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# Financial Statements for a Partnership

## AAT Level II

AFC - Advanced Financial Accounting & Costing

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# FINANCIAL STATEMENTS FOR A PARTNERSHIP

## INTRODUCTION AND LEGAL BACKGROUND

### 1. DEFINE PARTNERSHIP

The law relating to partnership in Sri Lanka is contained in the English partnership ordinance of 1890.

The definition, provided by the Partnership ordinance 1890,

"IS THE RELATION WHICH SUBSISTS BETWEEN PERSONS CARRYING ON A BUSINESS IN COMMON WITH A VIEW OF PROFITS".

### 2. WHAT ARE THE KEY ELEMENTS IN A PARTNERSHIP?

- Two or more individuals

  A partnership includes at least two individuals (partners). In certain jurisdictions, there may be an upper limit to the number of partners.

- Business carried on common view

  A partnership exists to carry on a business.

- Profit motive

  As it is a business, the partners seek to generate a profit.

- Unincorporated business entity

  A partnership is an unincorporated business entity. That means:

  - the reporting entity (business entity) principle applies to a partnership, so for accounting purposes, the partnership is a separate entity from the partners
  - the partners have unlimited liability, and
  - If the partnership is unable to pay its liabilities, the partners may be called upon to use their personal assets to clear unpaid liabilities of the partnership.

### 3. ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP

**Advantages**

- Business risks are spread among more than one person.
- Individual partners can develop specialist skills upon which the other partners can rely.
- Certain partners may be able to inject more capital resources.
- Less formal than setting up a company, which requires the issue of shares and the appointment of directors. If the partners wish to dissolve the business, that is easier to achieve by a partnership than by a company.

**Disadvantages**

- Effect of disputes between partners.
- 'Joint and several liability' for the debts of the partnership.

  This means that if one partner is being sued in relation to the business of the partnership, the other partners share in the responsibility
- In a company the shareholders may be protected from the creditors of the company as regards the payment of outstanding debts.

## 4. What are the methods of creating a partnership?

a. Oral agreement
b. Implied agreement
c. Written agreement

## 5. Explain the legal background of Partnership

Partnerships are governed by the Partnership ordinance 1890; the relevant provisions with regards to accounting are section 24 and section 42.

**Section 24 provisions**

Section 24 of the partnership ordinance 1890 applies either when there is no agreement partnership deed among partners or when the agreement fails to cover any situations.

1. All partners are entitled to share equally in the capital and Profits in the business and must contribute equally towards the losses whether capital or otherwise.
2. No interest to be allowed to partners capital balances
3. No interest to be charged to any partners drawings
4. Interest to be allowed to partners loans at 5 % per annum
5. No partner shall be entitled to receive remuneration for acting in the partnership
6. Every partner may take part in the management of the partnership
7. Every partner has access to the books when he thinks fit. Those books should be kept at the principal place of the business
8. Admission of a new partner needs unanimous consent.

**Section 42 provisions**

Section 42 of the partnership act provides that interest should be paid on any amount owing to an outgoing partner either at 5 % per annum or at such rate as a court would determines as attributable to the use of the assets of the partner concern.

## 6. What is meant by Article of Partnership (Partnership agreement)?

A written agreement which contains the various terms and conditions as to the relationship of the partners to each other is called the Article of Partnership of Partnership deed.

## 7. Contents of a Partnership Agreement

1. Agreements for sharing of profits
2. The agreed ratio of holding capital balances
3. Any additional responsibility and rewards
4. Limitation on partners drawings, if any
5. Authority to obtain loans and enter into contracts
6. Authority to change the nature of the business
7. Authority to admit a new partner
8. Requirements on accounting and auditing

## 8. Why is it necessary to have a partnership deed (Partnership Agreement)?

The three reasons for having a written agreement (partnership deed) are as follows:-

I. In case of dispute it will serve as evidence in the court of law.
II. Accounts of partnership firm are regulated by those contents.
III. It regulates the rights, duties and responsibilities of each partner.

## 9. In the absence of partnership deed, how are mutual relations of partners governed?

In the absence of partnership deed rules in 'Partnership Ordinance 1980' will be applied for governing the partnership (Section 24 and Section 42)

(a) Partners contribute capital equally;
(b) Partners share profits and contribute equally towards losses;
(c) Partners are not entitled to interest on capital;
(d) Partners are not entitled to receive salaries;
(e) Partners are entitled to interest at 5% per annum on any advances beyond their agreed capital from the date of advance;
(f) A new partner may not be introduced without the consent of all the existing partners;
(g) Matter arising from disagreements must be decided by a majority of partners.

