STATEMENT OF FINANCIAL POSITION EXTRACT

Capital A/cs – A	XXX	
– B	XXX	**XXX**
Current A/c – A	XX	
– B	(XX)	**XX**
		XXX

Capital Account

	A	R		A	R
			Balance b/d	**XXX**	**XXX**
Goodwill (New Ratio)	XXX	XXX	Goodwill (Old Ratio)	XXX	XXX
Revaluation (Loss)	XXX	XXX	Revaluation (Gain)	XXX	XXX
Transfer to loan	XXX	-	Bank / Assets (New Capital Introduced)	-	XXX
			Current A/c (Transfer)	XXX	-
Balance c/d	**XXX**	**XXX**			
	XXX	XXX		XXX	XXX
			Balance b/d	**XXX**	**XXX**

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.

Goodwill for Sole Traders and Partnerships

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.

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.

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.

Treatment of Goodwill in partnership change!
Any goodwill generated till date belongs to the old partners. So the goodwill

adjustment is done in such a way that old partners will benefit and the new partners will loose out. This is because goodwill is kept in line with the profit sharing ratio . The new partner ends up paying for goodwill and the old partner if he is leaving gets paid for his goodwill. This way all partners are treated fairly.

How do we have to treat for goodwill in a partnership change?

Method 1: Goodwill is kept in the books
In this method we create goodwill in the old profit sharing ratio in capital accounts and leave it (so that it can be shown in the balance sheet as a non current asset). This method is rarely used and is not preffered because its not in line with the Prudence and Money Measurement Concept.

Method 2: Goodwill is Created but then written off immediately
In this method we create goodwill in the old profit sharing ratio in capital accounts but then write it off in the new profit sharing ratio. This method is frequently used and follows Prudence and Money Measurement Concept.

Note: If Question doesn't specify clearly always use method 2

What if Goodwill is already recorded on the balance and has to be adjusted?

The amount of goodwill on the balance sheet is already in capital accounts of the partner so we only need to create the difference (increase) in the goodwill in old profit Sharing ratio (and then write off the entire amount if required to write it off. Alternate method would be to treat the change in goodwill in revaluation account and then write i off the full amount from the capital account.

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

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 ofa 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:

<u>Goodwill undervalued</u>
Debit increase needed to goodwill account.
Credit increase to old partners' capital accounts in their old profit-sharing ratios.

<u>Goodwill overvalued</u>
Debit reduction to old partners' capital accounts in their old profit-sharing ratios.
Credit reduction needed to goodwill account.

Double Entry for Goodwill

1. **Creation of goodwill:**

Goodwill xxx

Capital A/cs xxx

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

2. **Eliminating / Writing off goodwill**

Capital A/cs xxx

Goodwill xxx

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

Revaluation of partnership assets

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.

What is the difference between revaluation account and realization(dissolution) account?

Revaluation account is made at the time of change in a partnership (see above) . This is done to change the values of asset to the current market value so that any gain or loss that has arise before the change can be adjusted in capital of partners. When making revaluation account if only take the changes in assets (the difference in values) and close it off in the old profit sharing ratio

Realization account is made when the partnership business is dissolved or sold . The aim of this account is to calculate the overall gain or loss upon closure of the partnership business. In this we first close the assets at net book value and compare it with the amount realized upon sale . The difference (overall gain or loss) is closed off in the profit sharing ratio as well.

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	XX	Capital A/cs	XX
(Net Gain on Revaluation)		(Net Loss on Revaluation)	
	XXX		XXX

Partnership Dissolution

Reasons for dissolution include the following:
(*a*) The partnership is no longer profitable, and there is no longer any reason to carry on trading.
(*b*) The partners cannot agree between themselves how to operate the partnership. They therefore decide to finish the partnership.
(*c*) Factors such as ill-health or old age may bring about the close of the partnership.

What happens upon dissolution
(*a*) the assets are disposed of;
(*b*) the liabilities of the firm are paid to everyone other than partners;
(*c*) the partners are repaid their advances and current balances – advances are the

amounts they have put in above and beyond the capital;
(*d*) the partners are paid the final amounts due to them on their capital accounts.

