Unit 03

Financial Statements for a Partnership Business

Learning Outcome

- ❑ Introduction to the partnership business
- ❑ Prepare a set of Financial Statements for a Partnership Business

Introduction to the partnership business

A Partnership Business

- The relationship among individuals conducting a business in common with an objective to earn a profit is known as a partnership.

- The **partnership ordinance act of 1890** will affect to the partnership businesses.

Characteristics of a Partnership Business

Number of members	• There should be 2 members minimum and according to the Companies Act No. 07 of 2007, a maximum of 20 members to commence a partnership.
Partnership Agreement	• A partnership commences with an agreement among its partners, which is known as the partnership agreement. This agreement can be in **written, orally or implied.** • According to the **Prevention of Fraud Ordinance Act 1840** if the initial capital of the partnership is greater than Rs. 1000, a partnership is required to be conducted under a written agreement. This written agreement is known as **partnership deed**.

Unlimited liability of partners	• Partners are **unlimitedly liable** for the debts of a partnership. If the assets of the business are not sufficient to pay off its debts, partners are liable to sacrifice their private properties even to pay off debts.
Not mandatory to register a partnership	• If a partnership is conducted under the full names of all the partners, it is not required to register. However, **if a partnership is conducted under a different name, the business name should be registered.** Registrar of the respective Provincial Council is the authorized officer to register business names.
No separate legal identity	• A partnership is **not considered as a legal person** in front of law. Therefore, a partnership is unable to perform any legal activities in its business name. Partners are required to use their personal names in legal matters
No continued existence	• The existence of a partnership will be ceased due to the death of a partner or a partner being mentally unstable.

Partnership Agreement / Deed

- The agreement that includes all the terms and conditions that regulate the partnership business as agreed by the partners.

Terms & Conditions in a Partnership Agreement

2. Names and addresses of the partners
3. Date of the commencement of the business
4. The amount of capital introduced by each partner and capital ratios
5. Method of profit/loss sharing among partners
6. Whether partners are entitling for interest on capital or not, if any it's percentages
7. Whether partners are entitling for remuneration for actions in the partnership business or not, if any it's the amount
8. Methods that should be followed when admitting a new partner
9. Methods that should be followed if an existing partner retires
10. Whether interest is charged on drawings or not if any it's rate
11. If any loan is given by a partner in addition to capital whether itis entitling for interest if any its interest
12. Whether interest is applicable for current account balances or not,if any it's percentage
13. Methods of adjusting goodwill revaluation
14. Methods and conditions related to the dissolution of partnerships
15. Any other matter related to partnership business

Section 24 of the partnership ordinance Act 1890

As such, Section 24 of the Partnership Ordinance of 1890 is applicable for the following situations.

1. In the absence of a partnership agreement
2. When the existing partnership agreement is silent related to a particular matter

Section 24 Guidance

1. Profit or loss shall share **equally**.
2. Partners are **not entitled to the interest** on **capital introduced**.
3. All partners can take part in the **management**. But **no remuneration** will be entitled for that.
4. Partners are entitled to receive **5% interest** on the **loans provided** to the business.
5. Partners are entitled to **reimburse the expenses incurred on the partnership** business activities.
6. All the books and records must be kept at the business place and all the partners have the right to examine those.
7. Admission of a new partner or resignation of an existing partner can be done with the **consent of all the partners.**

Section 42 Guidance

- When a **partner retires, dies or leaves,** unless his entitlement is paid on the same day, is entitled to receive a **minimum of 5% annual interest from the day until the date of payment.**

THE LEGISLATION	WHEN REQUIRED
Company Act no 07 of 2007	• To decide the number of partners. • Maximum number of partners should limit to 20.
Partnership Act 1890 - Section 24	• When resolving partnership disputes where there are no partnership agreements in writing, or no conditions include in the partnership agreement. (Refer the annexture)
Partnership Act 1890 - Section 42	• When a partner retires, dies or leaves, unless his entitlement is paid on the same day, is entitled to receive a minimum of 5% annual interest from the day until the date of payment.
Prevention of frauds ordinance No 07 of 1840	• If the initial capital is more than 1,000/=, then the partnership business should start according to a **written partnership agreement.**

Accounting for a partnership business

Distribution of profit

- There are major **3 ways** where partnership business can **distribute the profit** among partners.