# Special Accounts in Partnership

## 1. Appropriation Account

Appropriation account is prepared to identify the ways in which the net profit of the partnership is appropriated among partners. It will show,

1. The amounts that partners receive from the partnership in the capacity of a partner (Debited to Appropriation A/C)
2. The amounts that the partnership receives from partners-which partners pay to the partnership in the capacity of a partner (Credited to the appropriation A/C.

## 2. Partners' Capital and Current Accounts

Partners normally draw out monies for their personal use during the year, expecting his share of profit being agreed at the end of the year. This means that there is a potential risk individual partners may draw out monies that exceed their share of the potential profit. This has two bad effects upon a partnership. First, a partner may unintentionally draw out monies that had been contributed as capital; second, excessive drawings may reduce the partnership working capital to levels lower than what may be regarded as satisfactory.

As a precaution against this, partners usually agree that capital contribution should be recorded in a ***capital account*** and that such amount should not normally be regarded as available for their withdrawal until the partnership is dissolving.

## PAST PAPERS

**Exercise – 01**
**2020 JAN AAT II Q4**

**Danny, Berny** and **Merely** are partners of partnership business **DBM Partners,** sharing profits and losses in the ratio of 5:3:2 respectively.

(1) The partnership agreement provides the followings terms:

- Interest on capital is 12% per annum is paid on the partners' opening capital account balances.
- **Berny** is entitled to receive a salary of Rs.1,800,000/- per annum.

(2) The following balances were extracted from the trial balance of the partnership as at 31st March 2019:

| | Dr. (Rs.'000) | Cr. (Rs.'000) |
|---|---|---|
| Capital Accounts as at 01st April 2018: | | |
| **Danny** | | 12,000 |
| **Berny** | | 9,000 |
| **Merely** | | 6,000 |
| Current Account as at 01st April 2018: | | |
| **Danny** | | 3,000 |
| **Berny** | 1,200 | |
| Drawings: | | |
| **Danny** | 1,500 | |
| **Berny** | 750 | |
| **Merely** | 1,500 | |

(3) The net profit of the partnership before appropriation for the year ended 31st March 2019 was Rs.8,775,000/-.

**You are required to:**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2019.
(05 marks)

**Exercise – 02**
**2020 JAN AAT II Q8**

**Saduni, Kasuni** and **Naduni** were partners of partnership business **Moon Trading** sharing profit and losses in the ratio of 2:2:1 respectively.

The following information is provided:

(1) The partnership agreement provides the following terms:

- Partners are entitled to receive an interest of 12% per annum on partners'opening capital balances.
- **Kasuni** is entitled to receive a monthly salary of Rs.60,000/-.

(2) The following balances were extracted from the trial balance of **Moon Trading** as at 31st December 2019:

| | Dr. (Rs.'000) | Cr. (Rs.'000) |
|---|---|---|
| Capital accounts as at 01st January 2019: | | |
| **Saduni** | | 7,500 |
| **Kasuni** | | 9,000 |
| **Naduni** | | 10,000 |
| Current accounts as at 01st January 2019: | | |
| **Saduni** | | 3,000 |
| **Kasuni** | 1,200 | |
| **Naduni** | | 1,500 |

(3) On 31st December 2019, **Naduni** decided to retire from the partnership due to her personal commitments. After retirement of **Naduni,** profits and losses are to be shared between **Saduni** and **Kasuni** in the ratio of 3:2 respectively.

(4) On 31st December 2019, the goodwill of the partnership was valued at Rs.1,500,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.

(5) Non-current assets were revalued on 31st December 2019 as follows:

| | Revalued Amount as at 31st December 2019 (Rs.'000) | Cost as at 31st December 2019 (Rs.'000) | Accumulated Depreciation as at 31st December 2019 (Rs.'000) |
|---|---|---|---|
| Land and Buildings | 5,400 | 7,500 | 4,200 |
| Motor Vehicles | 900 | 2,250 | 750 |

Non-current assets are carried at revalued amounts in the books of the partnership.

