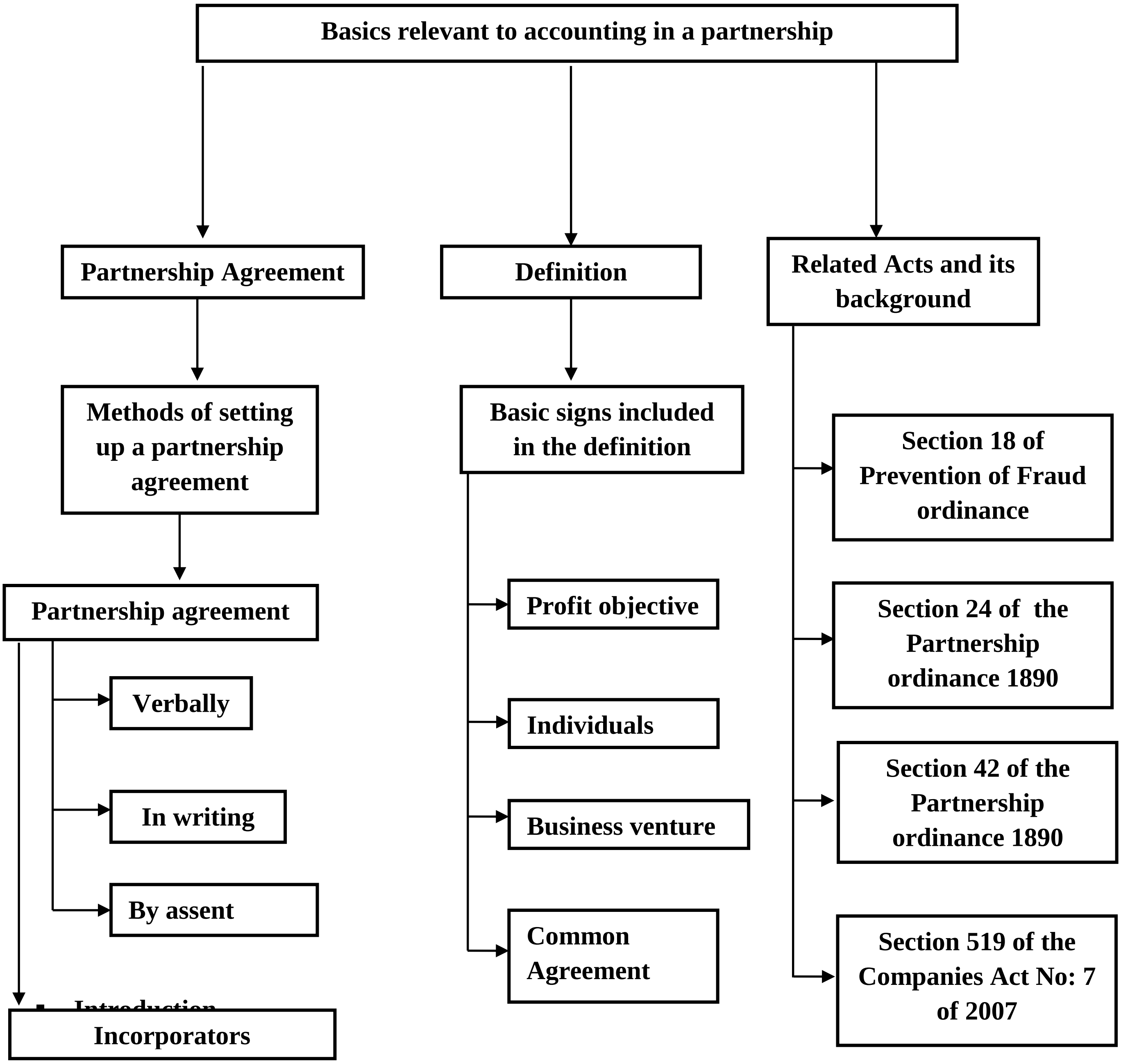
Partnerships

- **Explain legal environment of a partnership business**

Learning Outcomes

- Explains partnership business
- Explains partnership agreement and rules with regard to partnership accounting
- Discuss the importance of Section 18 of No: 07 of 1840 Prevention of Fraud Ordinance on the prevention of fraud
- Discuss the importance of Section No: 24 and 42 of the Partnership Ordinance of 1890
- Explain how the partnership ordinance affects the facts which are not included in a partnership agreement
- Reasons for the importance of Companies Act No: 07 of 2007 to partnership businesses.

- **Session Guide**



The law relating to Partnerships in Sri Lanka is contained in the English Partnership ordinance of 1890. According to this Ordinance a Partnership has been defined as "the relationship which subsists between persons carrying on a business in common with a view of profits."

Accordingly, following four elements must be satisfied by a business to become a Partnership.

- A persons (minimum 2- maximum 20
- Business activity
- Profit object
- Common goal

- **Methods of commencing Partnerships**

- verbally
- Behavior
- With a written agreement

- **Partnership agreement**

For the purpose of minimizing disputes and possible litigations in a Partnership, it is advisable to start a Partnership with a written agreement. The terms and conditions agreed and signed by all partners in a Partnership can be identified as a “Partnership Agreement” or a "Partnership Deed".

