

Level 3 Certificate in Bookkeeping and Accounting (RQF)
Study Text Book Model Answers

Lesson 10 – Prepare Financial Statements for a Partnership

Question 10.1

Filip and Kamil are considering setting-up a partnership. Which **two** of the following are advantages they would have if they set-up a business together, rather than each setting-up a business on their own:

	✓
The opportunity to raise more capital to set-up or expand the business if they set-up together, rather than on their own	✓
The sharing of the profits made by the business	
The chance of disputes over management and decision making issues if they don't draft some form of agreement which will set the rules under which they will run their business	
The pooling of their qualifications, skills and talents	✓

Question 10.2

Alice and her friend Brad are in the process of setting-up in partnership. Alice is to work in the partnership full-time, but Brad has other business commitments, which means he will be unable to spare much time to help Alice in the business.

If, on going into partnership, Alice and Brad were to draw up a partnership agreement, which **one** of the following terms could be included in the agreement to compensate Alice for her work within the partnership?

	✓
Give the partners interest on the capital they invest	
Give Alice a partnership salary	✓
Charge the partners interest on their drawings	

Question 10.3

Which **one** of the following would **not** be recorded in an appropriation account prepared for a partnership?

	✓
Interest on capital	
Interest on drawings	
Drawings	✓

Question 10.4

Which **one** of the following statements is correct?

	✓
Interest on capital is debited to the appropriation account and credited to a partners current account	✓
Interest on drawings is debited to the appropriation account and credited to a partners current account	
A partnership salary is added to net profit when preparing the appropriation account	

Question 10.5

Which of the following are debit entries in an appropriation account?

	✓
Net profit	
Interest on drawings	
Interest on capital	✓
Partnership salaries	✓
Share of profits	✓

A partnership agreement drawn up on behalf of the partners' includes the following terms:

1 Partners' are to be charged interest on their drawings.

At the year-end 31 December interest on drawings is to be charged as follows: Robert £600, Sara £500 and Tara £400.

2 Partners' are to be given interest on capital at the rate of 5% per year.

3 Partnership salaries are to be given each year as follows – Robert £10,000, Sarah £8,000 and Tara £7,000.

4 Remaining profits or losses are to be shared equally between the partners.

Net profit for the year ended 31 December 201Y was £64,400.

The balances on each of the partners' drawings accounts at the year-end 31 December 201Y were:

Robert £24,000

Sarah £21,000

Tara £18,000

Required

Using the appropriation account provided below and the current accounts provided in the ledger extract above:

A) Prepare the appropriation account for the year ended 31 December 201Y.

B) Prepare the current accounts for the year ended 31 December 201Y. Balance off the current accounts at the year-end. Show the closing balances carried down (Balances c/d) at 31 December 201Y, and brought down (Balances b/d) at 1 January 201Z.

**Robert, Sarah and Tara
Appropriation Account for the Year Ended 31 December 201Y**

	£	£
Net profit		64,400
Add interest on drawings		
Robert	600	
Sarah	500	
Tara	400	
		1,500
		65,900
Less interest on capital		
Robert	4,500	
Sarah	3,000	
Tara	2,500	
		10,000
		55,900
Less salaries		
Robert	10,000	
Sarah	8,000	
Tara	7,000	
		25,000
		30,900
Less share of profit		
Robert	10,300	
Sarah	10,300	
Tara	10,300	
		30,900
		NIL

Question 10.8

John Skinner and Alan Best are in partnership, they 'operate in the name of S & B Accountancy Services. The following information has been taken from their books at the year-end 31 December 201Y, prior to the preparation of the partnership appropriation account:

		£	
Capital:	Skinner	10,000	
	Best	8,000	
Current Account:	Skinner	2,500 (CR)	Balance at 1 January 201Y
	Best	800 (CR)	Balance at 1 January 201Y
Drawings:	Skinner	26,000	
	Best	20,000	

Net profit in the year ended 31 December 201Y was £58,600

A partnership agreement drawn up by the partners contains the following details:

- i Interest is to be charged on partners' drawings.
For the year ended 31 December 201Y Skinner is to be charged interest on drawings of £1,800, and Best is to be charged interest on drawings of £1,200.
- ii Interest on capital is to be credited to partners at the rate of 6% per year.
- Iii As senior partner Skinner is to be credited with a partnership salary of £20,000 each year. Best is to be credited with a salary of £18,000 each year.
- iv Remaining profits or losses are to be shared equally.