(6) It was decided to transfer amounts payable to **Naduni** at her retirement to loan account.

(7) The net profit of the partnership before appropriation for the year ended 31st December 2019 was Rs.4,500,000/-.

**You are required to:**

**Prepare** the following for **Moon Trading** for the year ended 31st December 2019:

(a) Partners' Capital Accounts. (05 marks)

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

(Total 10 marks)

**Exercise – 03**
**2019 JUL AAT II Q3**

**Asanka, Thisanka** and **Isanka** are in a partnership sharing profits and losses in the ratio of 4 : 4 : 2 respectively.

The partnership agreement provides the following terms:

- Interest is paid on opening capital balances at 12% per annum.
- **Asanka** and **Thisanka** are entitled to receive a monthly salary of Rs.12,000/- and Rs.18,000/- respectively.

The following information was extracted from the trail balance of the partnership as at 31st March 2019.

*(Rs.'000)*

| | Dr. | Cr. |
|---|---|---|
| Capital Accounts as at 01st April 2018: | | |
| **Asanka** | | 3,200 |
| **Thisanka** | | 2,100 |
| **Isanka** | | 900 |
| Current Accounts as at 01st April 2018: | | |
| **Asanka** | | 60 |
| **Thisanka** | 40 | |
| **Isanka** | | 30 |
| Drawings: | | |
| **Asanka** | 150 | |
| **Thisanka** | 200 | |
| **Isanka** | 150 | |

The net profit of the partnership before appropriation for the year ended 31st March 2019 was Rs.1,596,000/-.

**You are required to:**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2019. (05 marks)

**Exercise – 04**
**2019 JUL AAT II Q9**

**Sunil, Vinil** and **Ranil** were partners of partnership business **Suvira Motors** sharing profits / losses in the ratio of 2:1:1 respectively.

(1) Their partnership agreement provides the following terms:

- **Sunil** is entitled to receive a monthly salary of Rs.30,000/- per month.
- Partners are entitled to receive an interest of 10% per annum on opening capital account balances.

(2) The following balances were extracted from the trial balance of **Suvira Motors** as at 31st March 2019:

| | Dr. (Rs'000) | Cr. (Rs'000) |
|---|---|---|
| Capital accounts as at 01st April 2018: | | |
| **Sunil** | | 1,500 |
| **Vinil** | | 1,000 |
| **Ranil** | | 500 |
| Current accounts as at 01st April 2018: | | |
| **Sunil** | 365 | |
| **Vinil** | | 288 |
| **Ranil** | 350 | |
| Partners' drawings: | | |
| **Vinil** | 80 | |
| **Ranil** | 60 | |

(3) The net profit of the partnership before appropriation for the year ended 31st March 2019 was Rs.874,000/-.

(4) On 31st March 2019, **Ranil** decided to retire from the partnership. The goodwill of the partnership as at 31st March 2019 was valued at Rs.3,000,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.

(5) After retirement of **Ranil,** profits and losses are to be shared between **Sunil** and **Vinil** in the ratio of 2 : 1 respectively.

(6) It was decided to transfer the full amount payable to **Ranil,** to a loan account after his retirement.

**You are required to:**

**Prepare** the following for **Suvira Motors** for the year ended 31st March 2019:

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

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

(Total 10 marks)

**Exercise – 05**
**2018 JUL AAT II Q5**

**Amal, Kamal** and **Nimal** are in a partnership sharing profits and losses in the ratio of 2:2:1 respectively.

The partnership agreement provides the following terms:

(1) Interest is paid on capital at 10% per annum on the partners' opening capital account balances.

(2) Partners' are entitled to receive the following salaries:

**Kamal** - Rs.60,000/- per month

**Nimal** - Rs.25,000/- per month

(3) The following balances were extracted from the trial balance of the partnership as at 31st March 2018:

*(Rs.'000)*

| | Dr. | Cr. |
|---|---|---|
| Capital Accounts as at 01st April 2017: | | |
| **Amal** | | 2,000 |
| **Kamal** | | 2,000 |
| **Nimal** | | 1,000 |
| Drawings during the year: | | |
| **Amal** | 800 | |
| **Kamal** | 600 | |

(4) The net profit before appropriation of the partnership for the year ended 31st March 2018 was Rs.2,329,000/-.