Any profit or loss on dissolution would be shared by all the partners in their profit and loss sharing ratios. Profits would increase capitals repayable to partners. Losses would reduce the capitals repayable.
If a partner's final balance on his capital and current accounts is in deficit, he will have to pay that amount into the partnership bank account.

Disposal of assets
The assets do not have to be sold to external parties. Quite often one or more existing partners will take assets at values agreed by all the partners. In such a case the partner may not pay in cash for such assets; instead they will be charged to his capital account.

Accounting for partnership dissolution
The main account around which the dissolution entries are made is known as the realization account. It is this account in which it is calculated whether the realisation of the assets is at a profit or at a loss.

The accounting entries needed are:

(A) Transfer book values of all assets to the realisation account:
Debit realisation account
Credit asset accounts

(B) Amounts received from disposal of assets:
Debit bank
Credit realisation account

(C) Values of assets taken over by partner without payment:
Debit partner's capital account
Credit realisation account

(D) Creditors paid:
Debit creditors' accounts
Credit bank

(E) Costs of dissolution:
Debit realisation account
Credit bank

(F) Profit or loss on realisation to be shared between partners in profit and loss sharing ratios:

If a **profit**: Debit realisation account
Credit partners' capital accounts

If a **loss:** Debit partners' capital accounts

Credit realisation account

(G) Pay to the partners their final balances on their capital accounts:
Debit capital accounts
Credit bank

Other Dissolution Entries

(*a*) Any provision such as bad debts or depreciation is to be transferred to the credit of the asset Account
(*b*) Discounts on creditors – to balance the creditors' account, transfer the discounts on creditors to the credit of the realisation account
(*c*) Transfer the balances on the partners' current accounts to their capital accounts
(*d*) A partner who owes the firm money because his capital account is in deficit must now pay the money owing

The *Garner* v *Murray* rule

It sometimes happens that a partner's capital account finishes up with a debit balance. Normally the partner will pay in an amount to clear his indebtedness to the firm. However, sometimes the partner will be unable to pay all, or part, of such a balance. In the case of ***Garner* v *Murray*** in 1904 (a case in England) the court ruled that, subject to any agreement to the contrary, such a deficiency was to be shared by the other partners *not* in their profit and loss sharing ratios but in the ratio of their 'last agreed capitals'. By 'their last agreed capitals' is meant the credit balances on their capital accounts in the normal balance sheet drawn up at the end of their last accounting period.

It must be borne in mind that the balances on their capital accounts after the assets have been realised may be far different from those on the last balance sheet. Where a partnership deed is drawn up it is commonly found that agreement is made to use normal profit and loss sharing ratios instead, thus rendering the *Garner* v *Murray* rule inoperative.

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:

	Jay $	Kay $		Jay $	Kay $
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				
	78000	57000		78000	57000

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.l

(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.

		$
From H. Pandit	Fixtures and fittings	16000
	Motor vehicle	10000
From T. Rowe	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:

	$
From H.Pandit	42000
From T.Rowe	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:

	$
From H.Pandit	800
From T.Rowe	650

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

From H.Pandit	$300
From T.Rowe	$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:

	$
Hugh Bean (including net tangible assets of $30000)	36000
David Keen(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:

Hugh Bean	8000
David Keen	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:

Hugh Bean	2/5 th
David Keen	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:

	$
Hugh Bean	8500
David Keen	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:

	$
Hugh Bean	420
David Keen	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.

