

# Partnership



## Preparation of financial statements

### Partnerships

Candidates should have an understanding of:

- how to prepare a statement of profit or loss, appropriation account and statement of financial position for a partnership from full or incomplete accounting records. The business may be a trading or a service business
- why partners may maintain separate capital accounts and current accounts
- how to prepare partners' capital and current accounts
- the contents of a partnership agreement
- the advantages and disadvantages to partners of maintaining a partnership agreement
- the provisions of the Partnership Act 1890 in respect of partners' salaries, division of profit or loss, interest on partners' loans, interest on capital and interest on drawings



1 Hamid and Jamila have been in partnership for several years and do not have a partnership agreement. They do not maintain full accounting records.

(a) (i) State **two** disadvantages to Hamid and Jamila of trading as a partnership rather than as sole traders.

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[2]

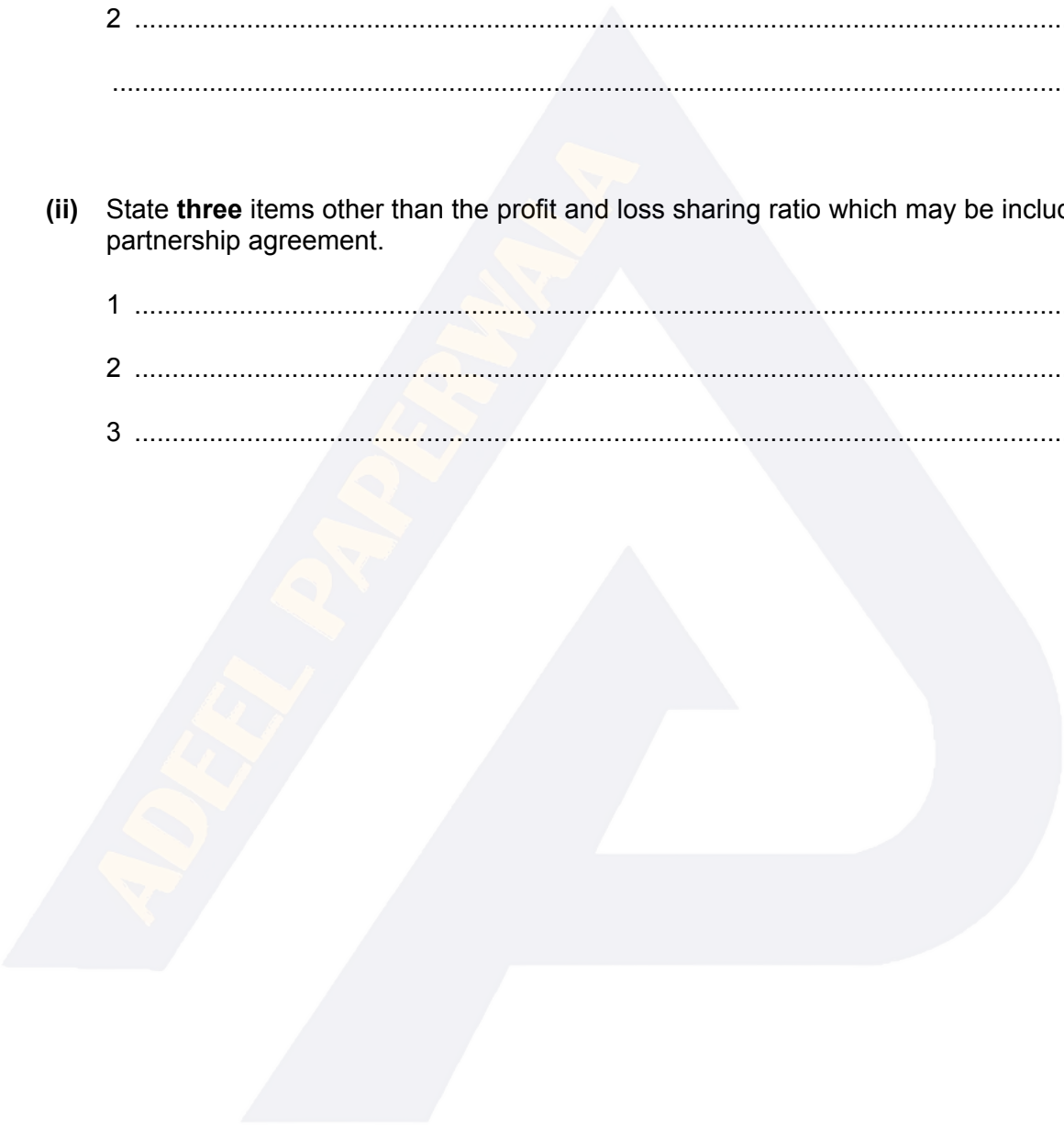
(ii) State **three** items other than the profit and loss sharing ratio which may be included in a partnership agreement.