Interest on capital	For supplying the capital
Partner's salary	For participation in the management
Share of profits	Bearing the risk

Profit Appropriation Statement

- This is used to show how the partnership business profit distributed among the partners.

Net Profit		100,000
(-) Partners salary		
Partner A	20,000	
Partner B	10,000	(30,000)
(-) Capital Interest		
Partner A	15,000	
Partner B	15,000	(30,000)
		40,000
(-) Share of profit (1:1)		
Partner A	20,000	
Partner B	20,000	(40,000)
		0

Equity of a Partnership Business

Equity

Capital Account

Fixed equity will be recorded here.

1. Opening balance in capital account
2. Additional Capital
3. Withdrawals of capital as agreed

Current Account

Variable equity will be recorded here.

1. Interest on capital
2. Partners' salary
3. Share of profit
4. Drawings
5. Interest for loan provided
6. Business expenses borne by partners

Capital account							
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ranga	Thranga	Suranga	Description	Ranga	Thranga	Suranga

Current account							
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Description	Ranga	Thranga	Suranga	Description	Ranga	Thranga	Suranga

Relevant Double entries

1. Distribution of partners salary

Profit appropriation account Dr 1,000
Current Account - Partner A Cr 300
Partner B Cr 700

2. Distribution of capital interest

Profit appropriation account Dr 2,000
Current Account - Partner A Cr 600
Partner B Cr 1,400

3. Distribution of share of profit

Profit appropriation account Dr 1,000
Current Account - Partner A Cr 500
Partner B Cr 500

4 Interest on loan provided by the partners

Interest Expense account	Dr	1,000	
Current Account - Partner A		Cr	1,000

If interest paid in cash,

Current Account - Partner A	Dr	1,000	
Cash		Cr	1,000

5 Drawings made by the partners

Current Account	Dr	600	
Cash		Cr	600

6 Expenses borne by the partners

Relevant Expense account	Dr	1,000	
Current Account - Partner A		Cr	1,000

When the expense is riumbursed,

Current Account - Partner A	Dr	1,000	
Cash		Cr	1,000

Question 01

Chanaka and Malaka are the partners of C & M Hardware, a hardware shop sharing profits / losses equally.

1. The partnership agreement provides the following:

    - 5% of interest is entitled on the opening balance of the capital accounts.
    - Chanaka & Malaka are entitled for a salary of Rs.50,000/- per month for there involvement in administration of the business.
    - Profits and losses are shared among Chanaka, Malaka in the ratio of 2:3 respectively.
    - Interest of 10% per annum is payable on loans given by partners to the partnership.

02. The following balances were extracted from the partnership:

Rs 000

	Dr	Cr
Capital Accounts as at 01st April 2025 - Chanaka		3,200
- Malaka		4,800
Current Accounts as at 01st April 2025 - Chanaka		1,200
- Malaka		2,300
Drawings - Chanka	200	
- Malaka	150	
Loan given by Malaka on 01st April 2025		200

03. Net profit of the partnership before charging loan interest on loan given by Malaka was Rs.6,020,000/-.

04. No repayments on Malaka's loan were made during the year.

You are required to:
Prepare the following of C & M Hardware for the year ended 31st March 2026:

(a) Profit appropriation statment

(b) Partners' Current Accounts.

(c) Partners' Capital Accounts

- Part (a) – Profit Appropriation Account

Net Profit		6,020,000
(-) Interest expense - Malaka		(20,000)
Correct Net Profit		6,000,000
(-) Partners salary		
Chanaka (50,000 * 12)	600,000	
Malaka (50,000 * 12)	600,000	(1,200,000)
(-) Capital Interest		
Chanaka (3200,000 * 5%)	160,000	
Malaka (4800,000 * 5%)	240,000	(400,000)
		4,400,000
(-) Share of profit (2:3)		
Chanaka (4,400,000 * 2/5)	1,760,000	
Malaka (4,400,000 * 3/5)	2,640,000	(4,400,000)
		0