- **Contents of a Partnership agreement**

The contents of a Partnership agreement may vary from Partnership to Partnership. However, following are generally included in a Partnership agreement.

- Name and address of partnership.
- Names and addresses of partners.
- The amount of capital to be introduced.
- Profit or loss sharing ratio.
- Salaries to partners.
- Interest on capital.
- Limitations and interest on drawings.
- Procedures to be followed in an admission or retirement of a partner.

- **Laws relating to the partnerships**

In addition to the Partnership ordinance of 1890, followings are also applicable for the partnerships.

- **Companies Act No. 07 of 2007 (section 519)**
  Maximum no of partners should be limited to 20.

- **Prevention of Frauds Ordinance No. 07 of 1840**
  If the initial capitals more than 1000, it should be started with the written agreement.

- **Business Names Registration Act No. 06 of 1918**
  If a different name is used as a business name, it should be register with in 14 days.

- **Section 24 of the Partnership Ordinance of 1890.**
  This is applicable when there is no partnership agreement or given agreement does not provide the condition.

According to section 24,

- Capital should be introduce equally.
- Profits and loss sharing equally.
- No interest on capital.
- No salaries to partners.
- 5% interest for the loans provided.

- **Section 42 of the Partnership ordinance of 1890**

5% interest should be paid on the unsettled balance for the retired partners.

Comparison of Partners Agreement and Section 24 of Partnership Ordinance

Partnership agreement	Section 24
Sharing of profits and losses	
Payment of interest on capital	
Payments of salaries to partners	
Interest on advances by partners	

- ## Reveals the partners Equity

Total Equity = Current account + capital account + Other reserves if available

- **Partnership Accounts**

The method of keeping accounting records in a partnership is also equal to the way of keeping accounting records in a sole trader. However, following separate accounts are maintained by partnerships to record special transactions with partners.

- Partner's capital a/c
- Partner's current a/c
- Partner's loan a/c

- **Partner's capital accounts**

Transactions in capital nature will be recorded in a capital account. For example, introduction of capital, withdrawal of capital, surplus or losses on revaluation of assets and liabilities and goodwill adjustments will be recorded in a capital account. A format for a capital account is given below.

Partners' Capital Account

	A	B	C		A	B	C
Good will	1000	-	1000	B/B/F	5000	3000	2000
		-		Cash	-	2000	-
				Good will	1000	500	500
B/C/D	7000	6500	2500	Revaluation	2000	1000	1000
	8000	6500	3500		8000	6500	3500

Partner's Current Accounts

The transactions related to current accounting period such as share of profits/losses, partners' drawings, interest on capital/current account balances and salaries to the partners are recorded in a current account. A format of a account is given below

Partners' Current Account

	A	B	C		A	B	C

Financial Statements in a Partnership

Income statement of a partnership is similar to the income statement prepared by a sole trader. The net profit earned by a sole trader can be directly transferred to the capital in the statement of financial position. However, there are few owners in a partnership, the profit or loss earned by a partnership should be shared among the partners according to their profit and loss sharing ratio, after paying interest for the capital and salaries for the partners. For this purpose, a new account called "Profit and Loss Appropriation Account" is prepared after the Income Statement.

- **Profit and Loss Appropriation Account**
-

Profit and Loss Appropriation Account shows how the net profit or loss has been shared among partners. A format for a Profit and Loss Appropriation Account is given below.

ABC Partnership
Profit and Loss Appropriation For the year ended 31.03.2019

	Rs.	Rs.
Net profit or loss		
Interest on capital		
A		
B		
C		
Partners Salaries		
A		
B		
C		
Share of profits or losses		
A		
B		
C		

- **Journal Entries for Basic Adjustments**

(1) Interest on Capital accounts

…………………………………………………………………………………………..
…………………………………………………………………………………………….

(2) Partners' Salaries

………………………………………………………………………………………………
………………………………………………………………………………………………

(3) Interest on Loans
………………………………………………………………………………………………
………………………………………………………………………………………………

(4) Commission and Rent to the Partners

………………………………………………………………………………………………
………………………………………………………………………………………………

(5) Profit shares of partners

………………………………………………………………………………………………
………………………………………………………………………………………………

Example 01

Ayesh, Dilshan and Ramesh are in a Partnership who share profits and losses in the ratio of 5:3:2. Following were the balances of their capital and current account balances as at 01.04.2019.

Partner	Capital Account (Rs.)	Current Account (Rs.)
Ayesh	1 000 000	100 000 Credit
Dilshan	600 000	150 000 Credit
Ramesh	400 000	50 000 Credit

According to the partnership agreement:

(1) Interest on capital account balances 10% per annum
(2) Dilshan and Ramesh are liable to receive an annual salary of Rs. 240 000 and Rs.300,000 per annum respectively.