REQUIRED:

- a Prepare the partnership appropriation account for the year ended 31 December 201Y.
- b Prepare each partners' current account for the year ended 31 December 201Y.

The following are provided for your use in completing the above tasks:

S & B Accountancy Services		
Appropriation Account for the Year Ended 31 December 201Y		
	£	£
Net profit		58,600
Add interest on drawings		
Skinner	1,800	
Best	1,200	
		3,000
		61,600
Less interest on capital		
Skinner	600	
Best	480	
		1,080
		60,520
Less salaries		
Skinner	20,000	
Best	18,000	
		38,000
		22,520
Less share of profit		
Skinner	11,260	
Best	11,260	
		22,520
		NIL

Ledger (extract)
Current Accounts

DR				CR			
201Y	Details	Skinner £	Best £	201Y	Details	Skinner £	Best £
31 Dec	Interest on drawings	1,800	1,200	1 Jan	Balances b/d	2,500	800
31 Dec	Drawings	26,000	20,000	31 Dec	Interest on capital	600	480
31 Dec	Balances c/d	6,560	9,340	31 Dec	Salaries	20,000	18,000
				31 Dec	Share of profit	11,260	11,260
		34,360	30,540			34,360	30,540
201Z	Details	Skinner £	Best £	201Z	Details	Skinner £	Best £
				1 Jan	Balances b/d	6,560	9,340

Question 10.9

Ivan and Tanya are in partnership, they trade in the name of IT Services. A partnership agreement drawn up on their behalf contains the following information:

- i Interest is to be charged on partners' drawings.
- ii Interest on capital is to be credited to partners' at the rate of 5% per year.
- iii Ivan is to be credited with a partnership salary of £18,000 each year, Tanya is to be credited with a partnership salary of £15,000 each year.
- iv Remaining profits or losses are to be shared 60% Ivan and 40% Tanya.

The following balances appeared in the books of the partnership at the financial year ended 31 May 201Y, prior to the preparation of the partnership appropriation account:

		£		
Capital	- Ivan	48,000		
	- Tanya	20,000		
Current Accounts	- Ivan	1,200	(CR)	Balance at 1 January 201X
	- Tanya	800	(DR)	Balance at 1 June 201X
Drawings	- Ivan	25,000		
	- Tanya	16,000		

You are also provided with the following information:

- 1 Interest on drawings for the year ended at the year-end 31 December 201Y is to be charged to the partners as follows:

Ivan	£1,500
Tanya:	£1,300

- 2 The profit and loss account of the business has been prepared for the year ended 31 December 201Y. Net profit for the year ended 31 December 201Y is £43,600.

REQUIRED:

- a Prepare the appropriation account of the partnership for the year ended 31 December 201Y.
- b Prepare the partner current accounts for the year ended 31 December 201Y.

The following are provided for your use in completing the above tasks. Note that the current accounts provided already show the balances brought down at 1 January 201Y:

IT Services		
Appropriation Account for the Year Ended 31 December 201Y		
	£	£
Net profit		43,600
Add interest on drawings		
Ivan	1,500	
Tanya	1,300	
		2,800
		46,400
Less interest on capital		
Ivan	2,400	
Tanya	1,000	
		3,400
		43,000
Less salaries		
Ivan	18,000	
Tanya	15,000	
		33,000
		10,000
Less share of profit		
Ivan	6,000	
Tanya	4,000	
		10,000
		NIL

Question 10.10

Tudor and Windsor have been in partnership for several years. The following trial balance has been prepared from the books of the partnership at 31 December 201Y:

Trial Balance at 31 December 201Y		DR	CR
		£	£
Capital Accounts	: Tudor (1 January 201Y)		180,000
	: Windsor (1 January 201Y)		120,000
Current Accounts	: Tudor (1 January 201Y)	1,800	
	: Windsor (1 January 201Y)		15,600
Drawings	: Tudor (31 December 201Y)	20,000	
	: Windsor (31 December 201Y)	18,000	
Premises (Cost)		210,000	
Fixtures and Fittings (Cost)		82,800	
Motor Vehicles (Cost)		28,750	
Purchases		532,625	
Sales			775,200
Sales ledger control		111,980	
Purchase ledger control			39,050
Opening stock		44,500	
Heat and Light		5,325	
Wages		50,125	
Vehicle Expenses		6,675	
Discounts		13,500	6,900
Advertising		28,600	
General Expenses		1,650	
Bank Charges and Interest		3,650	
Rates		13,200	
Insurances		2,400	
Bank			19,830
Fixtures and Fittings - depreciation provision at 1 January 201Y			14,000
Motor Vehicles – depreciation provision at 1 January 201Y			5,000
Totals		1,175,580	1,175,580

You are presented with the following additional information:

- 1 Stock at 31 December 201Y is valued at cost £41,000.
- 2 Heat and light charges of £1,600 are accrued at 31 December 201Y, rates of £1,200 are prepaid at that date.
- 3 Depreciation at the year-end 31 December 201Y is to be provided as follows:

Fixtures and Fittings: £8,280

Motor Vehicles: £4,750
- 4 Tudor is to be charged with £1,800 and Windsor with £1,500 as interest on drawings for the year ended 30 April 201Y.
- 5 Partners are to be credited with interest on capital at the rate 6% per year.
- 6 Tudor is to be credited with a salary of £8,000 per year.
- 7 Remaining profits or losses are to be shared equally between the two partners.

REQUIRED:

Prepare the Trading and Profit and Loss Account of the partnership for the year ended 31 December 201Y.

Prepare the appropriation account of the partnership for the year-ended 31 December 201Y.

Prepare the current accounts of the partners' for the year ended 31 December 201Y.

Prepare the balance sheet of the partnership at 31 December 201Y.

The following are provided for your use in completing the above tasks:

Tudor & Windsor
Trading, Profit and Loss Account
for the Year Ended 31 December 201Y

	£	£	£
Sales			775,200
Less Cost of Goods Sold:			
Opening stock	44,500		
Add Purchases	532,625		
		577,125	
Less Closing stock		41,000	
Cost of Sales			536,125
Gross profit			239,075
Add Other income:			
Discounts received			6,900
			245,975
Less Expenses:			
Heat and light		6,925	
Wages		50,125	
Vehicle expenses		6,675	
Discounts allowed		13,500	
Advertising		28,600	
General expenses		1,650	
Bank charges and interest		3,650	
Rates		12,000	
Insurances		2,400	
Depreciation charges		13,030	
			138,555
Net profit			107,420

**Tudor & Windsor
Appropriation Account for the Year Ended 31 December 201Y**

	£	£
Net profit		107,420
Add interest on drawings		
Tudor	1,800	
Windsor	1,500	
		3,300
		110,720
Less interest on capital		
Tudor	10,800	
Windsor	7,200	
		18,000
		92,720
Less salary		
Tudor		8,000
		84,720
Less share of profit		
Tudor	42,360	
Windsor	42,360	
		84,720
		NIL

DR		Current Accounts				CR	
201Y	Details	Tudor £	Windsor £	201Y	Details	Tudor £	Windsor £
1 Jan	Balance b/d	1,800		1 Jan	Balance b/d		15,600
31 Dec	Drawings	20,000	18,000	31 Dec	Interest on capital	10,800	7,200
31 Dec	Interest on drawings	1,800	1,500	31 Dec	Salary	8,000	
31 Dec	Balance c/d	37,560	45,660	31 Dec	Share of profit	42,360	42,360
		61,160	65,160			61,160	65,160
201Z	Details	Tudor £	Windsor £	201Z	Details	Tudor £	Windsor £
				1 Jan	Balance b/d	37,560	45,660

