**FIRST TERM E-LEARNING NOTE**

**SUBJECT: FINANCIAL ACCOUNTING CLASS: SS2**

## **SCHEME OF WORK**

**WEEKS TOPIC**

1 Partnership Accounts

2 Final Accounts of a Partnership

3 – 4 Admission of Partners

5 - 6 Dissolution of Partnership

7 Introduction to Company Accounts

8 Final Accounts of Limited Liability Companies

9 - 10 Issue of Shares and Debentures

**WEEK ONE**

**PARTNERSHIP ACCOUNTS**

1. Partnership Agreement
2. Capital and Current Account

**INTRODUCTION**

PARTNERSHIP can be defined as the relationship which exists between two or more persons who are carrying on business in common with a view to making profit. The rules governing the conduct of a partnership business is contained in the document known as the Deed of Partnership or Articles of Partnership or Partnership Agreement.

**CONTENTS OF THE DEED OF PARTNERSHIP**

The partnership Deed contains among others, the following.

1. Name of the partnership
2. Names of the partners
3. Capital contribution
4. Nature of the partnership business
5. Profit and loss sharing ratio
6. Interest on capital contribution
7. Interest chargeable on drawings
8. Duration of the partnership
9. Rules regarding admission or retirement of a partner
10. Rules on dissolution of the partnership

**WHEN THERE IS NO AGREEMENT**

Where there is no specific arrangement concerning the partnership agreement, section 24 of the Partnership Act 1890 laid down the rules that should be applied as follows:-

1. No interest to be paid on capital contributed by each partner
2. No partner should receive salary or remuneration.
3. No interest is to be charged on drawings
4. Profits and losses are to be shared equally.
5. 5% interest should be allowed on any loans made by any partner in excess of the agreed capital contribution.

**FIXED CAPITAL ACCOUNT**

The capital accounts of partners are usually regarded as fixed so as to provide a permanent evidence of the initial amount with which the partnership is commenced. Where capital is regarded as fixed, a current account must be opened for each of the partners.

**PARTNERS CURRENT ACCOUNT**

The current account of each partner is prepared to show what such a partner is entitled to withdraw from the business at any point in time. It is credited with salary, commission, share of profits, interest on capital, and debited with drawings, interest on drawings, etc.

**EXERCISE 1**

Obi and Oba are partners in a firm of chartered accountants with initial capital contributions of N50,000 and N40,000 respectively which are to be kept fixed in the partnership books. You are required to show the cash account, partners’ capital accounts and balance sheet extracts.

**SOLUTION**

**CASH ACCOUNT (EXTRACTS)**

N

Capital: Obi 50, 000

Oba 40, 000

**PARTNERS CAPITAL ACCOUNT**

Obi Oba

NN

Cash A/c 50, 000 40, 000

**BALANCE SHEET (EXTRACTS)**

Capital A/c N N

Obi 50, 000

Oba 40, 000 Cash in hand 90, 000

**FIXED CAPITAL ACCOUNT WITH CURRENT ACCOUNT**

As illustrated above where capital account will remain fixed according to agreement, current account must be opened for each partner. It is debited with drawings, interest on drawings and credited with interest on capital, share of profit and partner’s salary.

**ILLUSTRATION II**

DR  **FIXED CAPITAL ACCOUNT** CR

A B A B

N N

Balance b/d 100, 000 20, 000

**CURRENT ACCOUNT**

DR CR

A B A B

N N N N

Drawings 4, 000 3, 500 Balance B/f 3,000 6, 000

Interest on drawings 400 350 Int. on capital 10, 000 20, 000

Share of profit 5, 000 6, 000

Balance c/d 14, 600 30, 150 Salary 1, 000 2, 000

19, 000 34, 000 19, 000 34, 000

However, there are instances where the partners in accordance with the partnership deed, maintain floating or fluctuating capital account.

**FLOATING CAPITAL WITHOUT CURRENT ACCOUNT**

This is simply a combination or mixture of the capital and current accounts of each partner in a capital account hence such a capital account is referred to as “floating” or “fluctuating” because the balance can increase or decrease at any time depending on how much is paid in and how much is withdrawn.

**ILLUSTRATION 3**

**FLUCTUATING CAPITAL ACCOUNT**

DR CR

A B A B

N N N N

Drawings 4, 000 3, 500 Bal of capital b/f 100, 000 200, 000

Interest on drawings 400 350 Bal of current b/f 3, 000 6, 000

Balance c/d 114, 600 230,150 Interest in capital 10, 000 20, 000 Share of profit 5, 000 6, 000

Salary 1, 000 2, 000

119, 000 234, 000 119, 000 234, 000

**EVALUATION**

1. Define Partnership
2. List seven items that should be contained in a partnership deed.

**READING ASSIGNMENT**

Essential Financial Accounting by O.A. Longe Page 249-251.

**WEEKEND ASSIGNMENT**

1. Where there is no partnership agreement the Partnership Act 1890 section \_\_\_\_\_\_\_ should be applied (a) 20 (b) 25 (c) 24 (d) 34
2. Which of the following is not true where there is no laid down agreement for the partnership? (a) Profits and losses to be shared equally (b) No interest on drawings (c) No interest in capital (d) Members of the public can invest in the shares of the business.
3. Which of the following increases the profit of a partnership? (a) Drawings (b) Interest on capital (c) Interest on drawings (d) Partnership salary
4. Which of the following statements is NOT true? (a) When we keep fixed capital accounts for partners we open their current accounts (b) When losses are made they are to be shared by the partners (c) When we keep floating capital account no current account is kept (d) A partnership can exist forever.
5. Which of the following can represent capital contributed by a partner to a partnership? (a) Cash only (b) Cheques only (c) Cash and cheques only (d) Cash, cheque and other assets.

**THEORY**

1. List the rules approved by the Partnership Act 1890 to be applied where there is no partnership agreement.
2. Prepare the capital and current accounts of the following partners:-

N

Capital accounts Obi 50, 000 cr.

Oba 20, 000 cr.

Interest in capital 5% p.a.

Salaries Obi 5, 000

Oba 6, 000

Interest on drawings 5%

Drawings Obi 2, 000

Oba 1, 500

Current accounts balances b/f

Obi 3, 000 cr.

Oba 500 dr.

**GENERAL EVALUATION**

1. Differentiate between accounting concepts and convention
2. Explain four classifications of cost found in manufacturing accounts
3. State five reasons why a trial balance may not balance
4. State five limitations of the Receipts and Payments Account
5. Explain five events that may lead to the dissolution of a partnership