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[3]





**Additional information**

The following information is also available for the year ended 31 December 2020.

	\$
Administrative expenses paid	8 228
Insurance paid	1 090
Purchase of additional furniture and fittings	4 500
Purchases of goods for resale	112 152
Receipts from the disposal of furniture and fittings	575
Rent of business premises	14 500
Staff wages	10 230

All goods are sold with a mark-up of 50%.

During the year Hamid took goods for his own use but no record was made of their value.

Furniture and fittings with a carrying value of \$800 were disposed of during the year.

(c) Prepare the partnership statement of profit or loss for the year ended 31 December 2020.

Workings:





1 Faraz, Javed and Leah were in partnership. Their agreement included the following terms:

- 1 Interest on drawings to be charged at 5% on total drawings for the year.
- 2 Interest at 12% per annum to be provided on fixed capitals.
- 3 Javed to receive a salary of \$9000 per annum.
- 4 Remaining profits and losses to be shared in the ratio Faraz, Javed and Leah, 4:3:3 respectively.

The following information was available for the year ended 31 December 2020.

	Faraz \$	Javed \$	Leah \$
Balances at 1 January 2020			
Capital accounts	80 000	60 000	50 000
Current accounts	3 400 credit	2 900 debit	1 700 debit
For the year ended 31 December 2020			
Drawings	22 400	17 200	20 200

The profit for the year ended 31 December 2020, before appropriation, was \$31 500.

**REQUIRED**

(a) State **two** reasons why partnership agreements sometimes include a provision to charge interest on drawings.

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[2]



(c) Prepare Javed's current account for the year ended 31 December 2020.

Javed  
Current account

	\$		\$

[6]

- 1 Hamza and Noor are in partnership. They own a service business.

The following information has been extracted from the partnership's books of account for the year ended 31 December 2019.

	\$
Administrative expenses	18 270
Equipment at 1 January 2019	
Cost	11 000
Provision for depreciation	3 300
Loan account (Hamza)	10 000
Motor vehicle at 1 January 2019	
Cost	20 000
Provision for depreciation	7 200
Revenue	45 400
Wages of assistant	15 540

The following information is also available.

- Administrative expenses include \$1800 insurance for the three months ended 29 February 2020.
- The assistant works a 5-day week and is paid a weekly wage of \$350. At 31 December 2019 three days' wages were due but unpaid.
- Hamza's loan was provided on 1 April 2019. He is entitled to interest of 8% per annum. Loan interest has not yet been paid to Hamza.
- The depreciation policy is:

Equipment	15% per annum	straight-line method
Motor vehicle	20% per annum	reducing balance method
A full year's depreciation is charged in the year of purchase but none in the year of disposal.		

- An item of equipment was sold for \$480 on 3 August 2019. This equipment had been purchased on 1 January 2017 for \$2000.

**REQUIRED**

(a) State how profits and losses are shared in a partnership where there is no agreement.

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(b) Explain **two** reasons why you would recommend partners to have a written agreement, other than stating a ratio for sharing profits and losses.