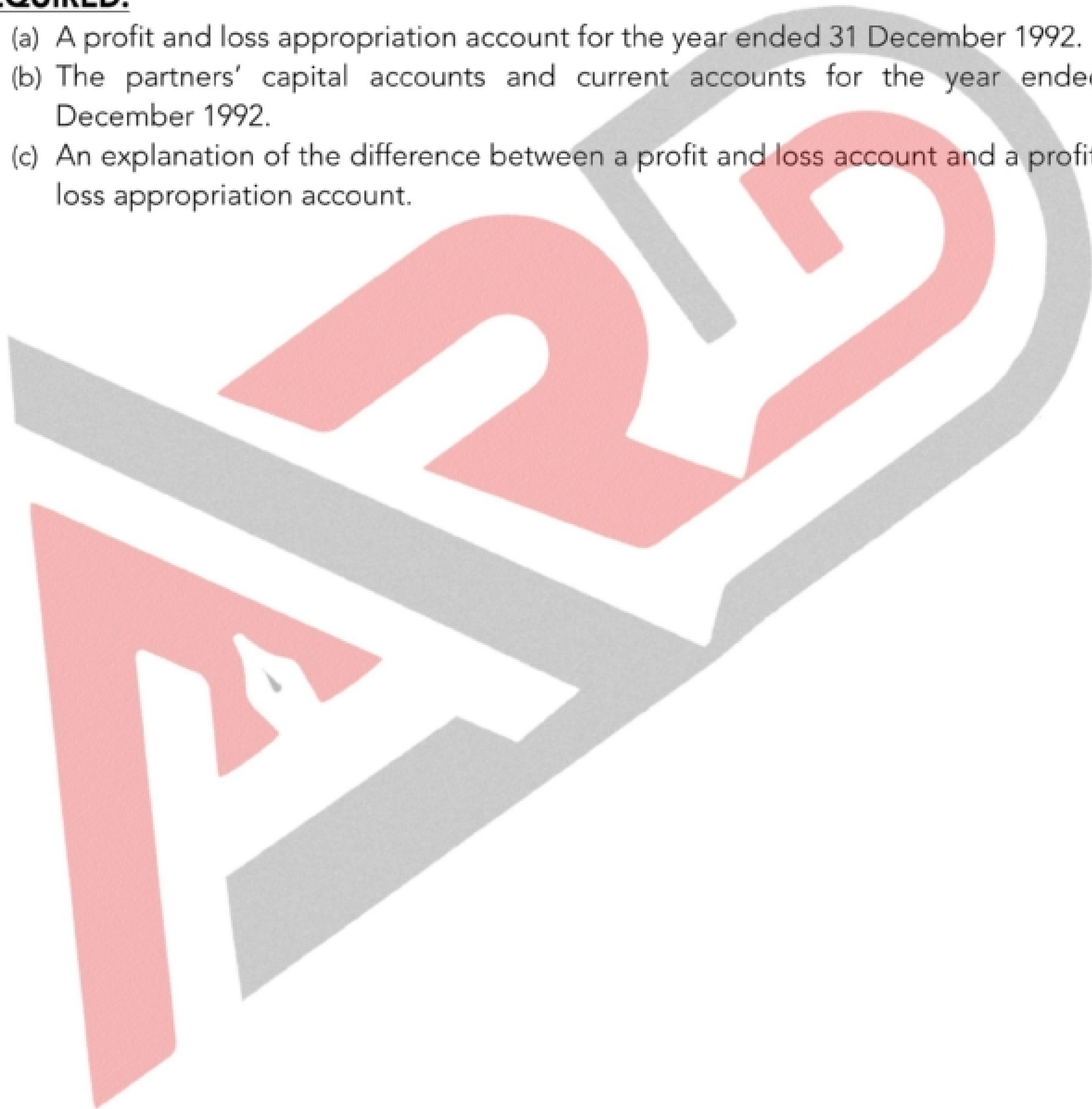
(x) After considering the draft accounts for the year, the partners have decided that a provision for doubtful debts, at the date, of $2000 should be created.

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:

Annie $120000 of which $40000 was Goodwill
Fenny $30000 of which $20000 was Goodwill.

A partnership agreement was drawn up, an 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:

Annie $10500
Fenny $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

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

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

	Aneeqa	**Emilita**
	$	$
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.

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.

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

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:

(a) Dissolution (Realisation) account.
(b) Partners' capital accounts in columnar form.
(c) 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.

Non-Current assets	**Cost $**	**Depn. To date $**	**Net Book Value $**
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	11 500
			128000
Current assets			
Inventory		32000	
Trade Receivables		17 800	54 100
Bank		4 300	182 100
Current liabilities			
Trade Payables			36900
			145 200
Less loan from solo			80 000
			$65 200
CAPITALS			
King	28 000		
Queen	10 000		
Jack	12 000		50 000
CURRENT ACCOUNTS			
King	8 700		
Queen	(3 700)		
Jack	10 200		15 200
			$65 200

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:

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

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.

Q1. 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 1st January 2005 before the admission of new partner is as follows:

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

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

	$
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 from to show the effect of revaluation and goodwill in admission of new partner.