**You are required to:**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2018. (05 marks)

**Exercise – 06**
**2018 JUL AAT II Q6**

**Sun** and **Moon** were in a partnership under the name of **Bright Lights** sharing profits and losses in the ratio of 2 : 1 respectively.

Up to 01st April 2018, **Sun** was managing the daily activities of the partnership. On that date **Sun** decided to retire from managing daily activities of the partnership and **Moon** agreed to take over the same by changing the profit and losses sharing ratio on 01st April 2018.

In order to accommodate the said changes between **Sun** and **Moon**, they have agreed on the following:

(1) The goodwill of the partnership as at 01st April 2018 was valued at Rs.3,000,000/- and it is to be adjusted through the partners' capital accounts without creating a goodwill account.

(2) The ratio of sharing profits and losses between **Sun** and **Moon** is to be changed to 1:2 respectively.

(3) **Moon** transferred his personal van valued at Rs.2,000,000/- to the partnership on 01st April 2018 as an additional capital.

**You are required to:**

**Prepare** the Journal Entries to record the above transactions occurred on 01st April 2018. (05 marks)

**Exercise – 07**
**2018 JUL AAT II Q9**

**Ashan, Hashan** and **Roshan** were partners of **The Shans,** sharing profits or losses in the ratio of 2:2:1 respectively.

(1) The partnership agreement contained the following:

- Partners are entitled to receive interest on capital at 5% per annum on the partners' opening capital account balances.
- **Hashan** is entitled to receive a monthly salary of Rs.15,000/-.

(2) On 31st March 2018, **Roshan** decided to retire from the partnership and **Ashan** and **Hashan** agreed on the following conditions:

- The goodwill of the partnership as at 31st March 2018 was valued at Rs.1,800,000/- and it is to be adjusted through the partners' capital account without creating a goodwill account.
- Land and buildings as at 31st March 2018 were revalued as follows: *(Rs.'000)*

| | Revalued Amount as at 31st March 2018 | Cost | Accumulated Depreciation as at 31st March 2018 |
|---|---|---|---|
| Land and buildings | 2,400 | 1,800 | 300 |

The land and buildings are carried at revalued amounts.

- Total amount payable to **Roshan** should be settled in full after one month of the retirement.
- The profits and losses are to be shared between **Ashan** and **Hashan** in the ratio of 3:2 respectively.

(3) The net profit of the partnership before appropriation for the year ended 31st March 2018 was Rs.2,500,000/-.

(4) The following balances were extracted from the trial balance of the partnership as at 31st March 2018:

| | Dr. (Rs'000) | Cr. (Rs'000) |
|---|---|---|
| Capital accounts as at 01st April 2017: | | |
| **Ashan** | | 5,000 |
| **Hashan** | | 3,000 |
| **Roshan** | | 2,000 |
| Current accounts as at 01st April 2017: | | |
| **Ashan** | | 500 |
| **Hashan** | | 300 |
| **Roshan** | 200 | |

**You are required to:**

**Prepare** the following for **The Shans** partnership for the year ended 31st March 2018 to record the above transactions:

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

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

(Total 10 marks)

**Exercise – 08**
**2018 JAN AAT II Q9**

**Manu** and **Anu** were partners of **MA partnership** sharing profits or losses in the ratio of 3 : 1 respectively. On 01st April 2016, they agreed to admit **Danu** as a partner, on the following terms and run the partnership under the name of **MAD Partners**:

(1) Profit and losses are to be shared among **Manu, Anu** and **Danu** in the ratio of 5 : 3 : 2 respectively.

(2) Interest is paid on capital at 12% per annum on the opening capital account balances.

(3) **Manu** is entitled to a monthly salary of Rs.30,000/-.

The following balances were extracted from the trail balance of the partnership as at 31st March 2017:

| | **Dr. (Rs.)** | **Cr. (Rs.)** |
|---|---|---|
| Capital accounts as at 01st April 2016: | | |
| **Manu** | | 8,000,000 |
| **Anu** | | 4,000,000 |
| **Danu** | | 6,000,000 |
| Current accounts as at 01st April 2016: | | |
| **Manu** | | 1,000,000 |
| **Anu** | 400,000 | |
| Drawings During the year: | | |
| **Manu** | 300,000 | |
| **Anu** | 200,000 | |
| **Danu** | 100,000 | |

The net profit before appropriation of the partnership for the year ended 31st March 2017 was Rs.3,000,000/-.

