

Objectives

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

- Determine partners' current account balances;
- Prepare partners' current account;
- Identify partners' current account layout.

10.1 Introduction

The fixed capital accounts of the partners were always shown to be constant and not varying every year. A current account as its name implies, is the one that varies from day-to-day depending on the transaction of individual partners and the policy of the business.

10.2 Partners' Current Account Balances

At the beginning of the year, a current account will either have balance or no balance on it. This balance may be a debit balance or credit balance depending on the drawings made by partner and the result of the partnership operation. In the previous years, if a partner withdraws more than the income expected by him, he will have deficit on his current account, that is, a debit balance. On the other hand, if a partner withdraws less than the income appropriated to him, he will have a credit balance. However, the result of operation and the profit or loss, may determine the types of balance in the current account of the partner.

10.3 Preparation of Partners' Current Account

In the preparation of accounting entries in the partners' current account, the following steps must be taken:

1. Debit drawings of each partner.
2. Interest on drawings.
3. Share of loss (if any).

Credit the following:

1. Interest on capital for each partner.
2. Interest on loan.
3. Salary or remuneration.
4. Share of profit.

10.4 Layout of Partners' Current Account

Partners' Current Account

	X	Y	Z		X	Y	Z
Drawings	xx	xx	xx	Balance b/f	xx	xx	xx
Interest on drawings	xx	xx	xx	Interest on capital	xx	xx	xx
Balance c/d	xx	xx	xx	Interest on loan	xx	xx	xx
				Salary			
				Share of profit			
	XXX	XXX	XXX		XXX	XXX	XXX
				Balance b/d	xxx	xxx	xxx

Example 10.1

Akin, Chuks and Abegunde are in partnership, they share profit and loss in the ratio 5:3:2 respectively. The partnership agreement contains the following:

- (a) The partners' capitals are Akin. N60,000, Chuks. N100,000 and Abegunde N75,000.00
- (b) Akin is to receive a salary of N120,000.
- (c) Interest on capital to be 10%.
- (d) Interest on drawings to be 20%.

During the year, the partners drawing were as follows; Akin. N10,000, Chuks. N15,000. The current account shows the following; Akin. N3,000 [DR], Chuks. N1,000 [CR] and Abegunde. N500 [CR]. In 31st December 2009, the net profit was N175, 000

Prepare:

The appropriation account and current accounts as at 31st December 2009.

Solution

Appropriation Account

	N	N		N	N
Salary: Akin		120,000	Net profit		175,000
Interest on capital			Interest on drawings		
Akin ($\frac{10}{100} \times 60,000$)	6,000		Akin ($\frac{20}{100} \times 10,000$)	2,000	
Chuks ($\frac{10}{100} \times 100,000$)	10,000		Chuks ($\frac{20}{100} \times \frac{15,000}{1}$)	3,000	5,000
Abegunde ($\frac{10}{100} \times 75,000$)	7,500	23,500			
Share of profit					
Akin ($\frac{5}{100} \times 36,500$)	18,250				
Chuks ($\frac{3}{100} \times 36,500$)	10,950				
Abegunde ($\frac{2}{100} \times 36,500$)	7,300	36,500			
		180,000			180,000

Partner's Current Account

	Akin	Chuks	Abegunde		Akin	Chuks	Abegunde
Balance b/f	3,000	-	-	Balance b/f		1,000	500
Drawings	10,000	15,000	-	Salary	120,000	-	-
Interest on drawing	2,000	3,000	-	Interest on capital	6,000	10,000	7,500
Balance c/f	129,250	3,950	15,300	Share of profit	18,250	10,950	7,300
	144,250	21,950	15,300		144,250	21,950	15,300

10.5 Summary

In this chapter, students have learnt that:

1. Current account varies from day-to-day depending on the transactions of individual partners and business policy.
2. Current account is shown on the liabilities section of the balance sheet.

10.6 Revision Questions

1. What is .Partners. Current Account.?
2. State the procedures for the preparation of partners' current account.
3. Distinguish between Partners. Capital Account and Partners. Current Account.
4. If a partnership makes a loss during the financial year, this will be _____.
 - A. credited to the partnerships bank account
 - B. credited to the partners' current account
 - C. debited to partner's salaries account
 - D. debited to partners' current account
 - E. debited to partners' drawings account
5. A credit balance on a partner's current account is a _____.
 - A. current assets
 - B. fixed asset
 - C. current liability
 - D. part of the capital
 - E. long-term liability

Use the following information to answer questions 6 - 9: A, B and C were in partnership sharing profits in the ratio of 3:2:1 for the next N6, 000, then 1:4:5 for the next N6, 000 and the rest equally. The profit realised was N12, 000 and this was to be shared without any other adjustment.

6. Calculate the share of profit for A:
 - A. N2,000
 - B. N7,600
 - C. N4,000
 - D. N7,000
 - E. N8,600
7. Partner B will receive as his share of profit, the sum of _____.
 - A. N2,400
 - B. N8,400
 - C. N2,000
 - D. N6,400
 - E. N4,400
8. Partner C will receive as his share of profit, the sum of _____.
 - A. N5,500
 - B. N8,000
 - C. N4,000
 - D. N7,000
 - E. N1,000

9. In a professional partnership, membership must be between _____.

- A. 2 and
- B. 2 and 10
- C. 2 and 20
- D. 2 and 50
- E. 2 and any number