Other information

(1) The net profit for the year ended 31.03.2020 was Rs. 2 170 000
(2) Drawings of the partners as follows:

Partner	Date of drawings	Amount (Rs.)
Ayesh	01.07.2019	200 000
Dilshan	01.10.2019	120 000
Ramesh	01.01.2020	190 000

Required

(1) Profit and loss appropriation account for the ended 31.03.2020
(2) Partners current Account for the year ended 31.03.2020

☞**ADVANCED LEVEL – 2015**

Anju and Sanju commenced a partnership on 01.04.2014. The terms of the partnership agreement are as follows:

- Profits and losses are shared between Anju and Sanju in the ratio 2:1
- Each partner is entitled to a monthly Salary of Rs. 40,000
- Partners are entitled to an interest of 10% per annum on capital
- Partners are entitled to an interest of 6% per annum on loans given by them
- All transactions relating to partners should be recorded through their current accounts

The trial balance of the partnership as at 31.03.2015 is as follows:

	Dr. **Rs.**	**Cr.** **Rs.**
Property plant and equipment (PPE) at carrying amount	4,800	
Depreciation on PPE	600	
Trade receivables	900	
Cash at bank	130	
Capital Accounts		
- Anju		1,800
- Sanju		1,300
Loan given by Anju on 01.08.2014		1,000
Trade payables		340
Sales		6,100
Purchases	2,500	
Operating expenses	820	
Salaries paid to Anju	200	
Interest paid on Anjus loan	30	
Interest paid on capital to Sanju	100	
Rent paid to Anju	100	
Rent paid to new office	360	
	10,540	**10,540**

Additional information

(i) The business was commenced in a building owned by Anju. The annual rent of Rs.240,000 is payable to Anju in this respect. However the business was shifted to a new premises on 01.10.2014 for an annual rent of Rs.360,000 and the full amount was paid on the same day.

(ii) As per the inventory records, the cost of the inventory as at 31.03.2015 was Rs.250,000. However, the goods obtained by Anju and Sanju with a cost of Rs.30,000 and Rs.20,000 respectively have not been included in the inventory records.

(iii) An advance of Rs. 100,000 received by the business for the goods agreed to be delivered in the month of April 2015 has been recorded as sales of the current year.

(iv) All cash transactions of the partnership are carried out through a bank account. The balance of the bank account of the business and the balance of the bank statement as at 31.03.2015 has not agreed. The subsequent investigation revealed the following:

- A cheque of Rs. 40,000 has been directly deposited in the bank by a customer
- A cheque of Rs. 60,000 received from a customer had been dishonored
- A cheque of Rs. 50,000 issued to a supplier has not been presented for payment
- A cheque of Rs. 10,000 issued to pay the life insurance premium of Anju has not been recorded in the bank account of the business

Required

1. Income Statement of the partnership for the year ending 31.03.2015 (including appropriation to partners)
2. Current accounts of partners for the year ending 31.03.2015
3. Correct balances of cash at bank and trade receivables of the partnership as at 31.03.2015

Partnership with manufacturing accounts

Example - 02

Nethmi, Devinka and Tashla are partners in a business and they prepare the financial statements on annual basis. According to their agreement, profits and losses should be shared in the ratio of 5:3:2 among Nethmi, Devinka and Tashla respectively. 5% interest should be paid for the capital account balances at the beginning of the year and Nethmi is entitled to receive a monthly salary of Rs. 500 000.

Following trial balance has been prepared as at 31st March 2020.

	Dr. Rs. '000	**Cr. Rs. '000**
Capital accounts	-	-
Nethmi	-	100 000
Devinka	-	60 000
Tashla	-	40 000
Current accounts	-	-
Nethmi	-	8 000
Devinka	-	6000
Tashla		2 000
Machineries (Cost Rs. 60 000)	45 000	-
Motor vehicles (Cost Rs. 72 000)	48 000	-
Purchase of raw materials	322 850	-
Administration expenses	34 300	-
Provision for doubtful debts (01.04.2019)	-	5 200
Royalties	12 000	-
Production wages	8 500	-
Stocks as at 01.04.2019	-	-
Raw materials	28 000	-
Work in progress	14 000	-
Finished goods	12 000	-
Sales	-	340 000
Production overheads	3 200	-
Debtors	24 000	-
Discounts	1 200	800
Creditors	-	15 300
Distribution expenses	19 700	-
Drawings	-	
Nethmi	3 800	-
Devinka	4 400	-
Tashla	1 800	-
Cash in hand	18 600	-
Cash at bank	-	24 050
	601 350	601 350

Following additional information is also provided

(1) The cost of the stocks as at 31.03.2020 was valued at cost.

Raw materials Rs. 32 000 000

Work-in-progress Rs. 14 000 000
Finished goods Rs. 48 000 000

(2) No entries have been passed in the ledger in respect of goods drawings by the partners.

Nethmi	Rs. 7 500 000
Devinka	Rs. 6 500 000
Tashla	Rs. 6 000 000

(3) A finished goods stock worth of Rs. 30 000 000 has been destroyed by fire and the insurance company has agreed to pay 75% to recover the loss

(4) Provision for depreciation is to be made under straight-line method using following rates
Machineries 5%
Motor vehicles 20%.

(5) 10% on outstanding debtors should be provided for doubtful debts.
(6) Distribution expenses paid in advance was Rs. 800 000 and payables were Rs. 600 000 for Administration
(7) A travelling expenses of Rs. 1 200 000 incurred by Devinka for the business should be reimbursed.