(c) Prepare a Balance Sheet after admission of new partner.

Q2. Chan, Tan and Eric were in partnership sharing profits and losses in the ratio Chan 2/3, Tan ¼ and Eric 1/12. Their summarized Balance Sheet as at 31st October 2005 was as follows:

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

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 ¾ and Eric ¼.

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. Chen 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 1st November 2005 after the retirement of Chan.

Q3. 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 1st January 1987 was:

Lau	$140,000
Wang	$100,000

The Current Account balance at 1st Jan 1987

Lau	$5000 Cr
Wang	$2000 Dr

Lau and Wang agreed to admit Chung to the partnership with effect from 1st 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 31st December 1987 and Current Accounts for the year

Q4. 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	15000	95000
CURRENT ASSETS:		
Inventory	9000	
Trade Receivables	4000	
Bank	2000	
	15000	
TRADE PAYABLES: Amount due within one year		
Trade Payables	-7000	8000
		103000
CAPITAL ACCOUNTS		
Barbie		30000
Dollie		30000
Mandy		30000
CURRENT ACCOUNTS		
Barbie		9000
Dolly		-2000
Mandy		6000
		103000

On 31st 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 1st 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 31st 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 31st 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.

Q5. A and B have been partners for some years, and make up their accounts annually on 31st December. The partnership agreement contained the following provisions:

Interest was allowed on capital at 6% per annum.

B was entitled to a salary of $15,000 per annum.

Profits and losses were to be shared: A⅔ and B⅓.

At 1 January 2005 the partner's Capital and Current account balances were as follows:

	Capital	CurrentAccounts
	$	$
A	100,000	16,000
B	60,000	12,000

On 1st September 2005, A and B Admitted their manager C, as a new partner, C had been receiving a Salary of $24,000 per annum.

- Partners' Salary: B $18,000 per annum.
- Interest on capitals at 9% per annum.
- Profits and Losses: A⅖, B⅖ and C ⅕.

The partnership Non-Current Assets at cost at 1 January 2005 were as follows:

	At Cost	Depreciation To date	Net book value
	$	$	$
Freehold premises	180,000	45,000	135,000
Plant and machinery	90,000	60,000	30,000
Motor vehicles	30,000	27,000	3,000
Office Equipment	21,000	12,000	9,000

No additions to or disposal of Non-Current Assets had taken place between 1st January to 31 august 2005. The Assets were revalued at 1st September 2005 as follows:

	$
Freehold premises	205,000
Plant and machinery	24,000
Motor vehicles	6,500
Office equipment	3,600

Depreciation on Non-Current Assets is calculated as follows:

Freehold premises	4% per annum on cost
Plant and machinery	20% per annum on book value
Motor vehicles	25% per annum on book value
Office equipment	10% per annum on book value

The same rates of depreciation would be continued on revalued assets. Goodwill was valued at $60,000 but no Goodwill account was to be opened in the books.

On 1st September 2005 C paid $50,000 into the firm's bank account and also brought his private motor vehicle, valued at $12,000 into the business as his capital. It was also agreed that A and B capital accounts should be kept at an equal amount and excess of A's capital be transferred to a loan account on which interest is to be paid at the rate of 12% per annum.

The following information is available from the partnership books for the year ended 31st December 2005.

	$
Turnover	600,000
Cost of Sales	330,000
Wages and salaries staff	81,000
Managers salary	24,000
Rent	42,000
Heating & lighting	6,000
Sundry expenses	12,300

Note: 60% of the total sales were made up to 31 August 2005 and earned uniform rate of gross profit during the year. The expenses were incurred on time period basis.
Drawings during the year ended 31 December 2005 were: A $30,000, B $40,000 and C $4,000 (in addition to manager salary)

REQUIRED:

(a) Prepare the Income Statement (Trading, profit and Loss) and Appropriation Account for eight months ended 31st August 2005.

(b) Prepare partners' capital accounts to show the effect of admission of new partner.

(c) Prepare the Income Statement Trading, Profit & Loss and Appropriation Account for four months ended 31st December 2005.

(d) Prepare current accounts for the year ended 31 December 2005.