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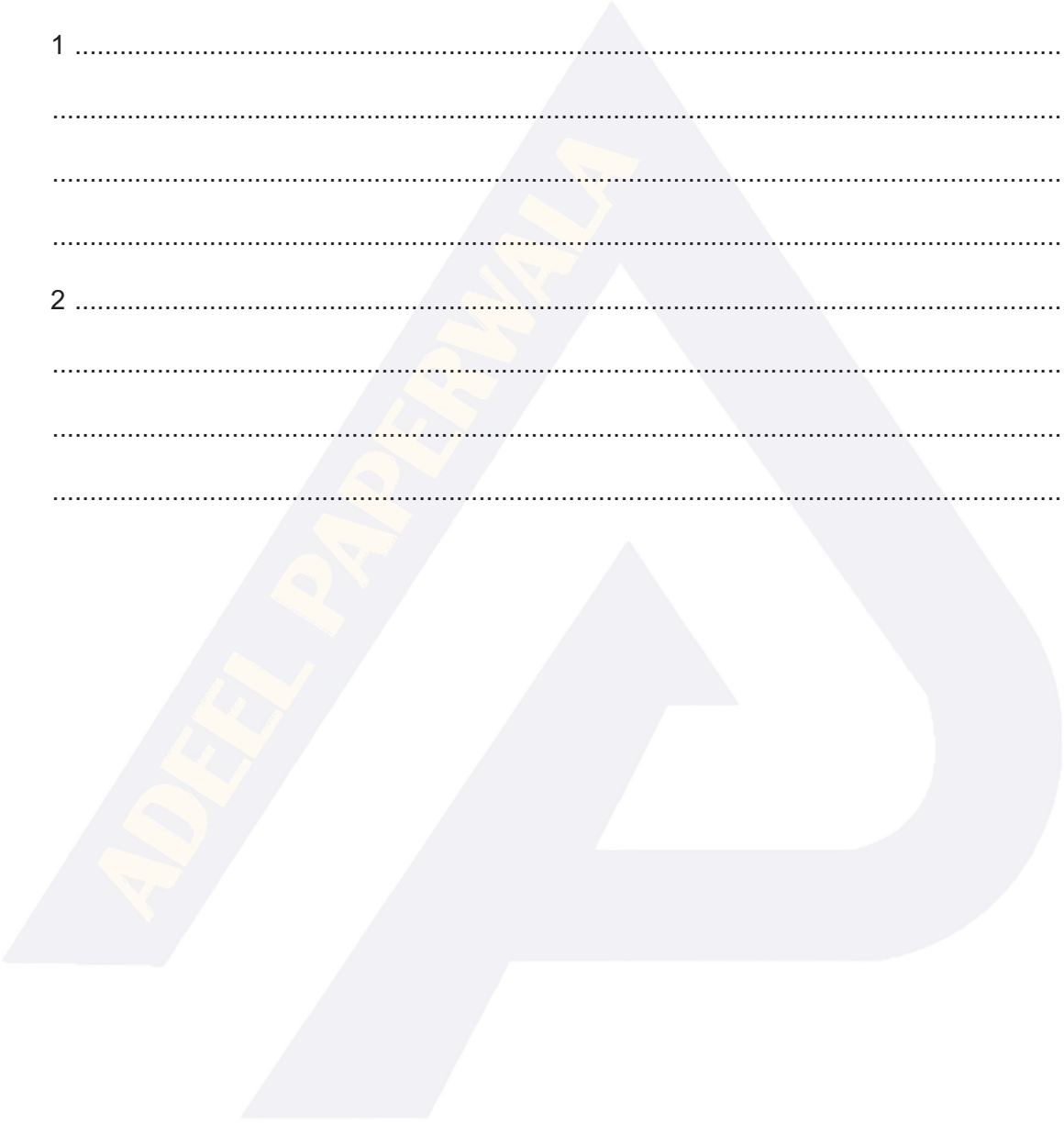
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Workings:

[11]

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- 1 Ahmed and Raji are in partnership as retailers but have not maintained full accounting records. They have been advised to use a double entry system of book-keeping.

**REQUIRED**

- (a) State **three** advantages to business owners of using the double entry system of book-keeping.

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**Additional information**

The following information is available for the partnership:

- 1 Assets and liabilities

	30 April 2019	1 May 2018
	\$	\$
Equipment at net book value	17 600	20 500
Motor vehicles at net book value (Cost \$25 000 at 1 May 2018)	?	16 500
Inventory	5 470	6 750
Trade receivables	3 790	3 260
Trade payables	4 560	4 390
Wages owing	2 300	1 500
Rent paid in advance	1 600	950
Cash and bank balances	6 470 credit	5 430 debit

- 2 The summary of the partnership bank receipts and payments for the year ended 30 April 2019 was as follows.

	\$
Receipts	
From credit customers	57 900
Payments	
To credit suppliers	25 800
New motor vehicle	6 800
Partners' drawings	16 700
Wages	10 700
Rent	7 500
General expenses	2 300

All purchases and sales were made on credit.







- 3 Adam, Bilal and Chan operate a partnership providing secretarial services. The partners have no formal partnership agreement.

The following balances are extracted from the trial balance at 31 December 2018.