- Part (b) - Current Account

Dr | Current Account | Cr

Description	Chanaka	Malaka	Description	Chanaka	Malaka
Drawings	200,000	150,000	Opening Balance	1,200,000	2,300,000
			Partners salary	600,000	600,000
			Capital interest	160,000	240,000
			Profit Share	1,760,000	2,640,000
			Loan Interest		20,000
Balance C/D	3,520,000	2,150,000			
	3,720,000	5,800,000		3,720,000	5,800,000

- Part (c) - Capital Account

Dr | Capital Account | Cr

Description	Chanaka	Malaka	Description	Chanaka	Malaka
			Opening Balance	3,200,000	4,800,000
Balance C/D	3,200,000	4,800,000			
	3,200,000	4,800,000		3,200,000	4,800,000

Question 02 - 2024 January paper

Hasith, Visith and **Nesith** are the partners of **Ceylon Handlooms**, which is in the business of export of handlooms to international markets.

(1) Partnership agreement provides the following:

- Profits and losses are shared among **Hasith, Visith** and **Nesith** at the ratio of 2:2:1 respectively.
- **Hasith, Visith** and **Nesith** are entitled to receive a monthly salary of Rs.50,000/-, Rs.75,000/- and Rs.125,000/- respectively.
- Interest on capital at the rate of 5% is entitled by partners on the capital balances as at 01st January 2023.
- Partners are entitled to receive interest at the rate of 15% per annum on the loans given by them to the partnership.

(2) Partners' capital account balances and current account balances as at 01st January 2023 are as follows:

	Capital Accounts (Rs.)	Current Accounts (Rs.)
Hasith	2,000,000 (Cr.)	150,000 (Cr.)
Visith	2,500,000 (Cr.)	300,000 (Dr.)
Nesith	3,000,000 (Cr.)	800,000 (Cr.)

(3) A loan of Rs.1,000,000/- was given to the partnership by **Hasith** on 01st July 2023 and the interest for the year was not accounted yet. Repayments of loan is started from 01st January 2024.

(4) The partnership business is operated in a building owned by **Visith** and monthly rent of Rs.50,000/- is payable to him. However, the rent for the year ended 31st December 2023 was not paid to him during the year while the said expense is not accounted in the books of accounts.

(5) A drawing of Rs.1,500,000/- has been made by **Nesith** on 01st May 2023.

(6) For the year ended 31st December 2023, total turnover was Rs.30,000,000/- while the net profit was Rs.8,000,000/-.

You are required to:

Prepare the following of **Ceylon Handlooms** for the year ended 31st December 2023:

(a) Profit or Loss Appropriation Account. (05 marks)

(b) Partners' Current Accounts. (05 marks)
(Total 10 marks)

- Part (a) – Profit Appropriation Account

Net Profit		8,000,000
(-) Loan Interest expense - Hasith		(75,000)
(-) Building rent - Visith		(600,000)
Correct Net Profit		**7,325,000**
(-) Partners salary		
Hasith (50,000*12)	600,000	
Visith (75,000*12)	900,000	
Nesith (125,000*12)	1500,000	(3,000,000)
(-) Capital Interest		
Hasith (2,000,000*5%)	100,000	
Visith (2,500,000*5%)	125,000	
Nesith (3,000,000*5%)	150,000	(375,000)
		3,950,000