Q6. 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 31st December 2005. The following balances have been extracted from the trial balance at 31 December 2005:

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

Non-Current Assets at 1st 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 1st January 2005 were as follows:

	Capital	Current accounts
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 1st January 2005 balances.
- Salary: David $6,000 per annum.
- Profit and losses to be shared: Norman ½, Beard ⅓, and David ⅙.

The agreement was amended on 1st October 2005 as follows:

- Interest on capital: 10% per annum, based on 1st October 20025 balances.
- Salary: David $10,000 per annum.
- Profit and losses to be shared: Beard ⅗, David ⅖.

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

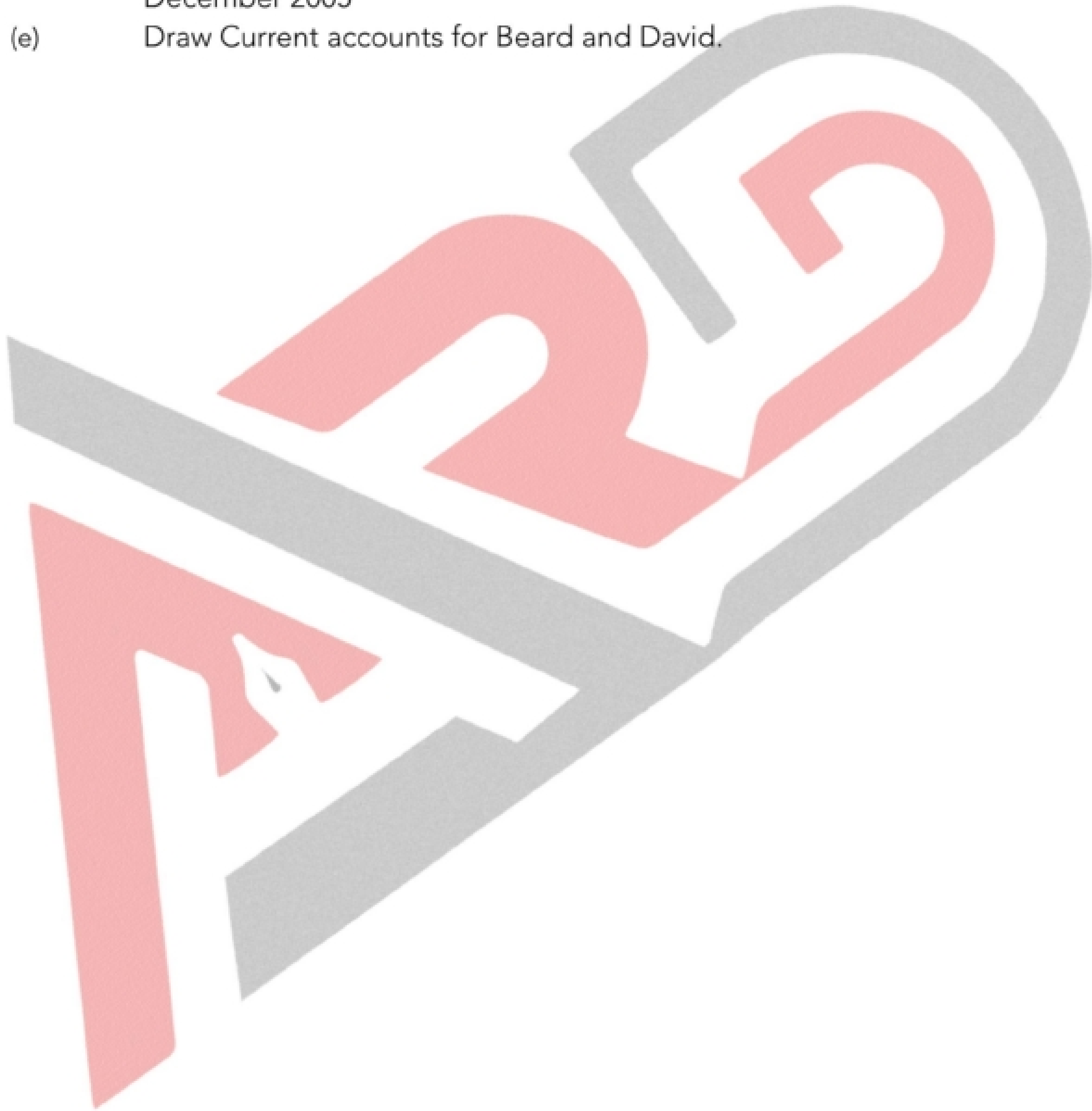
(a) Prepare Profit & Loss & Appropriation account for nine months ended 30 September 2005.