	Debit \$	Credit \$
Fees revenue received		152 000
Business operating costs	76 000	
Capital accounts		
Adam		30 000
Bilal		20 000
Chan		10 000
Current accounts		
Adam		36 000
Bilal	4 000	
Chan		12 000
Trade receivables	27 000	
Loan account: Bilal		80 000
Motor vehicles at net book value	96 000	

**REQUIRED**

- (a) Calculate the profit for the year ended 31 December 2018 before appropriation.

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- (b) Calculate the share of profit appropriated to Bilal for the year ended 31 December 2018.

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- 1 Ashir, Bo and Chan are in partnership. The partnership agreement includes the following terms:
- 1 Profits and losses are shared in the ratio of the partners' capital accounts.
  - 2 Interest on capital is 6% per annum.
  - 3 Interest on drawings is 5% calculated on each partner's total annual drawings.
  - 4 Partners' loan interest is 12% per annum.
  - 5 Chan receives a salary of \$1000 per month.

The following information is available at 31 December 2016:

	\$
Capital accounts	
Ashir	40 000
Bo	30 000
Chan	10 000
Current accounts	
Ashir	12 300
Bo	8 200
Chan	2 600 debit
Drawings	
Ashir	15 400
Bo	12 200
Chan	16 400
Fixtures and fittings	
Cost	32 400
Provision for depreciation	21 400
Motor vehicles	
Cost	80 000
Provision for depreciation	48 000
Loan account – Ashir	10 000
Gross profit	171 620
Operating expenses	54 960
Staff wages	32 500

Additional information

- 1 Operating expenses include a payment of \$600 for insurance covering the 12-month period to 31 August 2017.
- 2 Staff wages owing at 31 December 2016 were \$860.
- 3 Depreciation is to be charged as follows:

Fixtures and fittings	10% per annum using the reducing balance method
Motor vehicles	20% per annum using the straight-line method







- 1 Cherie and Harry are in partnership.

**REQUIRED**

- (a) Explain **three** disadvantages of operating as a partnership rather than being in business as a sole trader.

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**Additional information**

The following information was available for the partnership on 30 June 2017.

	\$	
Bank overdraft	1 680	
Capital accounts		
Cherie	42 000	
Harry	28 000	
Current accounts balances at 1 July 2016		
Cherie	1 470	credit
Harry	2 430	debit
Drawings		
Cherie	18 300	
Harry	16 820	
Gross profit for the year	40 960	
Inventory at 30 June 2017	25 540	
Loan Account		
Cherie	8 000	
Non-current assets		
Cost	64 000	
Provision for depreciation	22 000	
Operating expenses	28 390	
Trade payables	1 170	