Required

1. Manufacturing account, Income statement and the profit and loss appropriation account for the year ended 31st March 2020
2. Partners' Current accounts in columnar form
3. Statement of financial position as at 31st March 2020

- ## Accounting for the transactions and events that occur at the admission and retirement Of partners

- **Changes in profit sharing ratio**

The profit sharing ratio in a partnership has to be reconsidered mainly in following situations

1 ………………………………………………………………………………………………
2. ………………………………………………………………………………………………

Example 03
Nimal and Kamal are partners who share profits and losses according to the ratio of 3:2. Amal was admitted to the business with a right of 1/3 from the profits and losses in the business, what is the new profits and losses ratio in the partnership?

Example 04
Isuri and Chethya are partners who share profits and losses according to the ratio of 5:3. Binuri was admitted to the business with a right of 1/6 from the profits and losses in the business. What is the new profits and losses sharing ratio in the partnership?

- **Sacrification ratio**

When a new partner joins to the partnership, the existing partners have to sacrifice their profits on behalf of incoming partner. When there is a scarification ratio, the old ratio is greater than the new ratio.

Sacrification ratio =

Example 05

Anushka and Shehan are partners in a business who share profits and losses in the ratio of 5:3 respectively. They admitted Thisuri as a new partner and their new profits and loss ratio 3:2:1 respectively.

Calculate the sacrificing ratio between Anushka and Shehan.

- **Beneficiary ratio**

When an existing partner retires from the partnership, the remaining partners will receive the benefits of the profit enjoyed by the retiring partner. When there is a beneficiary ratio, the new ratio is greater than the old ratio.

Beneficiary ratio =

Example 06

Aloka, Glenard and Parami are partners in a business who share profits and losses in the ratio of 5:3:2 respectively. Glenard decided to retire from the business on 01st January 2016. The new profits and loss sharing ratio among Aloka and Parami was 2:1 respectively.

Calculate the beneficiary ratio among Aloka and Parami.

- ## Goodwill

Goodwill is the ability to earn profits by attracting more customers to the business as a result of the quality of the services already provided by the business to its customers.

From the view of accounting, goodwill is described as the excess of the market value of the business over its book value.

Goodwill is adjusted in the following situations.

(1) **…………………………………………………………………………………………..**
(2) **…………………………………………………………………………………………..**
(3) **……………………………………………………………………………………………**

The goodwill is adjusted the partners' capital account using profit sharing ratio.

(1) Recording of goodwill

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…………………………………………………………………………………………
(According to **old profit sharing ratio**)

(2) Cancellation of goodwill

……
…………………………………………………………………………………………
(According to **new profit sharing ratio**)

Example 07
Suneth and Priyath were carrying a partnership business sharing profits and losses equally. Their capital account balances as at 30.03.2019 were:

Suneth Rs. 3 500 000
Priyath Rs. 2 500 000

Dineth was admitted to the business as a partner on 31.03.2019. He brought Rs. 1 200 000 in cash and a motor vehicle at an agreed amount of Rs. 800 000 on his admission. Thereafter, all partners agreed to share profits and losses equally. Goodwill of the partnership as at 31.03.2019 was agreed as Rs. 1 500 000 and adjustments in this regard should be made through partners capital accounts.

Required
Prepare the partners' capital account clearly showing adjustments for the admission of Dineth

Example 08
Rushini, Kavishka and Ishen are partners in a business who share their profits and losses in the ratio of 2:2:1. Their capital account balances as at 31.03.2019 were:

Rishini	Rs. 4 000 000
Kavishka	Rs. 3 000 000
Ishen	Rs. 2 000 000

On 1st of April 2019, Kavishka retired from the business and other partners decided to share the profits and losses equally. The goodwill of the business as at 01.04.2019 was valued at Rs.3 000 000. The partners have agreed not to maintain a goodwill account in the ledger and the relevant adjustments should be done through the capital accounts. Total amount payable to Kavishka was settled on his retirement .

Required
Prepare the partners' capital account clearly showing adjustments for the retirement of Kavishka

Partnership for service providing business

☞ADVANCED LEVEL – 2012
Pathum and Romesh were partners in a consulting firm sharing profits and losses in the ratio of 3:2. The statement of financial position of the partnership as at 31.03.2011 was as follows:

	Rs.'000	Rs.'000
Non-current Assets		
- Property, plant and equipment	1,300	
- Accumulated depreciation	(260)	1,040
Current Assets		
- Inventory stationery	100	
- Consultancy fees receivable	300	
- Cash	60	460
		1,500
Capital Accounts		
- Pathum	600	
- Romesh	400	1,000
Current Accounts		
- Pathum	150	
- Romesh	150	300
Current Liabilities		
Accrued office expenses		200
		1,500

Additional information

(i) On 1st April 2011, Sandun was admitted to the business as a partner and he contributed Rs. 400,000 in cash as capital. The goodwill was estimated as Rs. 1,000,000 on this date and all the adjustments pertaining to goodwill are made through partner's capital accounts. The following are the terms agreed among Pathum, Romesh and Sandun in the new partnership agreement

(a) Each partner is entitled to a monthly salary of Rs. 10,000

(b) Profits and losses are shared among Pathum, Romesh and Sandun in the ratio of 2:2:1