(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 31st December 2005

(e) Draw Current accounts for Beard and David.



Q7. Andy and Nicole had been in partnership for some years sharing profits and losses in the ratio 2:1. Partners also receive interest on capital at 15% per annum.
On 1 January 2014 their statement of financial position was as follows.

Andy and Nicole
Statement of Financial Position at 1 January 2014

	$	$	$
Non-current assets	Cost	Depreciation	Net book value
Property	100 000	6 000	94 000
Equipment	51 000	24 600	26 400
	151 000	30 600	120 400
Current assets			
Inventory			13 100
Trade receivables			19 100
Cash and cash equivalents			600
Total assets			153 200
Capital accounts			
Andy		70 000	
Nicole		50 000	120 000
Current accounts			
Andy		20 400	
Nicole		2 000	22 400
Current liabilities			
Trade payables			10 800
Total capital and liabilities			153 200

Additional information

1 In the period 1 January to 30 June 2014 the following occurred.

Current assets increased by 20%
Current liabilities increased by 10%
A long term loan of $8000 was taken out
New equipment costing $16 000 was bought on 1 April
Drawings amounted to $3000 for Andy and $6170 for Nicole

2 $40 000 of the cost of the property relates to land.

3 All non-current assets are depreciated on a monthly basis. Equipment is depreciated at the rate of 10% per annum on cost. Property is depreciated at the rate of 2% per annum on cost.

REQUIRED

(a) Calculate the net assets of the partnership at 30 June 2014. [8]

(b) Calculate the profit for the period 1 January to 30 June 2014. [4]

Additional information

On 1 July 2014 Zola was admitted to the partnership.

The following information was available on 1 July 2014.

1 The new profit sharing ratio for Andy, Nicole and Zola was 2:1:1 respectively.

2 Interest on capital was increased to 20% per annum for all partners.

3 Zola brought into the business $10 000 in cash and a new property worth $60 000.

4 The original partnership property was revalued at $154 000.

5 The goodwill of the business was valued at $12 000 at the time of Zola's admission and was not to be retained in the books of account.

The profit for the six months ended 31 December 2014 was $23 000. During this period drawings amounted to $3000 for Andy, $7400 for Nicole and $4100 for Zola.

REQUIRED

(c) Prepare the partners' capital accounts for the year ended 31 December 2014. [10]

(d) Prepare the partners' current accounts for the year ended 31 December 2014. [12]

Additional information

During 2013 Andy had made drawings of $6000 and Nicole of $12 900.

REQUIRED

(e) Compare the impact on the partnership of the drawings of **each** of the original partners in 2014. [6]

[Total: 40]

Sale of Business to Company

Q1. Markham, Norman and Osaki had been in partnership for a number of years sharing profit and losses in the ratio of 3:2:1 respectively. The summarized Statement of Financial position of the partnership as at 28 February 1994 was as follow:

Non-Current Assets	$	$	**Capital accounts**	$	$
Premises		56000	Markham		50000
Machinery		18000	Norman		30000
Vehicles		27000	Osaki		18000
		101000			98000
Current Assets			**Current accounts**		
Inventory	11000		Markham	3100	
Trade Receivables	18500	29500	Norman	1900	
			Osaki	(1000)	4000
			Loan account		
			Norman		5000
			Current Liabilities		
			Trade Payables	14000	
			Bank overdraft	9500	23500
		130500			130500

The partners have accepted an offer of $105000 from Holly Ltd to buy all the assets of the business except for Trade Receivables and three of the vehicles which have been used by the partners over the last year.

The agreed purchase consideration was settled by Holly ltd by the issue of 75000 ordinary shares of 50¢ each and payment to the partnership $60000 cash. The shares were divided equally between the partners. The final balances on the partners' capital accounts were settled in cash.