**You are required to:**

**Prepare** the followings of the **MAD Partners** partnership for the year ended 31st March 2017:

(a) Profit and Loss Appropriation Account. (04 marks)

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

**Exercise – 09**
**2017 JUL AAT II Q8**

**Gayesha** and **Nimesha** are partners of **Sha Sha Partners** sharing profits and losses in the ratio of 3 : 2 respectively. On 01st January 2016, **Adhesha** was admitted as a partner on the following terms:

(1) Partners are entitled to receive the following annual salaries:

**Gayesha** : Rs.360,000/-

**Nimesha** : Rs.120,000/-

**Adhesha** : Rs.800,000/-

(2) Partners are entitled to receive interest on capital at 5% per annum.

(3) Profits and losses are to be shared equally among the partners.

(4) The goodwill of the partnership as at 01st January 2016 is to be valued at Rs.2,400,000/- and it is to be adjusted through the partners' capital account without creating a goodwill account.

(5) The following balances were extracted from the Trial Balance of the partnership as at 31st December 2016: *(Rs.'000)*

| | **Dr.** | **Cr.** |
|---|---|---|
| Capital introduced by **Adhesha** on 01st January 2016 | | 3,600 |
| Capital Accounts as at 01st January 2016: | | |
| **Gayesha** | | 40,000 |
| **Nimesha** | | 20,000 |
| Current Accounts as at 01st January 2016: | | |
| **Gayesha** | | 10,000 |
| **Nimesha** | 6,000 | |
| Drawings during the year: | | |
| **Gayesha** | 1,500 | |
| **Nimesha** | 1,000 | |
| **Adhesha** | 600 | |

(6) Net Profit before appropriations for the year ended 31st December 2016 was Rs.20,000,000/-.

**You are required to:**

**Prepare** the following of **Sha Sha Partners** for the year ended 31st December 2016:

(a) Profit and loss appropriation account. (04 marks)

(b) Partners' Current Account. (03 marks)

(c) Partners' Capital Account. (03 marks)

(Total 10 marks)

**Exercise – 10**
**2017 JAN AAT II Q3**

**Ashan, Hashan** and **Roshan** are in a partnership sharing profits and losses in the ratio of 4:3:3 respectively.

The partnership agreement provides the following:

- Interest on drawings is charged at 12% per annum.
- No interest is paid or charged on current account balances.
- **Hashan** is entitled to a salary of Rs.125,000/- per annum.

The following information is also provided:

(1) The following balances were extracted from the trial balance of the partnership as at 31st March 2016:

| | Dr. (Rs.'000) | Cr. (Rs.'000) |
|---|---|---|
| Current Accounts as at 01st April 2015: | | |
| **Ashan** | | 2,000 |
| **Hashan** | 800 | |
| Partners' Drawings: | | |
| **Ashan** on 01st April 2015 | 1,000 | |
| **Roshan** on 01st October 2015 | 500 | |

(2) Net profit before appropriation of the partnership for the year ended 31st March 2016 was Rs.3,500,000/-.

**You are required to:**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2016. (05 marks)

**Exercise – 11**
**2016 JUL AAT II Q7**

**Anura, Binura** and **Vinura** were in a partnership sharing profit and loss in the ratio of 2:2:1 respectively.

The partnership agreement contains the following:

- Partners are entitled to interest on capital at 5% per annum on the partners' capital account balances held at the beginning of each accounting year.
- **Binura** is entitled for a salary of Rs.75,000/- per annum.

Capital and current account balances as at 01st April 2015 were as follows:

| | Dr. (Rs.'000) | Cr. (Rs.'000) |
|---|---|---|
| Partners' Capital Accounts: | | |
| **Anura** | | 4,000 |
| **Binura** | | 2,400 |
| **Vinura** | | 1,800 |
| Partners' Current Accounts: | | |
| **Anura** | | 230 |
| **Binura** | | 160 |
| **Vinura** | 50 | |

The following additional information is also provided:

(1) On 31st March 2016, **Vinura** decided to retire from the partnership and remaining partners agreed on the following conditions:

- Profit and losses are to be shared equally.
- It was agreed to continue Interest on capital and **Binura's** salary as per the earlier agreement without any change.
- Goodwill is valued at Rs.1,000,000/- and it is to be adjusted through the partners' capital accounts without creating the Goodwill Account.
- On 31st March 2016, non-current assets were revalued and details of those are as follows:

| | Revalued Amount as at 31st March 2016 (Rs.) | Cost (Rs.) | Accumulated Depreciation as at 31st March 2016 (Rs.) |
|---|---|---|---|
| Land | 3,200,000 | 3,000,000 | - |
| Building | 4,250,000 | 4,500,000 | 1,000,000 |
| Plant | 1,000,000 | 2,500,000 | 1,250,000 |

- Non-current assets will be carried at revalued amounts in the books of account of the partnership.
- Total amount payable to retiring partner should be kept in the partnership as a loan provided to the partnership.

(2) The net profit (before appropriations) of the partnership for the year ended 31st March 2016 was Rs.500,000/-.

**You are required to,**

**Prepare** the following in columnar form as at 31st March 2016:

(a) Partners' Current Accounts.

(b) Partners' Capital Accounts. (10 marks)

**Exercise – 12**
**2017 JAN AAT II Q9**

**Roshantha, Nishantha** and **Lasantha** are in a partnership business engaged in advertising and marketing promotion under the name of **Ronil Consultants**.

The partnership agreement contains the following:

(1) Profits and losses are to be shared among **Roshantha, Nishantha** and **Lasantha** in the ratio of 5 : 2 : 3 respectively.

(2) Partners are entitled to receive interest on capital at 5% per annum on the Partners' Capital Accounts.

(3) **Roshantha** is entitled to a salary of Rs.35,000/- per month for managing the business.

The following Trial Balance as at 31st Mach 2016 is extracted from the books of accounts of **Ronil Consultants**:

| | **Dr. (Rs.'000)** | **Cr. (Rs.'000)** |
|---|---|---|
| Net profit before appropriations | | 25,400 |
| Partners' Capital Accounts as at 01st April 2015: | | |
| **Roshantha** | | 10,500 |
| **Nishantha** | | 6,000 |
| **Lasantha** | | 9,000 |
| Partners' Current Accounts as at 01st April 2015: | | |
| **Roshantha** | 50 | |
| **Nishantha** | 160 | |
| **Lasantha** | 330 | |
| Property, Plant and Equipment at cost: | | |
| Land and Building | 51,250 | |
| Motor Vehicle | 2,500 | |
| Accumulated Depreciation as at 31st March 2016: | | |
| Building | | 3,000 |
| Motor Vehicle | | 1,250 |
| Bank balance | 242 | |
| Inventory | 656 | |
| Trade Receivables / Trade Payables | 3,610 | 4,288 |
| Loan to **Nishantha** **(Note 01)** | 700 | |
| Accrued Expenses | | 60 |
| **Total** | **59,498** | **59,498** |

**Note 01**

**Nishantha** obtained a loan of Rs.700,000/- on 30th September 2015 from the partnership. It was agreed to charge an interest of 10% per annum for this loan. Interest on this loan has not been recorded in the books of accounts.

**You are required to:**

**Prepare** the following:

(a) Partners' Current Accounts in columnar form as at 31st March 2016. (05 marks)

(b) Statement of Financial Position as at 31st March 2016. (05 marks)

(Total 10 marks)

**Exercise – 13**
**2016 JAN AAT II Q5**

**Viraj , Ranga** and **Indika** were in a partnership sharing profits and losses equally. On 31st March 2015 **Indika** decided to retire from the partnership:

(1) The following balances were extracted from the books of the partnership as at 31st March 2015:

| Property, Plant and Equipment: | Cost (Rs.) | Accumulated Depreciation (Rs.) |
|---|---|---|
| Land | 2,300,000 | - |
| Buildings | 1,575,000 | 393,000 |
| Motor vehicle | 2,500,000 | 1,000,000 |

| Balances: | Viraj | Ranga | Indika |
|---|---|---|---|
| Capital Account (Cr) (Rs.) | 2,000,000 | 2,000,000 | 2,000,000 |
| Current Account (Dr) (Rs.) | 50,000 | 25,000 | 30,000 |

(2) As at the date of retirement, non-current assets were revalued and the revalued amounts are as follows:

| | |
|---|---|
| Land | Rs.2,950,000/- |
| Buildings | Rs.1,700,000/- |
| Motor Vehicle | Rs.1,250,000/- |

(3) As at 31st March 2015, the goodwill was valued at Rs.600,000/-. Partners decided not to show the goodwill in the books of accounts, but instead to consider the value of the goodwill only for the purpose of computing the amount payable to **Indika**.

