**WEEK TWO**

**FINAL ACCOUNTS OF A PARTNERSHIP BUSINESS**

i. **Profit & Loss Appropriation Account of a partnership**

ii. **Balance Sheet of a Partnership**

**PROFIT AND LOSS APPROPRIATION ACCOUNT OF A PARTNERSHIP**

This, as the name implies, is the account where either the profit or loss of the partnership business is shared between or among the partners as stipulated in the partnership agreement. The profit and loss appropriation account marks the beginning of the difference between the final accounts of a sole trader and that of a partnership. This is because while the sole trader does not share his profit with any-body, the profit of the partnership must be shared by the partners.

**Some Terminologies in profit & Loss Appropriation Account of a partnership**

**1.** **Drawings:-** Partners can withdraw at regular or irregular intervals, from the sum they are entitled to at the end of the year. The total drawings is credited to the cash book and debited to current accounts.

**2.** **Interest on drawings:-**This is the interest charged on drawings made by the partners. In order to discourage or reduce the amount of cash withdrawn, a fixed sum or % will be charged as interest. The interest on drawing will increase net profit and discourage drawings. It can be calculated on monthly basis.

Interest is calculated from the date the amount is withdrawn to the end of the financial year.

**3.** **Partners’ Salary: -** The agreement made provision for salary to be paid to active partners. It is desirable to compensate the active partner for the day-to-day running of the business.

**4.** **Interest on Capitals:** Partners contribute different amounts as capital. In order to compensate the partners for capital contributed, interest on capital is allowed.

**BALANCE SHEET OF A PARTNERSHIP BUSINESS**

There is no significant difference between the balance sheet of a sole trader and that of a partnership. The only difference is on the display of capital accounts and current accounts of partners which will be illustrated in the formats below:-

**Format 1**

**Trading, profit and loss of A and B Enterprises for the year ended 31st December 2006**

N N N N

Opening stock x Sales x

Add Purchases x less Returns inwards x x

Add Carriage inwards x

**X**

Less Returns Outwards x x

**Cost of goods available for sale** x

Less Closing stock x

**Cost of goods sold**  x

**Gross profit c/d** x

**X x**

**Expenses**

Wages and salaries x **Gross profit b/d** **x**

Depreciation of assets x Discounts received x

Sundry expenses x

Bad debts x

Interest on loan x

Discount allowed x

Carriage outwards x

**Net profit c/d**  **x**

**X X**

**Format 2**

**Profit and Loss Appropriation account A and B**

N N N N

Partners salary x Net profit b/d x

Interest on capital: A x Interest on drawings:

B x x A x

Share of profit B x x

A (½ x) x

B (½ x) x x \_\_

X x

**Format 3**

**Balance sheet of A and B Enterprises as at 31st Dec 2006**

N N N N

**Capital accounts Fixed assets**

A x Furniture & fitting x

B x x Less depreciation x x

**Current accounts** Motor vanx

A x

B x x **Current assets**

**Current liabilities** Stock x

Loan x Debtor x

Creditors x Bank x

Expenses owing x x Cash in hand x x

**X x**

**Example**

O and D are in partnership sharing profit and loss in the ratio 3:2. The following is the Trial Balance as at 31 December 2005

DR CR

Capital O 100,000

D 50,000

Drawings: O 6,000

: D 5,000

Purchases 120,000

Sales 200,000

Sales returns 4,000

Purchases returns 2,000

Stock at 1st January 2005 10,000

Carriage inwards 1,200

Salaries and wages 15,000

Bad debts 1,000

Office expenses 2,400

Loan-Okafor 14,000

Provision for doubtful debts 300

Discounts allowed 1,150

Discounts received 1,100

Building at cost 30,000

Machinery at cost 109,000

Cash at bank 8,000

Motor van at cost 50,000

Electricity 50

Provision for dep. on motor van 10,000

Debtors 20,000

Creditor 10,000

Bills payable 9,000

Bills receivable 17,500

Carriage outwards 500

Currents account: O 1,500

D 3,000

400,900 400,900

**Additional Information**

i. Stock at close N 15,000

ii. Salaries and wages accrued N 1,000

iii. Electricity prepaid N 20

iv. Interest on capital at 10%

v. Interest on drawings at 5%

vi. Depreciate motor can 10% on cost

vii. Partnership salary: O N 2,000

viii. Provision for doubtful debts to be reduced to N 200

viiii. O withdrew N 7,000 goods for own use

**You are required to:**

a. Prepare the Trading, Profit and loss account for the year ended 31 Dec, 2006.