Each partner agreed to take over personally the vehicle which he had been using during the year. Details of these vehicles were:

	Book value of vehicle	**Agreed takeover prices**
	$	$
Markham	5000	6000
Norman	5000	5000
Osaki	7000	8000

Cash collected from Trade Receivables amounted to $17900 and the partners paid $12500 to Trade Payables in full settlement of the amounts due to them. The costs of the dissolution of the partnership amounted to $4500 and were paid by the partnership.

REQUIRED:

(a) A calculation of the profit or loss on the dissolution and sale of the partnership.

(b) Write up the capital accounts of the partners recording the dissolution and sale.

(c) Calculate the agreed value of an ordinary share in Holly ltd and explain why it may be different from the nominal value.

Q2. Akram, Bhupesh and Chuck were in partnership. Their partnership agreement provided that:

1. Akram received a partnership salary of $8000 per annum
2 .Partners be credited with interest on capital at 6% per annum
3. Residual profits be shared in the ratio 3 : 2 : 1 respectively
4. Chuck be guaranteed a minimum share of residual profits of $7 200.

The partnership trial balance at 31 March 2010, after the preparation of the partnership trading account, was as follows.

	Dr	Cr
	$	$
Gross profit		383 000
Trade receivables (debtors)	24 000	
Trade payables (creditors)		18 000
Inventories (stock) at 31 March 2010	37 000	
Non-current (fixed) assets at cost		
Buildings	310 000	
Machinery	170 000	
Vehicles	120 000	
Provisions for depreciation		
Buildings		105 000
Machinery		68 000
Vehicles		77 000
General expenses	327 000	
Bank		14 000
Capital accounts		
Akram		160 000
Bhupesh		110 000
Chuck		80 000
Current accounts		
Akram		14 000
Bhupesh		27 000
Chuck		37 000
Drawings		
Akram	40 000	
Bhupesh	30 000	
Chuck	35 000	
	1 093 000	1 093 000

Additional information

1. A family holiday taken by Bhupesh, costing $3400, had been entered in general expenses.
2. A bad debt of $500 was written off during the year. It had not been entered in the books of account.
3. A bad debt of $400 written off in the year ended 31 March 2009 was partially recovered.

The debtor paid, by cheque, $0.50 for each $1 owed. No entries had been made in the books of account.

4. A machine purchased in January 2010 for $17 000 had been included in general expenses.
5. Depreciation is to be provided at the following rates:

Buildings at 2% per annum on cost
Machinery at 10% per annum on cost
Vehicles at 40% per annum reducing balance

A full year's depreciation is provided on non-current (fixed) assets acquired during the year.

REQUIRED

(a) Prepare an income statement (profit and loss account) and an appropriation account for the
year ended 31 March 2010.

(b) Prepare the partners' current accounts at 31 March 2010.

At the close of business on 31 March 2010 the partnership was taken over by EDC Ltd. The company took over all the assets and liabilities, with the exception of the bank balance, for a purchase consideration of $600 000.

The purchase consideration comprised:
$30 000 in cash;
150 000 $1 debentures at par shared equally between the partners;
300 000 ordinary shares of $1 in EDC Ltd. These were shared among the partners in their profit sharing ratios.

The partnership expenses incurred in the takeover amounted to $20 200.

REQUIRED

(c) Prepare the partners' capital accounts to close the books of account of the partnership.

(d) Prepare the partnership bank account to close the books of account.

Q3. Barrington, Cowdrey and Dev have been in partnership for many years sharing profits in the ratio 3:2:1. Accounts are prepared annually to 30 June. Profits had been rising at a compound
rate of 6% per annum until 30 June 2014.
The profit for the year ended 30 June 2012 was $40 000.

The following trial balance was extracted from the partnership books of account on 30 June 2015.

	Dr $	Cr $
Capital accounts at 1 July 2014:		
Barrington		54 000
Cowdrey		37 500
Dev		28 000
Current accounts at 1 July 2014:		
Barrington		17 500
Cowdrey		9 500
Dev	2 500	
Non-current assets	170 000	
Inventories	65 000	
Trade receivables	92 450	
Cash and cash equivalents	21 839	
Trade payables		234 727
Drawings:		
Barrington (all on 1 July 2014)	32 000	
Cowdrey (all on 1 October 2014)	30 000	
Dev (all on 1 April 2015)	18 000	
Profit for the year		50 562
	431 789	431 789

The terms of the partnership agreement are as follows.