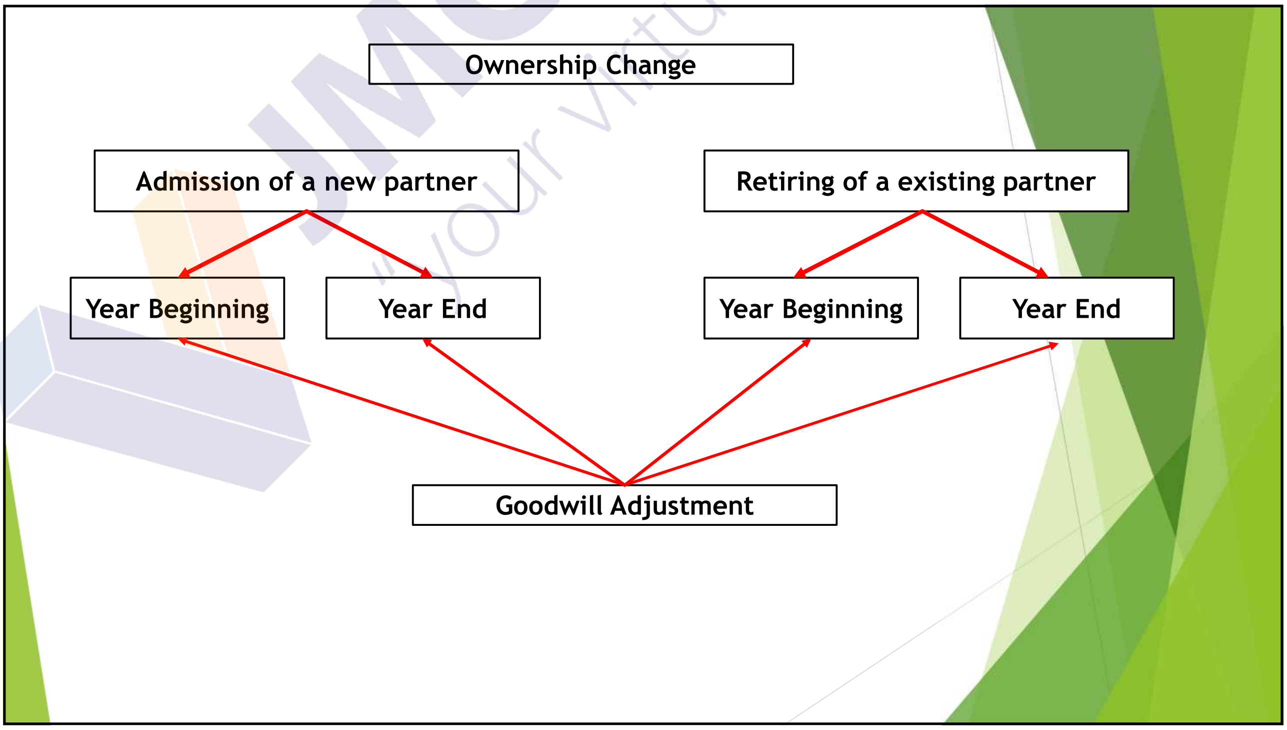
- Part (a) – Profit Appropriation Account

(-) Profit Share (2:2:1)		
Hasith (3,950,000*2/5)	1,580,000	
Visith (3,950,000*2/5)	1,580,000	
Nesith (3,950,000*1/5)	790,000	(3,950,000)
		0

- Part (b) - Current Account

Dr Current Account Cr

Description	Hasith	Visith	Nesith	Description	Hasith	Visith	Nesith
Opening Bal		300,000		Opening Balance	150,000		800,000
Drawings			1,500,000	Partners salary	600,000	600,000	1,500,000
				Capital interest	100,000	125,000	150,000
				Profit Share	100,000	125,000	150,000
				Loan Interest	75,000		
				Building rent		600,000	
Balance C/D	**2,505,000**	**2,905,000**	**1,740,000**				
	2,505,000	**3,205,000**	**3,240,000**		**2,505,000**	**3,205,000**	**3,240,000**



Goodwill Adjustment

New partner admission

Full Goodwill Adjustment

Full value of the Goodwill

Capital accounts of all partners in the new partnership (on the new ratio)	Debit
Capital accounts of all partners in the old partnership (on the old ratio)	Credit

Share of the Goodwill of new partner

Share of Goodwill of the new partner

Capital account of the new partner	-	Debit
Capital accounts of the old partners	-	Credit

(Based on the sacrificing ratio)

Question 03

Opening balance of ABC partnership business as **of 01st April 2025** as follows.

<u>Capital Account</u>
Kamal - 100,000
Nimal - 200,000

From the beginning of the financial year, Sunimal was appointed as a new partner. He invested 400,000 in cash to the partnership.

The full goodwill at that date was 300,000/=

Partners agreed to **<u>equally share the profits</u>**.