(ii) A summary of the cash transactions for the year ending 31.03.2012 is as follows:-

	Rs. '000
Receipts	
Consultancy fees (including amount receivable on 31.03.2011)	1,300
Amount received from Sandun on admission as a partner	400
Payments	
Purchase of stationery	200
Salaries to office staff	140
Office expenses	400
Drawings of partners	
- Pathum	125
- Romesh	110
- Sandun	105
Amount deposited in a fixed deposit on 01.10.2011 (for a one year period at 12% annual interest)	500

(iii) Property, plant and equipment are depreciated at 20% per annum on cost on straight-line method

(iv) Current assets and current liabilities as at 31.03.2012

	Rs. '000
Inventories – stationery	50
Consultancy fees receivable	500
Accrued office expenses	150

Required

The following for the Pathum, Romesh and Sandun partnership

i. Income statement for the year ended 31.03.2012 (including appropriations to the partners)

ii. Partners capital accounts and Current Accounts for the year ended 31.03.2012

Admisssion of a partner at the beginning of the accounting period

☞**ADVANCED LEVEL – 2016**

Ranga and Eranga who share profits and losses equally, were partners of a consulting business. Udara was admitted as a partner on 01.04.2015. The revised partnership agreement is as follows:

- Profits and losses are shared among Ranga, Eranga and Udara in the ratio 2:2:1 respectively
- No goodwill account is maintained in the books of partnership and all the adjustments relating to goodwill are recorded through the partner's capital accounts.
- Partners are entitled to an annual interest of 10% based year-end capital balances
- Eranga and Udara are entitled to a monthly salary of Rs. 40,000 each
- Partners are entitled to an annual interest of 8% on the loans provided to the partnership.

The trial balance of the partnership as at 31.03.2016 is as follows

	Dr. Rs.	**Cr. Rs.**
Consultancy Income	-	8,600
Consultancy expenses	3,500	-
Operating expenses	1,200	-
Salaries paid to Eranga	480	-
Loan given by Udara 01.01.2016	-	2,000
Loan interest paid to Udara	30	-
Property, Plant and equipment (PPE) at carrying amount as at 31.03.2016	6,000	-
Depreciation of PPE	1,800	-
Other income	-	100
Cash at bank	290	-
Capital accounts as at 01.04.2015		
- Ranga	-	1,000
- Eranga	-	1,000
Current accounts as at 01.04.2015		
- Ranga	-	200
- Eranga	-	100
Cash brought by Udara	-	300
	13,300	**13,300**

Additional Information

(i) Udara brought the following as capital

Description	**Rs. '000**
Office equipment	700
Cash	300

However, only the cash brought by Udara has been recorded in the books of accounts

(ii) When Udara was admitted, the goodwill of the partnership was estimated as Rs. 1,800,000

(iii) PPE is depreciated on cost at 10% per annum on straight-line method.

(iv) On 01.01.2016 the partnership entered into an agreement to provide consulting services to a client at a monthly fee of Rs.100,000. The client paid Rs.500,000 on this date and it has been recorded as consultancy income.

(v) On 31.03.2016, the bank account balance of the partnership did not agree with the bank statement balance on this date. The following were revealed in the subsequent investigation

- Consultancy income of Rs.300,000 directly deposited in the bank has not been recorded in the books of accounts

- A cheque of Rs. 50,000 received from Ranga's wife for a consultancy service has been deposited in the bank but not yet realized. This has been recorded as other income
- Cheque of Rs. 250,000 issued for external consultants have not been presented for payment
- Eranga's housing loan installment of Rs.50,000 paid from the bank account of the partnership as per a standing order has not been recorded in the books of accounts

Required

1. Adjusted bank balance and bank reconciliation statement as at 31.03.2016
2. Income statement of the partnership (including appropriations) for the year ending 31.03.2016
3. Capital and current accounts of partners for the year ending 31.03.2016

Admisssion of a partner at the End of the accounting period

☞ADVANCED LEVEL – 2011

Suneth and Priyath were carrying a partnership business under the following agreements

- Monthly salaries of Rs. 20,000 and Rs. 15,000 are paid to Suneth and Priyath respectively
- Monthly interest of Rs. 5,000 and Rs. 10,000 on capital are paid to Suneth and Priyath respectively
- Profits and losses are shared equally between Suneth and Priyath
- All expenses incurred by the partners on behalf of the partnership business are reimbursed
- Personal expenses of partners paid by the partnership business should be borne by partners

Dineth was admitted to the business as a partner on 31.03.2011. He brought Rs. 1,200,000 in cash and a motor vehicle at an agreed amount of Rs. 800,000 on his admission. Therefore, all partners agreed to share profits and losses equally. Goodwill of the partnership as at 31.03.2011 was agreed as Rs. 1,500,000 and adjustments in this regard should be made through partner's capital accounts.

