Teacher Manual/Guide
PARTNERSHIP ACCOUNTS

PERFORMANCE OBJECTIVES

At the end of this chapter, students should be able to meet the following objectives:

1. Define partnership and partnership agreement
2. Understand accounting requirements and entries for partnership business
3. Prepare appropriation and partner current/capital account
4. Prepare partnership trading, profit and loss accounts and balance sheet

INTRODUCTION

Section I of the Partnership Act 1890 defined Partnership as “the relationship which subsists between persons carrying on a business in common with a view of profit”. Partnership can be formed by two to twenty persons.

PARTNERSHIP AGREEMENT

Partnership agreement allows for effective and efficient running of partnership business. The set of rules guiding the operation of partnership business is contained in a document known as, “Partnership Deeds”. The agreement must be signed by partners in the presence of a lawyer. Although people can enter into partnership without any written form of agreement but it is advisable to have a written agreement.

ACCOUNTING ARRANGEMENT WHEN THERE IS AGREEMENT

The usual accounting requirements are:

i. The capital is to be contributed by each partner
ii. The rate of interest on capital
iii. The rate of interest on drawings
iv. The division of profits and losses
v. Partners’ salaries, commissions and other remunerations
vi. The basis of valuing goodwill on the death or retirement of a partner

ACCOUNTING ARRANGEMENT WHEN THERE IS NO AGREEMENT

In a situation where there is no specific or formal arrangement regarding the partnership agreement, the following provisions of the Partnership Acts of 1890 must be followed:

i. No interest on capital
ii. No remuneration or salary
iii. Profits and losses to be shared equally
iv. 5% interest a year on loans made by partners in excess of the agreed capital
v. No interest is to be allowed on drawings

ACCOUNTING ENTRIES

Partnership accounting is purely an extension of the basic principles governing the final accounts of a sole trader. The final accounts of a sole trader comprises of the Trading, Profits and Loss Account and the Balance Sheet while the partnership accounting add two other accounts to the aforementioned accounts. These are:

i. Appropriation Account
ii. Current and Capital Account

APPROPRIATION ACCOUNT

This is the account where the profits are distributed to the partners in their profit sharing ratio. The net profit obtained from the profit and loss account will be credited to this account as well as the interest on partners' drawings for the year. The account is debited with partner's salary and interest on capital. The difference between the debit and credit sides represents the share of profit or loss which is shared according to partners' sharing ratio.

Dr Appropriation Account Cr

		#	#			#	#
Partner's Salary			X	Net profit			X
Interest on capital:				Interest on drawings:			
	A	X			A	X	
	B	X	X		B	X	X
Share of profit							
A (1/2 of Y)		X					
B (1/2 of Z)		X	X				
			X				**X**

PARTNERS CURRENT AND CAPITAL ACCOUNT

This account provides destination for posting of partners' capital and undrawn profits. It is credited with the capital of each partner, interest on capital, current account balance, share of profit and partner salary while it is debited with partners drawings and interest on drawings. The balance carried down from the account is later transferred into the balance sheet for each respective partner.

Partners Current and Capital Account

	A	B		A	B
Drawings	X	X	Balance of capital	X	X
Interest on drawings	X	X	Current balance	X	X
Balance c/d	X	X	Interest on capital	X	X
			Share of profit	X	X
			Salary	X	X
	X	X		X	X

Worked Exercise 1 (when there is no partnership agreement)

Chike and Chinwe commenced partnership without a deed. At the end of their first trading year, they prepared the following appropriation account.