1 Interest on capital is calculated at 4% per annum on the opening capital balance.

2 Interest is charged on drawings at 6% per annum on the full amount drawn.

3 Dev receives a salary of $6000 per annum.

REQUIRED

(a) Calculate the percentage increase in profit for the year ended 30 June 2015 over the previous year. [4]

(b) Prepare the partnership appropriation account for the year ended 30 June 2015. [6]

(c) Prepare the partners' current accounts for the year ended 30 June 2015. [7]

Additional information

The partners agreed to form a limited company, Edrich Limited, with effect from 1 July 2015.

REQUIRED

(d) State **two** possible advantages to the partners of forming a company. [2]

Additional information

1 Edrich Limited took over the non-current assets and inventories at a valuation of $150 000 and $60 000 respectively.

2 The trade receivables and trade payables were taken over at the existing valuation.

3 Dissolution costs of the partnership amounted to $1500.

4 The purchase consideration paid by Edrich Limited was four times the average profit of the three years ended 30 June 2012, 30 June 2013 and 30 June 2014.

5 The purchase consideration was as follows:

An issue of $100 000 5% debentures (2026) split evenly between the partners.

An issue of 50 000 ordinary shares of $1 each at a premium. The shares were issued to the partners in their profit sharing ratio.

REQUIRED

(e) Prepare the following accounts to close the books of the partnership.

(i) the partnership realisation account [6]

(ii) the partners' capital accounts [6]

(iii) the partnership bank account [3]

(f) Prepare the opening statement of financial position of Edrich Limited at 1 July 2015. [6]

[Total: 40]

Q4. On 1 October 2013, Rezwan Limited agreed to purchase the net assets, excluding cash and cash equivalents, of Nimra, a sole trader.

Nimra provided the following information at 30 September.

	2013	2012
Assets	$	$
Non-current assets		
Land and buildings	110 000	110 000
Plant and equipment	76 500	85 000
	186 500	195 000
Current assets		
Inventory	21 000	17 000
Trade receivables	34 000	28 000
Cash and cash equivalents	11 000	3 500
	66 000	48 500
Total assets	252 500	243 500
Equity capital		
Balance	207 500	201 500
Profit for the year	58 000	54 000
	265 500	255 500
Drawings	54 000	48 000
Total equity	211 500	207 500
Liabilities		
Current liabilities		
Trade payables	41 000	36 000
Total equity and liabilities	252 500	243 500

Additional information

On 1 October 2013:

1 The land and buildings are revalued at $170 000.

2 Additional depreciation of $8 500 is provided on the plant and equipment.

3 Inventory valued at 15% of the total is written off.

4 Bad debts equal to 10% of the trade receivables are written off.

REQUIRED

(a) Calculate the value of the net assets acquired by Rezwan Limited. [6]

Additional information

The directors of Rezwan Limited agreed to pay Nimra five times the average profit for the year for the last two years. They made a payment in cash of $100 000 and issued new $1 ordinary shares to Nimra at a premium of $0.50 for the balance of the purchase price.

REQUIRED

(b) Calculate the amount the directors of Rezwan Limited paid for Nimra's business. [2]

(c) Calculate the number of new $1 shares issued by Rezwan Limited. [4]

Additional information

Rezwan Limited's statement of financial position at 30 September 2013 **before** it acquired Nimra's business and assets is as follows:

Statement of financial position at 30 September 2013

	$
Assets	
Non-current assets	
Land and buildings	120 000
Plant and equipment	60 000
	180 000
Current assets	
Inventory	45 000
Trade receivables	24 000
Cash and cash equivalents	132 000
	201 000
Total assets	381 000
Equity	
Ordinary shares of $1 each	200 000
Share premium	20 000
Retained earnings	110 000
Total equity	330 000
Liabilities	
Current liabilities	
Trade payables	51 000
Total equity and liabilities	381 000

REQUIRED

(d) Prepare Rezwan's statement of financial position at 1 October 2013 immediately **after** acquiring Nimra's business. [14]

(e) Explain why the directors of Rezwan Limited are prepared to pay more for the assets acquired than their book value. [6]