Show the goodwill adjustment.

Dr Capital Account Cr

Description	Kamal	Nimal	Sunimal	Description	Kamal	Nimal	Sunimal
Goodwill	100,000	100,000	100,000	Opening Bal	100,000	200,000	-
				Goodwill	150,000	150,000	-
				Cash			400,000
Balance C/D	150,000	250,000	300,000				
	250,000	350,000	400,000		250,000	350,000	400,000

Question 04

Opening balance of ABC partnership business as **of 01st April 2025** as follows.

Capital Account
Kamal - 100,000
Nimal - 200,000

From the beginning of the financial year, Sunimal was appointed as a new partner. He invested 400,000 in cash to the partnership.

Goodwill portion of the Sunimal was 100,000/=

Initial profit ratio was 2:3.

After the Sunimal admission, new profit ratio was 1:1:1.

Show the goodwill adjustment.

Dr Capital Account Cr

Description	Kamal	Nimal	Sunimal	Description	Kamal	Nimal	Sunimal
Goodwill			100,000	Opening Bal	100,000	200,000	-
				Goodwill	20,000	80,000	-
				Cash			400,000
Balance C/D	120,000	280,000	300,000				
	120,000	280,000	400,000		120,000	280,000	400,000

Goodwill Adjustment

Existing partner retiring

Full Goodwill Adjustment

Full value of the Goodwill

Capital accounts of all partners in the new partnership (on the new ratio)	Debit
Capital accounts of all partners in the old partnership (on the old ratio)	Credit

Share of the Goodwill of new partner or existing partner Adjustment

Capital Account of the partners Dr **
Capital Account of the retiring partner Cr

** (Based on the sacrificing ratio)

Question 05

Opening balance of ABC partnership business as **of 01st April 2025** as follows.

<u>Capital Account</u>
Kosala – 100,000
Nimeth – 200,000
Sadun – 300,000

From the beginning of the financial year, Sadun was retired.

The full goodwill at that date was 300,000/=

Partners agreed to **<u>equally share the profits</u>**.

Show the goodwill adjustment.

Dr Capital Account Cr

Description	Kosala	Nimeth	Sadun	Description	Kosala	Nimeth	Sadun
Goodwill	150,000	150,000		Opening Bal	100,000	200,000	300,000
				Goodwill	100,000	100,000	100,000
Balance C/D	50,000	150,000	400,000				
	200,000	300,000	400,000		200,000	300,000	400,000

Question 06

Opening balance of ABC partnership business as **of 01st April 2025** as follows.

<u>Capital Account</u>
Kosala – 100,000
Nimeth – 200,000
Sadun – 300,000

At the beginning of the financial year, Sadun was retired.

The goodwill portion of the Sadun at that date was 100,000/=

Initially the profit ratio was 1:2:2

Partners agreed to **<u>equally share the profits after the Sadun's retiring.</u>**

Show the goodwill adjustment.

Dr Capital Account Cr

Description	Kosala	Nimeth	Sadun	Description	Kosala	Nimeth	Sadun
Goodwill	75,000	25,000		Opening Bal	100,000	200,000	300,000
				Goodwill			100,000
Balance C/D	25,000	175,000	400,000				
	100,000	200,000	400,000		100,000	200,000	400,000

Dr — Capital Account — Cr

Description	Kosala	Nimeth	Sadun	Description	Kosala	Nimeth	Sadun
Goodwill	150,000	150,000		Opening Bal	100,000	200,000	300,000
				Goodwill	100,000	100,000	100,000
Balance C/D	50,000	150,000	400,000				
	200,000	300,000	400,000		200,000	300,000	400,000

New partner admission

At the beginning	At the year end
Since the new partner join to the business at the beginning, partnership will operate under the ***new partnership agreement. (New profit ratio).*** Previous partnership agreement will be canceled. Goodwill Adjustment need to do.	Since the new partner join to the business at the year end, partnership will operate still under the ***old partnership agreement.*** **Only the goodwill** Adjustment need to do.