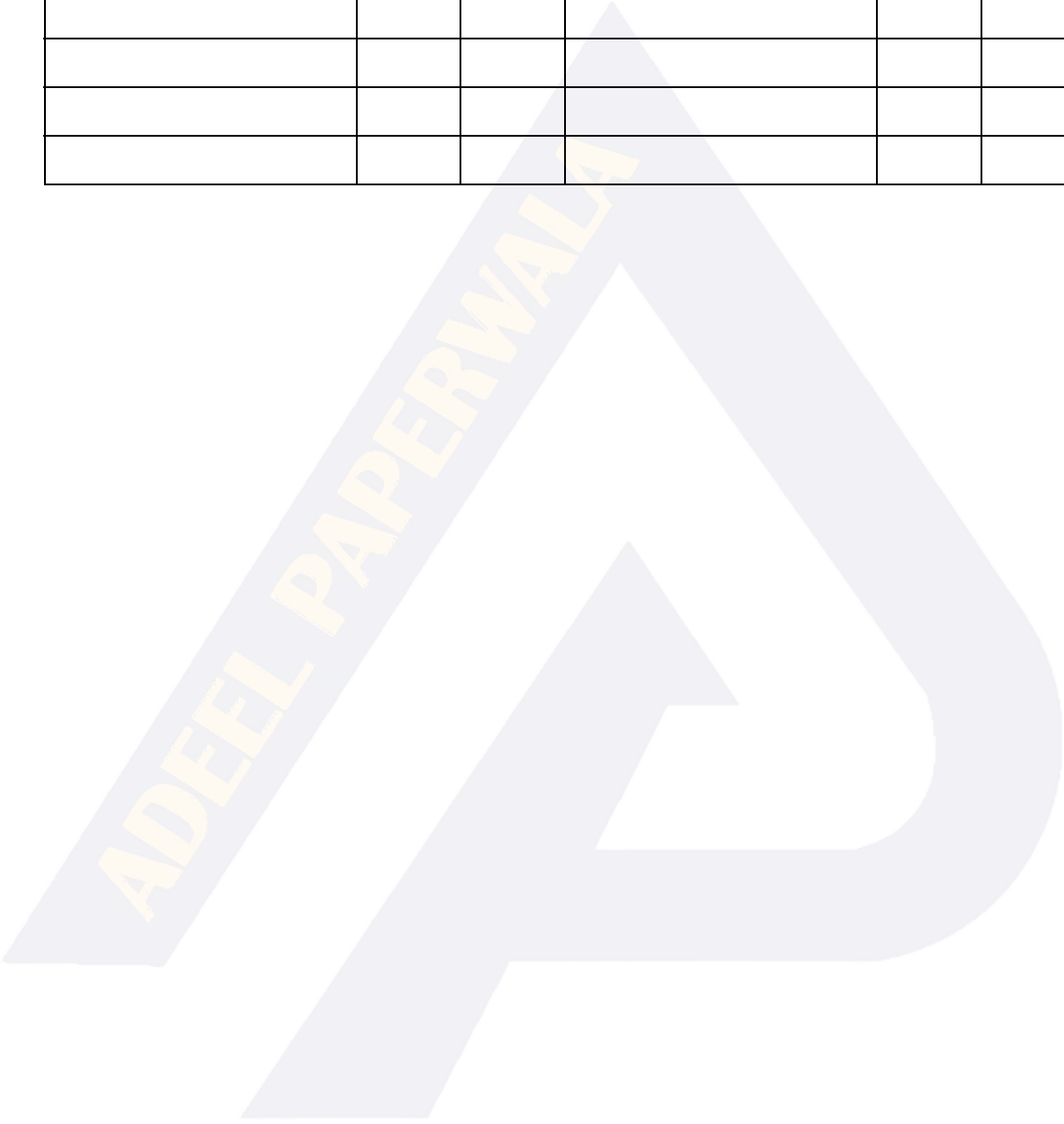




(d) Prepare the partners' current accounts for the year ended 30 June 2017.

## Current Accounts

	Cherie \$	Harry \$		Cherie \$	Harry \$



- 1 Carlos and Erika have been in partnership for several years and prepare their financial statements to 31 July.

At 1 August 2016 the following information related to non-current assets was available.

	\$
Plant and machinery	
Cost	65 000
Provision for depreciation	5 000
Motor vehicles	
Cost	18 000
Provision for depreciation	3 600

During the year ended 31 July 2017 the following took place.

- 1 On 1 November 2016, the partnership purchased a new machine for \$7500.
- 2 On 1 December 2016 a machine was sold for \$6800. The machine had been purchased for \$10 000 on 1 May 2015.
- 3 On 1 February 2017 a new motor vehicle was purchased for \$14 000.
- 4 The accounting policies in respect of depreciation are:
  - Plant and machinery is depreciated using the straight-line method at 10% per annum.
  - Motor vehicles are depreciated using the reducing balance method at 20% per annum.
  - A full year's depreciation is charged in the year of purchase and none in the year of disposal.
- 5 No adjustments have yet been made for depreciation or disposal of the machine.

The profit for the year ended 31 July 2017 before any adjustments was \$37 490.



**Additional information**

The terms of the partnership agreement are as follows:

- 1 Annual partnership salaries: Carlos \$10 000 and Erika \$15 000.
- 2 Interest on capital: 3% per annum.
- 3 No interest is to be paid on drawings up to \$20 000. Interest at a rate of 6% is to be charged on any drawings in excess of \$20 000.
- 4 Profits and losses are to be shared in the ratio of the capital invested.

The following information is also available at 31 July 2017.

	\$
Capital account:	
Carlos	84 000
Erika	28 000
Drawings:	
Carlos	15 000
Erika	25 000





**REQUIRED**

**(d)** Calculate the following at 31 July 2017:

**(i)** Trade receivables

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**(ii)** Trade payables

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**(e)** Assess the working capital position of the partnership at 31 July 2017.

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(f) Advise the partners of **three** ways in which they could improve the cash position of the business.

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