

Conversion of Partnership to a limited Company

This is where a limited company purchases the partnership business.
Two set of account shall be prepared: → In partners books
→ In the company's books
the purchase consideration shall be determined as follows:

Assets taken over	XX
add: goodwill	XX
less: liabilities taken over (XX)	
Purchase Consideration / Equity	<u>XX</u>

Goodwill = purchase consideration - net assets acquired.

Accounts prepared:

1. Business purchase Account.
2. Partners Capital Account.
3. Vendors Account.

Business purchase Account

Liabilities taken over	XX	Assets taken over	XX
Purchase consideration (Equity)	XX	Goodwill	XX
	<u>XX</u>		<u>XX</u>

NB: Any expenses incurred prior to the formation of the company are called preliminary expenses which should be capitalized and amortized over a given period of time.

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Business purchase Account

	Merbeti	Nyumbwa		Merbeti	Nyumbwa
Bank overdraft	179000	-	Land & Buildings	200000	
Account payable	308000	52000	Motor vehicle	150000	
Debtors	166000	9600	Equipment	33000	
			Cash	1000	
Purchase Consideration (Equity)	570600	459400	Receivables	128000	216000
			Inventory	460000	225000
			Goodwill	100000	80000
	<u>107000</u>	<u>521000</u>		<u>1077000</u>	<u>521000</u>

b) Partners Capital A/c

	Debit	Credit		Debit	Credit
Equity - ord share Capital			Balance b/d	526000	324000
Mabati (W1)	475000	95600	Goodwill - Mabati	50000	50000
Nyumba	141000	318400	Nyumba	40000	40000
	616000	414000		616000	414000

c) Ordinary share

	Mabati	Nyumba	Total
Mabati (23750 x 20)	475000	95600	570600
Nyumba	141000	318400	459400
Total	616000	414000	

d) Bank Account

	Mabati	Nyumba		Mabati	Nyumba
Balance b/d (cash)	1000		Balance b/d (bank draft)	179000	—
Debitures	200000		Debitures exp	7000	—
Ordinary shares	20000	30000	Formation expenses	13000	8000
			Bal c/d	22000	22000
	221000	30000		221000	30000

e) Vendors A/c / Mabati & Nyumba A/c

	Mabati	Nyumba		Mabati	Nyumba
Purchase consideration	570600	459400	Ordinary share - Mabati	475000	318400
			- Nyumba	95600	141000
	570600	459400		570600	459400

f) Statement of financial position

	Mabati	Nyumba
<u>Non-current Assets</u>		
land and building	200000	
Motor vehicle	150000	
Equipment	33000	
preliminary expenses - formation exp	13000	8000
- Debiture exp	7000	—
Goodwill	100000	80000
<u>Current Asset</u>		
Bank	22000	22000
Inventory	460000	225000
Receivable	128000	216000
Total Asset	1113000	551000
<u>Equity & liabilities</u>		
Ordinary Capital 570600 + 200000	590600	489400
<u>Non-current liabilities</u>		
Debitures 200000 + 144000	214400	9600
<u>Current liabilities</u>		
Account payable	308000	52000
	1113000	551000

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- a) - changes in legislation
 - illegality of the business
 - Insanity of a partner
 - Death of a key partner

b) Interest on capital

Chanda	$10\frac{2}{3} \times 58500 = 5850$
Pete	$10\frac{2}{3} \times 37000 = 3700$
Kidole	$10\frac{2}{3} \times 31500 = 3150$
	<u>12700</u>

wa) Appropriation Account

Net profit	91000
Interest on Capital	(12700)
Commission on Kidole ($\frac{1}{5} \times 20000$)	(3000)
Adjusted Net profit	<u>75300</u>
profit share: Chanda: $\frac{2}{5} \times 75300 = 30120$	
Pete: $\frac{2}{5} \times 75300 = 30120$	
Kidole: $\frac{1}{5} \times 75300 = 15060$	

w3 Goodwill = purchase consideration - Net Asset

$$250,000 - (115000 + 25500 + 43500 + 29550 + 24765 - 62400 - 17550 - 4000) = 65995$$

$$\text{Goodwill} = 250,000 - 184005 = 65995$$

Realization Account

Land & Building (123500 - 20150)	103350	Investment Acquired.	50,000
Motor Vehicle (80600 - 54600)	26000	Accrued expenses	4000
Equipment	45800	Bank overdraft	17550
Furniture & fitting	33500	payable	62400
Investment	44800		
Inventory	31200		
Receivables	25400	purchase consideration	250,000
Realization gain 73900			
Chanda $\frac{2}{5} \times 73900$	29560		
Pete $\frac{2}{5} \times 73900$	29560		
Kidole $\frac{1}{5} \times 73900$	14780		
	<u>383950</u>		<u>383950</u>

Capital Account

	Chanda	Pete	Kidole		Chanda	Pete	Kidole
Drawing	7800	6500	3900	Balance b/d	58500	58500	31500
Investment	20000	20000	10000	Current A/c	20800	18200	13300
Goodwill written off	10400	10400	5200	Interest on Capital	5850	3700	3150
				Commission - Kidole	-	-	3000
Ordinary share	106630	81680	61690	profit share (w2)	30120	30120	15060
				Realization gain	29560	29560	14780
	<u>114830</u>	<u>118580</u>	<u>80790</u>		<u>114830</u>	<u>118580</u>	<u>80790</u>

Purchasing Company AIC / Clappein Ltd	
Purchase consideration	250,000
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250,000	
Ordinary share Capital in Clappein Ltd	
Clumda	106,630
Pete	81,680
Kedole	61,690
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250,000	

ii) Clappein Ltd
Statement of financial position as at 1 Oct 2017

Assets	£,000
<u>Non-current Asset</u>	
Land and building	115,000
Motor vehicle	25,500
Office equipment	43,500
Furniture & fixtures	29,550
Goodwill (W3)	65,995
<u>Current Assets</u>	
Inventory $(31200 \times 95\%) + 29640 + 15000$	44,640
Receivables	24,765
Cash	31,000
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	379,950
<u>Total Asset</u>	
<u>Equity and liabilities</u>	
Ordinary share capital	250,000
<u>Non-current liabilities</u>	
Debentures	50,000
<u>Current liabilities</u>	
Payable	62,400
Bank overdraft	17,550
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	379,950

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