**Tudor and Windsor
Balance Sheet at 31 December 201Y**

	£	£	£
	Cost	Less Dep'n to Date	NBV
Fixed Assets:			
Premises	210,000	-	210,000
Fixtures and Fittings	82,800	22,280	60,520
Motor Vehicles	28,750	9,750	19,000
	321,550	32,030	289,520
Current Assets:			
Stock	41,000		
Trade debtors	111,980		
Prepaid expenses	1,200		
		154,180	
Less Current Liabilities:			
Trade creditors	39,050		
Accrued expenses	1,600		
Bank overdraft	19,830		
		60,480	
Working capital			93,700
Total assets less current liabilities			383,220
Financed by:			
Capital: Tudor	180,000		
Add Current account	37,560		
		217,560	
Capital: Windsor	120,000		
Add Current account	45,660		
		165,660	
Capital employed			383,220

Question 10.11

India and Assam are in partnership sharing profits and losses in the ratio 2/3rd India, and 1/3rd Assam.

At 31 March 201Y the balances on their capital accounts were:

India £200,000
Assam £100,000

As from 1 April 201Y Madras is to join the partnership, he will pay £100,000 into the business bank account as his capital contribution and payment for goodwill.

On Madras joining the partnership it was agreed the future profit or losses would be shared 50% India, 25% Assam and 25% Madras.

Goodwill at the time of Madras joining the partnership has been valued at £72,000.

REQUIRED

Prepare the capital accounts of the partners, following the admission of Madras to the business. Capital accounts are provided for your use in completing this task

Assume that a goodwill account is **not** used in accounting for goodwill, and that a net adjustment is recorded in partner currents accounts to account for goodwill from workings. You must show the workings to account for the creation, elimination and net adjustment for goodwill on the admission of Madras to the partnership, using the workings area below.

Workings – goodwill adjustment

	Creation £	Elimination £	Net Adjustment £
India	48,000 (CR)	36,000 (DR)	12,000 (CR)
Assam	24,000 (CR)	18,000 (DR)	6,000 (CR)
Madras		18,000 (DR)	18,000 (DR)
	72,000 (CR)	72,000 (DR)	NIL

DR**Capital Accounts****CR**

201Y	Details	India £	Assam £	Madras £	201Y	Details	India £	Assam £	Madras £
1 April	Goodwill Adjmt			18,000	31 Mar	Balances b/d	200,000	100,000	
1 April	Balances c/d	212,000	106,000	82,000	1 April	Bank			100,000
					1 April	Goodwill Adjmt	12,000	6,000	
		212,000	106,000	100,000			212,000	106,000	100,000
					1 April	Balances b/d	212,000	106,000	82,000

Question 10.12

Mia and Sam are in partnership sharing profits and losses equally.

At 31 May 201Y the balances on their capital accounts were:

Mia £100,000
Sam £40,000

As from 1 June 201Y Toni is to join the partnership, she will pay £90,000 into the business bank account as her capital contribution and payment for goodwill.

On Toni joining the partnership it was agreed the future profit or losses would be shared 40% Mia, 30% Sam and 30% Toni.

Goodwill at the time of Toni joining the partnership has been valued at £80,000.

REQUIRED

Prepare the capital accounts of the partners, following the admission of Toni to the business. Balance off the capital accounts at 1 June 201Y, and show balances carried (balances c/d) down at 1 June 201Y and brought down (Balances b/d) at 2 June 201Y. Capital accounts are provided for your use in completing this task

Assume that a goodwill account is **not** used in accounting for goodwill, and that a net adjustment is recorded in partner currents accounts to account for goodwill from workings. You must show the workings to account for the creation, elimination and net adjustment for goodwill on the admission of Toni to the partnership, using the workings area below.