b. Partners’ capital account

c. Balance sheet as at 31st Dec. 2006

**Solution**

**Trading, Profit and Loss of O and D for the year ended 31st December 2006.**

N N N N

Opening stock 10,000 Sales 200,000

Add purchases 120,000 Less Returns inward s 4,000

Add carriage inwards 1,200

121,200

Less Ret outwards 2,000

119,200

Less Goods withdrawn 7,000 **112,200**

Cost of Goods available for sale 122,200

Less closing stock 15,000

Cost of goods sold 107,200

**Gross profit c/d** 88,800

**196,000** **196,000**

**Expenses Gross profit bld** 88,800

Salaries and wages (wk 1) 16,000 Discount received 1,100

Decrease in provision for

Bad debts 1,000 bad debts (wk 3) 100

Office expenses 2,400

Discount allowed 1,150

Electricity (wk 4) 30

Carriage outwards 500

Depreciation-motor can (wk 2) 5,000

**Net profit c/d**  **63,920**

**90,000** **90,000**

**Appropriation account**

N N N N

Net profit 63,920

Partner salary – O 2,000 **Interest on drawings:**

**Interest on capital:**  O 300

O 10,000 D 250 550

D 5,000 15,000

**Share of profit:**

D 18,988

O 28,482 47,470

**64,470** **64,470**

**Partnership Columnar current account**

O D O D

N N N N

Drawings 6,000 5,000 Balance b/f 1,500 3,000

Int on drawings 300 250 Share of profit 28.482 18,988

Goods withdrawn 7,000 - Interest on capital 10,000 5,000

Balance c/d 28,692 21,738 Salary 2,000 -\_\_\_\_

**41,982 26,988** **41,982 26,988**

**Bal b/d 28,692 21,738**

**Balance sheet as at 31st December 2006**

N N N NN

Capital: O 100,000

D 50,000 150,000 Fixed assets

Building 30,000 30,000

Current account: Machinery 109,100 109,100

O 28,682 Motor van 50,000 139,100

D 21,738 50,420 Less Depr. 15,000 35,000

174,100

**Current liabilities** **Current assets**

Loan Okafor 14,000 Stock 15,000

Creditors 10,000 Bank 8,000

Bills payable 9,000 Debtors 20,000

Wages owing 1,000 34,000 Less provision 200 19,800

Bills receivable 17,500

Electricity prepaid 20 60,320

**234,420 234,420**

**Workings**

1. Salaries and wages

Amount paid 15,000

+ Owing 1,000

Profit and loss 16,000

2. Depreciation: Motor van

10% x 50,000

Profit and loss 5,000

Accumulated depreciation = 10,000 + 5,000 = 15,000

3. Provision for bad debts 4. Electricity 50

Old provision 300 Less Prepaid 20

Less New provision 200 Profit and loss 30

Profit and loss 100

5. Interest on capital: 6. Share of profit

O : 10% x 100,000 O = 3/5 x 47,470 = 28,482

= 10,000 D = 2/5 x 47,470 = 18,988

D : 10% x 50,000

= 5,000

7. Interest on drawings:

O : 5% x 6,000

= 300

D : 5% x 5,000

= 250

**EVALUATION**

1. Explain (a) appropriation account (b) Balance sheet

2. What is interest on capital?

**READING ASSIGNMENT**

Essential Financial Accounting by O. A. Longe, Page 249 – 258

**WEEKEND ASSIGNMENT**

Use the following information to answer questions 1 – 5. A, B, and C are in partnership sharing profits and losses in the ratio 3:2:1 respectively. Their capital accounts are A: N60,000 B. N40,000 and C: N 30,000. Interest on capital is agreed at 5% p.a. interest on drawings is also agreed at 5% p.a. Their drawings for the year are: A: N 6,000 B: N 4,000 and C: N 3,000. The profit for the year before appropriation is N 30,000 C is entitled to a partnership salary of N2,000 p.a

1. What is the total of A and B’s interest on capital? (a) N4,000 (b) N3,000 (c) N5,000

(d) N10,000

2. What is the total of B and C’s interest on drawing? (a) N350 (b) N250, (c) N450

(d) N400

3. Total interest on the partners’ capital for the year is (a) N7,000 (b) N6,000 (c) N6,500 (d) N5,500

4. Total credit entries in the appropriation account is (a) N550 (b) N30,000 (c) N35,500

(d) N30,550

5. Which of the following is not debited to the profit and loss appropriation account?

(a) C’s salary (b) Partner’s interest on capital (c) Share of profit (d) Share of loss

**THEORY**

1. Write short notes on (a) Interest on capital (b) Interest on drawing

2. Give the double entries for the following in the final account of a partnership. (i) Interest on drawings N500 (ii) Partnership salary N3,000 (iii) Interest on capital N5,000 (iv) Share of profit N10,000

**GENERAL EVALUATION**

1. List five items that are debited in the sales ledger control account
2. List five items that are credited in the purchases ledger control account
3. List five subsidiary books from which the sales ledger control is compiled
4. State five contents of the Appropriation Account of a partnership
5. List five characteristics of depreciable assets