(4) After **Indika's** retirement, **Viraj** and **Ranga** decided to change the profit and loss sharing ratio to 3:2 respectively.

(5) Partnership agreement states that no interest be paid on capital amount payable to the retiring partner.

**You are required to:**

**Prepare** the partners' capital accounts and current accounts in columnar form as at 31st March 2015.

(05 marks)

**Exercise – 14**
**2016 JAN AAT II Q6**

**Imraz, Buddika** and **Mahee** are in a partnership. The partnership agreement provides for the following:

(1) Profit and loss sharing ratio is 2 : 2 : 1 among **Imraz, Buddika** and **Mahee** respectively.

(2) No interest is to be paid on partners' capital.

(3) Partners are charged with interest on drawings at 5% per annum.

(4) **Buddika** and **Mahee** are entitled to a monthly salary of Rs.2,000/- each.

The following information is extracted from the books of the partnership:

| | **Dr. (Rs.'000)** | **Cr.(Rs.'000)** |
|---|---|---|
| Partners' Capital Accounts as at 01st April 2014: | | |
| **Imraz** | | 2,000 |
| **Buddika** | | 2,000 |
| **Mahee** | | 1,000 |
| Partners' Current Accounts as at 01st April 2014: | | |
| **Imraz** | 50 | |
| **Buddika** | 25 | |
| **Mahee** | | 10 |
| Partners' Drawings: **Imraz** (on 01st June 2014) | 48 | |
| **Buddika** (on 01st May 2014) | 24 | |
| **Mahee** (on 15th December 2014) | 60 | |

The net profit for the year ended 31st March 2015 is Rs.695,000/-.

**You are required to,**

**Prepare** the Profit or Loss Appropriation Account of the partnership for the year ended 31st March 2015. (05 marks)

**Exercise – 15**
**2016 JAN AAT II Q7**

**Ranil, Anura** and **Namal** are in a partnership named **Ranmal Traders**, sharing profits and losses in the ratio of 3 : 1 : 2 respectively.

The partnership agreement provides the following:

- **Anura** acts as the manager of **Ranmal Traders** and is paid a salary of Rs.50,000/- per annum.
- An interest of 5% per annum to be paid for the capital account balances at the end of the year.

The Trial Balance of **Ranmal Traders** as at 31st March 2015 is as follows:

**Trial Balance as at 31st March 2015**

| | **Dr. (Rs.'000)** | **Cr.(Rs.'000)** |
|---|---|---|
| Property, Plant and Equipment at Cost: | | |
| Land | 1,300 | |
| Buildings | 900 | |
| Office Equipment | 300 | |
| Accumulated Depreciation as at 01st April 2014: | | |
| Buildings | | 45 |
| Office Equipment | | 120 |
| Trade Payables | | 274 |
| Trade Receivables | 304 | |
| Inventory as at 01st April 2014 | 67 | |
| Bank Balance | 30 | |
| Purchases / Sales | 367 | 580 |
| Sales Returns | 15 | |
| Administration expenses | 115 | |
| Distribution expenses | 45 | |
| Finance expenses | 11 | |
| Partners' Capital Accounts as at 01st April 2014: | | |
| **Ranil** | | 1,200 |
| **Anura** | | 400 |
| **Namal** | | 800 |
| Partners' Current Accounts as at 01st April 2014: | | |
| **Ranil** | | 45 |
| **Anura** | | 35 |
| **Namal** | 45 | |
| **Total** | **3,499** | **3,499** |

The following additional information is also provided:

(1) It was decided to write off an amount of Rs.4,000/- as bad debts and to provide 1% of the remaining debtors as an allowance for doubtful debts.

(2) Property, Plant and Equipment are to be depreciated on the straight-line method at cost as follows:

| | | |
|---|---|---|
| Buildings | : | 2.5% per annum |
| Office Equipment | : | 20% per annum. |

(3) Inventory as at 31st March 2015 was Rs.119,500/- at cost.

**You are required to,**

**Prepare** the following of **Ranmal Traders** for the year ended 31st March 2015:

(a) Statement of Income.

(b) Profit or Loss Appropriation Account. (10 marks)