A summary of the cash book for the year ended 31.03.2011 is given below:

	Rs. '000	Rs. '000
Balance as at 01.04.2010		400
Receipts		
Collections from debtors	6,100	
Capital introduced by Dineth	1,200	
Bank Loan	1,300	8,600
Payments		9,000
Payments to creditors	4,200	
Expenses	2,350	
Equipment	500	
Salaries		
- Suneth	200	
- Priyath	150	
Interest on Capital		
- Suneth	40	
- Priyath	100	
Drawings		
- Priyath	125	
Reimbursement of expenses incurred by Suneth	50	
Electricity Bills of pryath's house	40	
Tution fees for Suneth's Children	25	
Fuel bills reimbursed		
- Suneth	150	
- Priyath	70	8,000
Balance as at 31.03.2011		1,000

Additional Information

i. Total equity and capital account balance as at 01.04.20010 were as follows:

	Suneth Rs. '000	Priyath Rs. '000
Total equity	2,800	2,600
Capital Account	2,000	2,500

ii. The interest on bank loan as at 31.03.20011 amounting to Rs.10,000 should be accrued

iii. Depreciation on property, plant and equipment for the year was Rs.175,000

iv. Liabilities and current assets (Except cash) as at 31.03.2010

	Rs.'000
Creditors	300
Accrued Expenses	40
Inventories	225
Debtors	360
Prepaid expenses	15

v. Net Increase/ (Decrease) in liabilities and current assets (except cash and accrued interest) during the year ended 31.03.2011

	Rs'000
Bank Loan	1,300
Creditors	(20)
Accrued Expenses	25
Inventories	(15)
Debtors	40
Prepaid expenses	5

Required

(1) Income statement for the year ended 31.03.2011

(2) Statement showing how the profit or loss for the year was appropriated among the partners

(3) Partners current accounts

(4) Balance sheet as at 31.03.2011

☞ADVANCED LEVEL – 2019

Nadi and Ganga entered into a partnership agreement on 01.04.2018 to operate a supermarket. On the same day, they brought the following assets to the business as their capital.

Description	Nadi (Rs. '000)	Ganga (Rs. '000)
Land	1 500	-
Buildings	1 000	1 000
Office equipment	-	1 000
Cash	500	-

The terms of the partnership agreement are as follows:-

- Profit and losses to be shared between the partners in the ratio of capital introduced by them on 01.04.2018.
- Each partner is entitled to a monthly salary of Rs. 50 000 in the first six months from the date of commencement of the partnership and Rs. 60 00 per month thereafter.
- Partners are entitled to an annual interest of 8% on the loans provided to the partnership.
- The goodwill of the partnership is to be adjusted through partners' capital accounts without maintaining a goodwill account in the business.

The summarized trial balance of the business as at 31.03.2019 is as follows:-

Description	Dr (Rs. '000)	Cr (Rs. '000)
Sales..		5 000
Cost of Sales	1 800	
Inventory as at 31.03.2019..	400	
Operating expenses..	1 200	
Property, Plant and Equipment...	4 500	
Depreciation....	200	
Accumulated depreciation		200
Loan provided by Nadi on 01.01.2019......................................		1 500
Insurance premium paid..	500	
Salaries paid to partners:-		
Nadi	300	
Ganga	500	
Capital accounts:-		
Nadi		3 000
Ganga		2 000
Cash given by Sagara..		1 500
Cash	3 800	
	13 200	**13 200**

Additional Information

(i) During the year, Nadi has taken goods costing Rs. 80 0000 from the business. This has not been recorded in the books of accounts of the business.

(ii) Goods costing Rs. 400 000, which were purchased by Ganga during the year using her personal money, have been given to the partnership. It was decided to consider the cost of these goods as a capital contribution of Ganga to the business. But, no entry has been made in this respect in the books. However, all these goods have been sold during the year and recorded in the sales account.

(iii) Interest on the loan given by Nadi has neither been paid nor accounted.

(iv) Personal income tax of Ganga amounting to Rs. 65 000 has been paid by the business. This has been recorded as an operating expense of the business.

(v) The breakup of t he insurance premium paid by the business sis as follows:-

- Fire insurance for supermarket - Rs. 300 000
- Life insurance of Nadi - Rs 200 000

(vi) On 31.03.2019, Sagara was admitted as a partner to the business. He introduced Rs. 1 500 000 as capital to the partnership and it has been recorded in a separate account. New profit sharing ratio among Nadi, Ganga and Sagara is 3:2:1 respectively. On this date, the goodwill of the business was estimated as Rs. 600 000. However, this has not been accounted for.

Required:

(1) Income Statement of the partnership for the year ending 31.03.2019 (including appropriations to partners)

(2) Partners Capital Accounts and Current Accounts for the year ending 31.03.2019

Retirement of a partner at the beginning of the accounting period

☞ADVANCED LEVEL – 2013

Mahendra, Naradha and Rajitha were partners of a trading firm sharing profits and losses in the ratio of 5:3:2. The statement of Financial Position as at 31.03.2012 was as follows:

	Rs. '000	Rs.'000
Non-current Assets		
- Property, plant and equipment	1,000	
- Accumulated depreciation	(200)	800
Current Assets		
- Inventories	200	
- Trade Debtors	450	
- Cash	60	710
		1,510
Capital Accounts		
- Mahendra	200	
- Narada	400	
- Rajitha	200	800
Current Accounts		
- Mahendra	150	
- Narada	100	
- Rajitha	60	310
Non-current Liabilities		
5% Loan Narada		200
Current Liabilities		
Trade creditors		200
		1,510

Additional information

(i) Rajitha retired from the partnership on 1st April 2012, It was agreed to treat the amount payable to Rajitha on his retirement as a loan and pay an interest of 5% per annum on it. On this day, the good will of the partnership was estimated as Rs 1,200,000 and all the adjustments pertaining to goodwill are made through partners capital accounts.