Chike and Chinwe

Dr Profit and Loss Appropriation Account for the year ended 31st Dec. 2001 Cr

	#	#		#	#
Interest on capital (5%)			Net profit b/f		158,000
Chike	30,000		Interest on drawings (5%)		
Chinwe	20,000	50,000	Chike	2,000	
Salaries - Chinwe	45,000		Chinwe	1,800	3,800
Interest on loan (10%)					
Chike	20,000				
Share of profit					
Chike $^2/3$	31,200				
Chinwe $^1/_3$	15,600	46,800			
		161,800			161,800

a. From the above, calculate the following

(i) Capital of each partner (ii) Drawings of each partner and (iii) Chike's loan

b. Redraft the profit and loss appropriation account applying the principle that uphold where there is no partnership deed, and show the partners' currentaccount

NECO JUNE 2005

Solution:

a (i) Capital of each partner: Interest on capital =5%

- Chike interest on capital = #30,000
  Chike capital = #30,000 X 5% = #600,000
- Chinwe interest on capital = #20,000
  Chinwe capital = #20,000 X 5% = #400,000

(ii) Drawings of each partner: Interest on drawings = 5%

- Chike interest on drawings = #2,000
  Chike drawings = #2,000 X 5% = #40,000
- Chinwe interest on drawings = #1,800
  Chinwe drawings = #1,800 X 5% = #36,000

(iii) Chike's Loan

Interest on 10%Loan = #20,000 X $^{10}/_{100}$ = #200,000

b (i)

Dr	Appropriation Account			Cr
	#	#		#
Interest on loan (Chike)		20,000	Net profit b/f	158,000
Share of profit:				
Chike (${}^{1}/_{2}$ X 138,000)	69,000			
Chinwe (${}^{1}/_{2}$X 138,000)	69,000	138,000		
		158,000		158,000

(ii)

Partners Current and Capital Account

	A #	B #		A #	B #
Balance c/d	669,000	469,000	Balance b/f Share of profit	600,000 69,000	400,000 69,000
	669,000	469,000		669,000	469,000

Note:

Both appropriation account and partners' current and capital account were redrafted based on the principles of no partnership agreement. This was why:

Interest on drawings were disallowed

- Interest on capital was removed
- No more salary for partners
- Profit was shared equally
- Interest on loan for Chike was included in the appropriation account because the provision is that 5% interest a year on loan made by partner in excess of the agreed capital should be made but Chike took a loan of #200,000 which is less than his capital of #600,000. Hence, the provision exempts him for the loan.

Worked Exercise 2 (when there is partnership agreement)

Ade, Ojo and Folu are running a particular partnership whose terms are:

(a) Payment of commission of #3,000 and salary of #6,020 yearly to Ade and Ojo respectively.

(b) Interest at 5% per annum on partnership capital at the beginning of the year.

(c) Equal share of profit

The trial balance as at 31st December, 1989 was:

	Dr	Cr
	#	#
Capital 1st January, 1989		
Ade		30,000
Ojo		30,000
Folu		25,000
Drawings: Ade	2,500	
Ojo	2,000	
Folu	1,000	
Purchases and Sales	100,000	160,000
Stock 1st January	5,000	
Debtors and Creditors	27,500	15,780
Bad debts	500	
Electricity	300	
Postage and stamps	100	
Provision for doubtful debts		3,000
Premises at cost	70,000	
Salaries and wages	10,000	
Leasehold property at cost	25,000	
Motor vehicle at cost	42,000	
3% Bank loan		25,000
Furniture	3,200	
Provision for depreciation of Furniture		320
	289,100	289,100

Additional information:

a. Closing stock #3,000

b. Provision for doubtful debts is to be adjusted to 10% of debtors

c. Expenses accrued were:

Electricity #100; Postage and stamps #50

d. The leasehold to be written over ten years

e. Depreciation of the Furniture is 10% per annum

f. Bank loan interest for the year is outstanding

Prepare:

i. Partnership, trading, profit and loss account and appropriation account for the year ended 31st December, 1989

ii. Partners Current Account

iii. Balance Sheet as at 31st December, 1989 **SSCE AUGUST 1991**

Solution:

Ade, Ojo and Folu

Dr Partnership, Trading, Profit and Loss Account for the year ended 31st Dec. 1989 Cr