Question 07 - Year end new partner admission

Charith, Surith have started a partnership as CSN Leasure (a tourist resort) on 01st April 2025 sharing profit and loss at the ratio of 2 : 1 respectively.

(1) The partnership agreement provides the following:
- The partnership is managed by Charith and he is entitled to receive a monthly salary of Rs.100,000/-.
- Partners are entitled to receive interest on loans at 12% per annum on the loan given to the partnership.
- Partners are entitled for interest on capital at 10% per annum on the initial capital introduced.

2. An old house owned by Charith was modified as the tourist resort and rented out to the partnership to provide accommodation facilities to tourists. Charith is entitled to an amount equivalent to 10% of the total accommodation revenue as the rent. During the year, rent relevant for the year was not paid and was not accounted.

3. The total accommodation revenue and net profit of the partnership for the year ended 31st March 2026 were Rs.6,000,000/- and Rs.4,329,000/- respectively.

4. A loan of Rs.2,400,000/- was given by Surith to the partnership on 01st April 2025 and the interest for the year which was paid in April 2026 was not accounted yet.

5. As at 31.03.2026, Nisith was appointed as a new partner to the business. He invest 300,000 cash to the partnership. As at that date total goodwill was valued as 300,000/=.

6. New profit ratio was agreed as 2:2:1.

7. The following balances were extracted from books of the partnership

		Rs,000
	Dr	**Cr**
Capital as at 1/4/2025		
Charith		960
Surith		840
Loan - Surith		2400
Drawings during the year:		
Charith	600	

1. Prepare the profit appropriation account
2. Prepare the capital and current accounts as at 31.03.2026.

- Profit Appropriation Account

Net Profit		4,329,000
(-) Loan Interest expense - Surith		(288,000)
(-) Building rent - Charith		(600,000)
Correct Net Profit		**3,441,000**
(-) Partners salary		
Charith (100,000*12)		(1,200,000)
(-) Capital Interest		
Charith (2,000,000*5%)	96,000	
Surith (2,500,000*5%)	84,000	(180,000)
(-) Profit Share (2:1)		
Charith (2,061,000 * 2/3)	1,374,000	
Surith (2,061,000 * 1/3)	687,000	(2,061,000)
		0

Dr Capital Account Cr

Description	Charith	Surith	Nisith	Description	Charith	Surith	Nisith
Goodwill	120,000	120,000	60,000	Opening Bal	960,000	840,000	-
				Goodwill	200,000	100,000	-
				Cash			300,000
Balance C/D	1,040,000	820,000	240,000				
	1,160,000	940,000	300,000		1,160,000	940,000	300,000

Dr Current Account Cr

Description	Charith	Surith	Description	Charith	Surith
Drawings	600,000		Opening Balance	-	-
			Partners salary	1,200,000	
			Capital interest	96,000	84,000
			Profit Share	1,374,000	687,000
			Loan Interest		288,000
			Rent Expense	600,000	
Balance C/D	2,670,000	1,059,000			
	3,270,000	1,059,000		3,270,000	1,059,000

Question 08 - Year Beginning new partner admission

Kamal & Amal have maintained a partnership as CSN Leasure (a tourist resort) while sharing profit and loss at the ratio of 2 : 1 respectively.

(1) As at 01.04.2025, Bimal was appointed as a new partner to the business. He invest 300,000 cash to the partnership. As at that date total goodwill was valued as 300,000/=.

2. The new partnership agreement between Kamal, Amal and Nimal provides the following:
    - The partnership is managed by Kamal & Amal and they are entitled to receive a monthly salary of Rs.100,000/-.
    - Partners are entitled to receive interest on loans at 10% per annum on the loan given to the partnership.
    - Partners are entitled for interest on capital at 10% per annum on the initial capital introduced.
    - New profit ratio was agreed as 2:2:1.

3. The net profit of the partnership for the year ended 31st March 2026 were Rs.6,000,000/=.

4. A loan of Rs. 3,000,000/- was given by Amal to the partnership on 01st April 2025 and the interest for the year which was paid in April 2026 was not accounted yet.