(ii) Mahendra an Narada agreed to continue the partnership under the following terms
  (a) Every partner is entitled to an annual salary of Rs. 120,000
  (b) Profits and losses to be shared equally between the partners

(iii) During the year, Mahendra and Narada have obtained Rs. 200,000 and Rs 150,000 respectively as drawings in cash.

(iv) All sales and purchases of the partnership are made on credit basis. During the year Rs. 1,800,000 was collected from debtors while Rs. 900,000 was paid to creditors.

(v) Operating expenses paid during the year were Rs. 350,000

(vi) Interests on loans are to be paid

(vii) Property, plant and equipment are depreciated at 20% per annum on cost on straight-line method

(viii) Current assets and current liabilities as at 31.03.2013 were as follows:

	Rs. '000
Inventories	275
Trade debtors	500
Cash	260
Trade Creditor	300

Required

The following for Partnership of Mahendra and Narada

1. Income statement for the year ended 31.03.2013 (including appropriations to the partners)

2. Partners capital accounts and Current Accounts for the year ended 31.03.2013
3. Loan Account of Rajitha as at 31.03.2013

☞ADVANCED LEVEL – 2014

The summarized Statement of Financial Position of Nuwan, Vishwa and Sandun partnership as at 31.03.2013 is given below:

	Rs. '000
Assets	
Property, plant and equipment at carrying amount	6,000
Inventory	1,000
Trade receivables (Trade debtors)	1,500
Cash at ban	500
	9,000
Equity and liabilities	
Capital Accounts	
- Nuwan	3,000
- Vishwa	3,000
- Sandun	2,000
Current Accounts	
- Nuwan	350
- Vishwa	330
- Sandun	80
Trade payables (Trade creditors)	240
	9,000

Additional Information

(i) The terms of the partnership agreement of Nuwan, Vishwa and Sandun were as follows:-
- Profits and losses were shared among Nuwan, Vishwa and Sandun in the ratio 3:2:1 respectively
- Each partner was entitled to a monthly salary of Rs. 10,000
- Partners were entitled to 5% interest on the opening balance of their capital account

(ii) Nuwan retired from the partnership on 01.04.2013. It was agreed to transfer the amount payable to him to a loan account and pay an annual interest of 10% on it. Interest is payable for the current year

(iii) On 01.04.2013, the goodwill of the partnership was estimated as Rs. 900,000. The goodwill is not recognized as an asset in the books and all adjustments relating to it should be done through the partner's capital accounts.

(iv) Vishwa and Sandun agreed to continue the partnership from 01.04.2013 sharing profits and losses in the ratio 2:1 respectively. The terms relating to salaries and interest on capital remain unchanged

(v) The summary of the transactions of the partnership of Vishwa and Sandun during the year ending 31.03.2014 is as follows:

Description	**Rs. '000**
Sales (of which 60% is on credit basis)	6,000
Receipts from debtors	2,500
Purchases (of which 80% is on credit basis)	3,000
Payment to creditors	1,240
Operating expenses paid in cash	520
Depreciation on property, plant and equipment	1,000
Drawings (Rs.60,000 for each partner)	120

(vi) The inventory as at 31.03.2014 was Rs.750,000

Required

(1) Income statement (including appropriations to partners for the year ending 31.03.2014 of Vishwa and Sandun Partnership

(2) Extracts of Statement of Financial Position of Vishwa and Sandun Partnership as at 31.03.2014 showing the balances of trade receivables, liabilities and partners' capital & current accounts.

Retirement of a partner at the End of the accounting period

☞ADVANCED LEVEL – 2018

Amal, Bimal and Chamal partnership is engaged in a manufacturing business. The following information has been extracted from its Statement of Financial Position as at 31.03.2017.

	(Rs.'000)
Inventory:	
Raw material	600
Work-in-progress (valued at production costs)	800
Finished goods	1 200
Capital Accounts:	
Amal	10 000
Bimal	6 000
Chamal	4 000
Current Accounts:	
Amal	1 200
Bimal	1 000
Chamal	600
Loan Account Amal	4 000

Additional Information:

(i) The terms of the partnership agreement are as follows:

- Amal, Bimal and Chamal share profits and losses in the ratio of 5:3:2 respectively
- Partners are entitled to an annual interest of 10% on the opening capital balances
- Partners are entitled to an annual interest of 12% for the loans provided

(ii) The following information is provided for the year ending 31.03.2018

	(Rs.'000)
Raw material purchases	1 400
Direct wages	700
Administrative and distribution expenses	2 350
Finance expenses	350
Sales	9 700
Production overheads	300

(iii) Inventory as at 31.03.2018

	(Rs.'000)
Raw material	1 000
Work-in-progress (valued at production cost)	600
Finished goods	1 500

(iv) Interest on Amal's loan has not been paid and no entry has been made in the books in this regard.