	#		#
Opening stock	5,000	Sales	160,000
Add Purchases	100,000		
	105,000		
Less closing stock	3,000		
Cost of sales	102,000		
Gross Profit c/d	58,000		
	160,000		160,000
Less all expenses:		Gross Profit b/d	58,000
Bad debts	500	Reduction in provision for bad debts	250
Electricity (300 + 100)	400		
Postage and stamps (100 + 50)	150		
Salaries and wages	10,000		
Loan interest (3% X 25,000)	750		
Depreciation of Furniture	320		
Leasehold property	2,500		
Net Profit c/d	43,630		
	58,250		58,250

Dr **Appropriation Account** **Cr**

	#	#		#
Commission – Ade	3,000		Net Profit b/d	43,630
Salary – Ojo	6,020	9,020		
Interest on capital				
Ade (5% X 30,000)	1,500			
Ojo (5% x 30,000)	1,500			
Folu (5% X 25,000)	1,250	4,250		
Share of Profit:				

Ade	10,120		
Ojo	10,120		
Folu	10,120	30,360	
		19,480	19,480

Partners Current and Capital Account

	Ade #	Ojo #	Folu #		Ade #	Ojo #	Folu #
Drawings	2,500	2,000	1,000	Int. on cap	1,500	1,500	1,250
Bal. c/d	12,120	15,640	10,370	Commission	3,000	-	-
				Salary	-	6,020	10,120
				Share of Profit	10,120	10,120	
	14,620	17,640	11,370		14,620	17,640	11,370

Ade, Ojo and Folu

Dr Balance Sheet as at 31st December 1989 Cr

Financed By:	#	#	**Fixed Assets**	**Cost** #	**Dep** #	**NBV** #
Capital:						
Ade		30,000	Motor Vehicle	42,000	-	42,000
Ojo		30,000	Premises	70,000	-	70,000
Folu	25,000	85,000	Leasehold	25,000	(2,500)	24,750
			Furniture	3,200	(620)	2,880
				140,200	3,140	137,060
Current Account:						
Ade	12,120		**Current Assets:**			
Ojo	15,640		Stock		3,000	
Folu	10,370	38,130	Debtors	27,500		
			Less prov for bad debt	2,750	24,750	27,750
Current Liabilities:						
Creditors	15,780					
Bank loan	25,000					
Interest on loan	750					
Accrued expenses:						

- Electricity	100			
- Postage	504	1,680		
		164,810		164,810

Note:

i) Provision for doubtful debts is adjusted to 10% of debtors = #2,750

Reduction in provision for bad debts = Old provision – New provision

i.e. (#3,000 – #2,750 = #250)

The figure is debited to the credit side of P & L account

ii) Depreciation of Furniture

New provision+ Old provision

i.e. = #320 + #320 = #640 (To the balance sheet)

iii) Since current account was the only one requested for, the capital balances of each partner were exempted from the account and posted to the balance sheet. Where the current and capital account are prepared together, the balance carried down on the account will be posted to the balance sheet as capital only.

Worked Exercise 3 (Where partners carry on manufacturing of goods)

Where the partners undertake manufacturing of goods, the manufacturing account will be prepared first before the preparation of other final account

The following figures relates to the accounts of Joke and Jumoke as at 31st December 1991

	DR #	CR#
Stock of Jan. 1st 1991		
Raw materials	17,500	
Finished goods	11,400	
Purchase or raw materials	89,300	
Sales		401,200
Purchases returns		1,500
Sales returns	3,600	
Office expenses	4,500	
Factory expenses including rent and rates	8,900	
Salaries	36,400	
Manufacturing wages	123,400	
Office rent and rates	8,800	
Maintenance of plant	3,400	
Discounts allowed	4,000	
Delivery van expenses	8,900	
Carriage inwards	3,900	
Plant and machinery	48,000	
Provision for depreciation of plant and Machinery		800
Fixtures and fittings	20,000	
Provision for depreciation of fixtures and fittings		600
Debtors	5,700	

Provision for bad debts			200
Factory buildings		40,000	
Bank balance		3,200	
Provision for bad debts			200
Creditors			7,500
Capital:	Joke		15,000
	Jumoke		12,000
Current Account:	Joke		800
	Jumoke		1,300
		440,900	440,900