Workings – goodwill adjustment

	Creation £	Elimination £	Net Adjustment £
Mia	40,000 (CR)	32,000 (DR)	8,000 (CR)
Sam	40,000 (CR)	24,000 (DR)	16,000 (CR)
Toni		24,000 (DR)	24,000 (DR)
	80,000 (CR)	80,000 (DR)	NIL

DR		Capital Accounts						CR	
201Y	Details	Mia £	Sam £	Toni £	201Y	Details	Mia £	Sam £	Toni £
1 June	Goodwill Adj'm't			24,000	1 June	Balances b/d	100,000	40,000	
1 June	Balances c/d	108,000	56,000	66,000	1 June	Bank			90,000
					1 June	Goodwill Adj'm't	8,000	16,000	
		108,000	56,000	90,000			108,000	56,000	90,000
					2 June	Balances b/d	108,000	56,000	66,000

Question 10.13

Ken and Dev have been in partnership for several years, they have always shared profits or losses equally. The financial year of their business ends on 30 April.

At 1 May 201Y the balances brought down on the capital accounts of the partners in the ledger of the business were:

Capital Accounts	
£	
Ken	100,000
Dev	100,000

It was decided that as from 1 May 201Y the ratio in which they were to share profits or losses would change. In future years profits or losses would be shared 70% Ken and 30% Dev.

At the time of revising the profit sharing ratios the goodwill of the partnership was valued at £50,000.

Question 10.14

Kay and Ella have been in partnership for several years. The financial year of their business ends on 31 December.

At 1 January 201Y the partners had the following balances on their capital and current accounts:

		£
Kay	- Capital account	100,000
Ella	- Capital account	150,000
Kay	- Current account	1,800 (CR)
Ella	- Current account	2,300 (CR)

On formation of the partnership an agreement drawn up on behalf of the partners included the following terms:

- Partners are to be credited interest on capital at the rate of 5% per year
- Ella is to be credited with a partnership salary of £4,000 per year
- Remaining profits or losses are to be shared equally

As from 1 January 201Y it was decided that the profit sharing ratio be revised, but that the terms relating to interest paid on capital and the partnership salary paid to Ella would remain as originally agreed. As from 1 January 201Y the profit sharing ratio was revised as follows:

Kay	60%
Ella	40%

On changing the profit sharing ratio a valuation of £80,000 was placed on the goodwill of the existing business.

In the year ended 31 December 201Y the partnership business generated a net profit of £76,500.

In the year ended 31 December 201Y the partners' drawings from the business were:

Kay	£36,000
Ella	£36,000

REQUIRED

Using the workings area below, calculate the net adjustment to be recorded in the capital accounts of Kay and Ella to account for goodwill at the time of the change in the profit sharing ratio.

Workings – goodwill adjustment

	Creation £	Elimination £	Net Adjustment £
Kay	40,000 (CR)	48,000 (DR)	8,000 (DR)
Ella	40,000 (CR)	32,000 (DR)	8,000 (CR)
	80,000 (CR)	80,000 (DR)	NIL

REQUIRED

Using the capital accounts provided below, prepare the capital accounts of Kay and Ella to account for goodwill at the time of the change in the profit sharing ratio.

DR		Capital Accounts				CR	
201Y	Details	Kay £	Ella £	201Y	Details	Kay £	Ella £
1 Jan	Goodwill adjm't	8,000		1 Jan	Balances b/d	100,000	150,000
1 Jan	Balances c/d	92,000	158,000	1 Jan	Goodwill adjm't		8,000
		100,000	158,000			100,000	158,000
				1 Jan	Balances b/d	92,000	158,000

REQUIRED

Using the appropriation account and current accounts provided below, prepare the partnership appropriation account for the year ended 31 December 201Y and the current accounts of Kay and Ella.

**Kay & Ella
Appropriation Account for the Year Ended 31 December 201Y**

	£	£
Net profit		76,500
Less interest on capital		
Kay	4,600	
Ella	7,900	
		12,500
		64,000
Less salary		
Ella		4,000
		60,000
Less share of profit		
Kay	36,000	
Ella	24,000	
		60,000
		NIL

DR		Current Accounts				CR	
201Y	Details	Kay £	Ella £	201Y	Details	Kay £	Ella £
31 Dec	Drawings	36,000	36,000	1 Jan	Balances b/d	1,800	2,300
31 Dec	Balances c/d	6,400	2,200	31 Dec	Interest on capital	4,600	7,900
				31 Dec	Salary		4,000
				31 Dec	Share of profit	36,000	24,000
		42,400	38,200			42,400	38,200
201Z	Details	Kay £	Ella £	201Z	Details	Kay £	Ella £
				1 Jan	Balance b/d	6,400	2,200

Question 10.15

Anya, Bev and Zak have been in partnership for several years, sharing profit and losses equally. At 1 July 201Y it was agreed that Zak would withdraw from the partnership and that Anya and Bev would continue in business together and would share profits – Ann 70% and Bev 30%. On withdrawing from the partnership Zak's claim on the assets of the business is to be settled by cheque.