(v) Chamal is paid a monthly salary of Rs.10 000 for serving as the Manager of the factory. The salaries paid to Chamal for a 10 month period has been included in production overheads. Salaries for the balance period have been neither paid nor accounted for.

(vi) The depreciation for the current year is Rs.1 400 000 and it has been accounted for under administrative and distribution expenses. This amount has to be equally distributed between the factory and the administration office.

(vii) Bimal retired from the partnership with effect from 31.03.2018 due to ill-health. On this date, his share of goodwill was estimated and accounted for as Rs. 2 100 000. Of the amount due to him Rs. 3 000 000 was paid for his medical treatment at the time of retirement and the balance was transferred to a loan account. Amal and Chamal decided to continue the partnership by sharing profits and losses in the ratio of 5:2 respectively.

Required:

1. Income Statement of Amal, Bimal and Chamal partnership for the year ending 31.03.2018 (including appropriations to partners)
2. Capital and Current Accounts of Partners for the year ending 31.03.2018
3. Bimal's Loan Account

Partnership with profit correction statement

☞ADVANCED LEVEL – 2017

Amal, Kamal and Nimal carried out a partnership under the following terms

- All partners are entitled to an annual interest of 10% based on opening capital balances.
- Profits and losses are shared among Amal, Kamal and Nimal in the ratio of 3:2:1 respectively

Profit for the year ending 31.03.2017 of the partnership (before appropriation to the partners) as per draft income statement was Rs.3,400,000. However, the following errors in the accounting records of the business was revealed subsequently.

(1) The salaries of employees Rs. 360,000 has been debited to salaries account as Rs.630,000
(2) The interest paid Rs.100,000 on bank loans has been credited to interest income account as Rs.10,000
(3) Office equipment worth Rs.300,000 purchased on 01.04.2016 has been recorded as office expenses (Depreciation is provided at 10% per annum for office equipment on straight line basis)
(4) Amal's annual life insurance premium of Rs.150,000 has been paid by the business and it has been treated as insurance expenses of the business.

On 31.03.2017 Amal retired from the partnership. On this date, the goodwill of the partnership was estimated as Rs. 1,800,000. A goodwill account is not maintained in the books and all adjustments are made through the capital accounts of partners. It was agreed to maintain the amount payable to Amal as a loan in the partnership. Kamal and Nimal agreed to continue the business sharing profits and losses in the ration 2:1 respectively.

The credit balance of partner's capital and current accounts as at 01.04.2016 were as follows:

	Capital Accounts	**Current Accounts**
	Rs. '000	**Rs. '000**
Amal	4,200	800
Kamal	3,000	500
Nimal	2,000	300

Required

1. Journal entries to correct the errors (with narration)
2. A statement showing the correct profit of the partnership for the year ending 31.03.2017
3. The capital and current accounts of partners as at 31.03.2017

☞ADVANCED LEVEL – 2013

Use the following information to answer questions No: 01 and 02

The current account balances of Binu and Danu Partnership are as follows:

	As At 31.03.2013 - Rs. '000	As At 31.03.2012 - Rs. '000
Binu	960	500
Danu	940	600

The terms of the partnership agreement are as follows:-

- Binu and Danu are entitled to an annual salary of Rs. 240 000 and Rs. 360 000 respectively.
- Profits and losses are shared between Binu and Danu in the ratio 3:2 respectively

Salaries of Rs. 200 000 and Rs. 300 000 have been paid to Binu and Danu respectively during the year ending 31.03.2013.

1. What is the amount of profit earned by the partnership during the year ending 31.03.2013?
   ...

2. What would have been the current account balances of Binu and Danu as at 31.03.20113 if they had not been paid salaries entitled to them?
   Binu (Rs.): **.................................** Danu (Rs.): **............................**

☞ADVANCED LEVEL – 2014

Use the following information to answer questions No: 03, 04 and 05

Anoma and Bimalka carried out a partnership sharing profits and losses in the ratio 3:2 Chamila joined the Partnership as a partner on 01.04.2013. On this date, Chamila contributed Rs. 1 200 000 in cash as capital and the goodwill of the partnership was estimated as Rs.2 400 000. The goodwill is not recognized as an asset in the books an all adjustments relating to it are done through the capital accounts of partners. From this date, Anoma Bimalka and Chamila agreed to continue the partnership sharing profits and losses in the ratio 3:2:1 and each partner is entitled to an annual salary of Rs. 120 000.

The capital and current account balances of Anoma and Bimalka on 31.03.2013 were as follows:-

	Anoma (Rs.)	**Bimalka (Rs.**
Capital Account	2 000 000	1 500 000
Current Account	300 000	200 000

During the year, Chamila took Rs. 80 000 in cash as drawings. Her current account balance as at 31.03.2014 was Rs. 280 000. The other two partners did not take money as drawings during the year ending 31.03.2014.

3. Write the journal entry to adjust for the goodwill of the partnership as at 01.04.2013 (Narration is not required)

...
...

4. The profit of the partnership for the year ending 31.03.2014: Rs**. ....**

5. The equity of the partnership as at 31.03.2014: Rs**. ....**