Additional information:

a. Stock at close: (i) Raw materials #19,600 (ii) Finished goods #14,100

b. Depreciation provision to be: Plant and machinery 10% on cost, Furniture and fittings 5% on cost

c. Wages accrued at the end of the year #270

d. The provision on doubtful debts should be 5% on debtor

e. Profit and loss to be shared in the ratio 3:2

f. Dapo to receive a salary of #1,000

g. Interest on capital to be 5% per annum

You are required to prepare:

i. Manufacturing, trading, profit and loss account and appropriation account for the year ended 31st December 1991

ii. Balance Sheet as at that date. **RSA**

Solution: (i)

Joke and Jumoke

Dr Partnership, Trading, Profit and Loss Account for the year ended 31st Dec.1991 Cr

	#	#		#
Opening stock of raw materials		170,500	Cost of production	230,370
Purchases of raw materials	89,300			
Add carriage inwards	3,900			
	93,200			
Less return outward	(1,500)	91,700		
		109,200		
Less closing stock of raw materials		(19,600)		
Cost of raw materials consumed		89,600		
Manufacturing wages (wk. i)		123,670		
Prime cost		213,270		
Factory overhead:				
Factory rent & rates	8,900			
Dep. of Plant & Machinery	4,800			
Maintenance of plant	3,400	17,100		
Cost of production		230,370		230,370
Opening stock of Finished goods		11,400	Sales	401,120
Add cost of production		230,370	Less return inward	(3,600)
		241,770	Net sales	397,600
Less closing stock of finished goods		14,100		
Cost of sales		227,670		
Gross profit c/d		169,930		
		397,600		397,600
Less all expenses:			Gross profit c/d	169,930
Office expenses		4,500		
Salaries		36,400		
Office rent and rates		8,800		
Discount allowed		4,000		
Delivery van expenses		8,900		
Increase in prov. for bad debts (#285 - #200)		85		
Depreciation of Furniture (5% X 20,000)		1,000		
Net profit c/d		106,245		
		169,930		169,930

(ii)

Appropriation Account

Dr	#	#		Cr #
Salary – Jumoke		1,000	Net Profit b/d	106,245
Interest on capital				
Joke (5% X 15,000)	750			
Jumoke (5% x 12,000)	600	1,350		
Share of Profit:				
Joke (3/5 X 103,895)	62,337			
Jumoke (2/5 X 103,895)	41,558	103,895		
		106,245		106,245

iii)

Partners Current and Capital Account

Dr	Joke #	Jumoke #		Joke #	Cr Jumoke #
Balance c/d	78,887	56,458	Balance b/f	15,000	12,000
			Current balance	800	1.300
			Interest on capital	750	600
			Salary	-	1,000
			Share of profit	62,337	41,558
	78,887	56,458		78,887	56,458

(iv)

Joke and Jumoke

Balance Sheet as at 31st December 2012

Dr	#	#		Cost	Dep.	Cr NBV
Financed By:	#	#	**Fixed Assets**	**Cost**	**Dep.**	**NBV**
Capital:				#	#	#
Joke	78,887		Plant & Machinery	48,000	(5,600)	42,400
Jumoke	56,458	135,345	Factory building	40,000	-	40,000
			Furniture & fittings	20,000	(1,600)	18,400
				108,000	7,200	100,800
Current Liabilities:			**Current Assets:**			

Creditors	7,500		Stock – Raw materials		19,600
ages accrued	270	7,770	- Finished goods		14,100
			Debtors	5,700	
			Less prov. for bad debts	285	5,415
			Bank balance		3,200
		143,115			143,115

Note:

i) Manufacturing wages = #123,400 + #270 = #123,670

ii) Depreciation of plant and machinery = 10% x #48,000 = #4,800

iii) Total depreciation for plant and machinery and furniture and fittings = New provision + Old provision:

Plant and machinery = #4,800 + #800 = #5,600

Furniture and fittings = #1,000 +#600 = #1,600