4. The following balances were extracted from books of the partnership

		Rs,000
	Dr	**Cr**
Capital Account at 1/4/2025		
Kamal		960
Amal		840
Current Account as at 1/4/2025		
Kamal		500
Amal		600

Cash – invest by Bimal		300
Loan - Amal		3000
Drawings during the year:		
Bimal	600	

1. Prepare the profit appropriation account
2. Prepare the capital and current accounts as at 31.03.2026.

- Profit Appropriation Account

Net Profit		6,000,000
(-) Loan Interest expense - Amal		(300,000)
Correct Net Profit		**5,700,000**
(-) Partners salary		
Kamal (100,000*12)	(1,200,000)	
Amal (100,000*12)	(1,200,000)	(2,400,000)
(-) Capital Interest		
Kamal (960,000*10%)	96,000	
Amal (840,000*10%)	84,000	
Amal (300,000*10%)	30,000	(210,000)

(-) Profit Share (2:2:1)		
Kamal (3,090,000*2/5)	1,236,000	
Amal (3,090,000*2/5)	1,236,000	
Amal (3,090,000*1/5)	618,000	(3,090,,000)
		0

Dr Capital Account Cr

Description	Kamal	Amal	Bimal	Description	Kamal	Amal	Bimal
Goodwill	120,000	120,000	60,000	Opening Bal	960,000	840,000	-
				Goodwill	200,000	100,000	-
				Cash			300,000
Balance C/D	1,040,000	820,000	240,000				
	1,160,000	940,000	300,000		1,160,000	940,000	300,000

Dr Current Account Cr

Descriptio	Kamal	Amal	Bimal	Description	Kamal	Amal	Bimal
				Opening Balance	500,000	600,000	
Drawings			600,000	Partners salary	1,200,000	1,200,000	
				Capital interest	96,000	84,000	30,000
				Profit Share	1,236,000	1,236,000	618,000
				Loan Interest			300,000
Balance C/D	3,032,000	3,120,000	348,000				
	3,032,000	3,120,000	948,000		3,032,000	3,120,000	948,000

Existing partner retirement

At the beginning	At the year end
Since the partner retiring from the business at the beginning, partnership will operate under the ***new partnership agreement. (New Profit ratio)*** Previous partnership agreement will be canceled. Goodwill Adjustment need to do. At that date, ***total equity of the retiring partner*** shall calculate.	Since the partner retiring from the business at the year end, partnership will operate under the ***old partnership agreement.*** Goodwill Adjustment need to do. At that date, ***total equity of the retiring partner*** shall calculate.

Question 09 - Year End existing partner retire

Sonia, Ann and **Maya** started a partnership as **SAM partners,** a beauty salon on 01st January 2024 sharing profits and losses among partners at the ratio of 2 : 2 : 1 respectively.

You are given the following information also:

(1) The net profit for the year ended 31st December 2024 was Rs.1,540,000/-.

(2) The partnership agreement provides the following:

- **Ann** is entitled to receive a monthly salary of Rs.70,000/-.
- An interest of 5% is entitled by partners on the opening capital accounts' balances as at 01st January 2024.

(3) The following balances were extracted from the partnership: *(Rs.'000)*

	Dr	Cr
Capital Account's Balances as at 01st January 2024:		
Sonia		3,000
Ann		1,000
Maya		2,000
Current Account's Balances as at 01st January 2024:		
Sonia		500
Ann	300	
Maya		800
Drawings made during the year ended 31st December 2024:		
Sonia	520	
Ann	280	

(4) On 31st December 2024, **Maya** decided to resign from the partnership and **Sonia** and **Ann** decided to continue the partnership under the same name sharing profit and losses equally. All dues to **Maya** are to be settled in full on 01st January 2025.

(5) Goodwill of the partnership is valued at Rs.1,000,000/- as at 31st December 2024 and it should be adjusted through partners' capital accounts without maintaining a goodwill account.

You are required to:

Prepare the following of **SAM partners** for the year ended 31st December 2024:

(a) Partners' Capital Accounts. (04 marks)

(b) Partners' Current Accounts. (06 marks)

(Total 10 marks)

Workings

Profit and Loss Appropriation A/C **Rs.'000**

Net profit		1,540
Partner's Remuneration		
Ann (70,000X12)	840	(840)
Interest On Capital		
Sonia	150	
Ann	50	
Maya	100	(300)
		400
Share of Profit		
Sonia	160	
Ann	160	
Maya	80	(400)

Dr Current Account Cr

Description	Sonia	Ann	Maya	Description	Sonia	Ann	Maya
Opening Balan		300,000		Opening Balance	500,000		800,000
Drawings	520,000	280,000		Partners salary		840,000	
				Capital interest	150,000	50,000	100,000
				Profit Share	160,000	160,000	80,000
Capital A/C			980,000				
Balance C/D	290,000	470,000					
	810,000	1,050,000	980,000		810,000	1,050,000	980,000

Dr Capital Account Cr

Description	Sonia	Ann	Maya	Description	Sonia	Ann	Maya
Goodwill	500,000	500,000		Opening Bal	3,000,000	1,000,000	2,000,000
				Goodwill	400,000	400,000	200,000
Loan A/C			3,180,000	Current A/C			980,000
Balance C/D	2,900,000	900,000					
	3,400,000	1,400,000	3,180,000		3,400,000	1,400,000	3,180,000

Question 10 - Year Beginning existing partner retire

Lasith, Nisith, and Sumith have maintained a partnership business under the name "LNS Associates" sharing profits and losses equally.

1. On 1/04/2025, Sumith decided to resign from the partnership and Lasith and Nisith agreed to continue the partnership under the same name sharing profits and losses in the ratio of 2 : 1 respectively. All dues to Sumith has been paid on the same date.

2. Goodwill of the partnership was valued at Rs.900,000/- as at 31/03/2026 and it should be adjusted through partners' capital accounts without showing the goodwill account.

3. New partnership agreement between Lasith & Nisith as follows.
   - Partners are entitled to receive a monthly salary of Rs.20,000/-.
   - Partners are entitled to receive an interest of 10% per annum on the initial capital investment

4. Business is located at a premises of Nisith and he is entitled to receive a monthly rent of Rs.25,000/-. Rent relevant for the year was not paid and was not accounted.

5. The Net Profit of the partnership for the year ended 31/03/2026 was Rs.1,000,000/=

The following balances were extracted from the books of accounts of the partnership:

		Rs.
Capital A/C as at 01/04/2025:		
Lasith		600,000
Nisith		700,000
Sumith		800,000
Current A/C as at 01/04/2025:		
Lasith		250,000
Nisith		100,000
Sumith		150,000

Prepare the following of LNS Associates for the year ended 31/03/2026:
(a) Partners' Current Accounts.
(b) (b) Partners' Capital Accounts.

- Profit Appropriation Account

Net Profit		1,000,000
(-) Rent (25,000*12) - Nisith		(300,000)
Correct Net Profit		**700,000**
(-) Partners salary		
Lasith (20,000*12)	(240,000)	
Nisith (20,000*12)	(240,000)	(480,000)
(-) Capital Interest		
Lasith (600,000*10%)	60,000	
Nisith (700,000*10%)	70,000	(130,000)

(-) Profit Share (2:2:1)		
Lasith (90,000*2/3)	60,000	
Nisith (90,000*1/3)	30,000	(90,000)
		0

Dr Current Account Cr

Description	Lasith	Nisith	Sumith	Description	Lasith	Nisith	Sumith
				Opening Balance	250,000	100,000	150,000
				Partners salary	240,000	240,000	
				Capital interest	60,000	70,000	
				Profit Share	60,000	30,000	
Capital A/C			150,000	Rent		300,000	
Balance C/D	610,000	740,000					
	610,000	740,000	150,000		610,000	740,000	150,000

Dr   Capital Account   Cr

Description	Lasith	Nisith	Sumith	Description	Lasith	Nisith	Sumith
Goodwill	600,000	300,000		Opening Bal	600,000	700,000	800,000
				Goodwill	300,000	300,000	300,000
Cash			1,250,000	Current A/C			150,000
Balance C/D	300,000	700,000					
	900,000	1,000,000	1,250,000		900,000	1,000,000	1,250,000