A valuation of £45,000 was placed on the goodwill of the business owned by Anya, Bev and Zak at 1 July 201Y.

REQUIRED

Using the workings area below, calculate the net adjustment to be recorded in the capital accounts of the partners' to account for goodwill at the time of Zak withdrawing from the partnership.

Workings – goodwill adjustment

	Creation £	Elimination £	Net Adjustment £
Anya	15,000 (CR)	31,500 (DR)	16,500 (DR)
Bev	15,000 (CR)	13,500 (DR)	1,500 (CR)
Zak	15,000 (CR)		15,000 (CR)
	45,000 (CR)	45,000 (DR)	NIL

REQUIRED

Using the capital and current accounts below which already carry balances brought down at 1 July 201Y, record the net adjustment to account for goodwill resulting from Zak withdrawing from the partnership in the capital accounts of the partners.

Make the transfer of the balance on Zak's current account at 1 July 201Y to his capital account.

Record the payment made to Zak to settle his claim on the assets of his business in his capital account.

Balance off the Anya's and Bev's capital accounts at 1 July 201Y, carrying down and bringing down the account balances at that date. Close off Zak's capital account.

Balance off the Anya's and Bev's current accounts at 1 July 201Y, carrying down and bringing down the account balances at that date. Close off Zak's current account.

DR					Capital Accounts					CR		
201Y	Details	Anya £	Bev £	Zak £	201Y	Details	Anya £	Bev £	Zak £			
1 July	Goodwill adjm't	16,500			1 July	Balances b/d	80,000	50,000	50,000			
1 July	Bank			66,000	1 July	Goodwill adjm't		1,500	15,000			
1 July	Balances c/d	63,500	51,500		1 July	Current account			1,000			
		80,000	51,500	66,000			80,000	51,500	66,000			
					1 July	Balances b/d	63,500	51,500	-			

DR					Current Accounts					CR		
201Y	Details	Anya £	Bev £	Zak £	201Y	Details	Anya £	Bev £	Zak £			
1 July	Capital account			1,000	1 July	Balances b/d	1,100	1,200	1,000			
1 July	Balances c/d	1,100	1,200									
		1,100	1,200	1,000			1,100	1,200	1,000			
					1 July	Balances b/d	1,100	1,200	-			

Question 10.16

Avril, Mo and Jane have been in partnership for several years. The financial year of their business ends on 31 December. They share profits and losses as follows – Avril 50%, Mo 25% and Jane 25%.

At 1 January 201Y the partners had the following balances on their capital and current accounts:

		£
Avril	- Capital account	80,000
Mo	- Capital account	40,000
Jane	- Capital account	40,000
Avril	- Current account	1,200 (CR)
Mo	- Current account	1,800 (CR)
Jane	- Current account	1,500 (CR)

Jane has decided to leave the partnership as she intends to move abroad. Her withdrawal from the partnership is to be effective from 1 January 201Y. On leaving the partnership Jane's claim on the assets of the business is to be settled by cheque.

At the time of Jane leaving the business goodwill was valued at £60,000.

Following Jane leaving the business Avril and Mo will continue in partnership and have agreed to share profits Avril 70%, and Mo 30%.

REQUIRED

Using the workings area below, calculate the net adjustment to be recorded in the capital accounts of the partners' to account for goodwill at the time of Jane withdrawing from the partnership.

Workings – goodwill adjustment

	Creation £	Elimination £	Net Adjustment £
Avril	30,000 (CR)	42,000 (DR)	12,000 (DR)
Mo	15,000 (CR)	18,000 (DR)	3,000 (DR)
Jane	15,000 (CR)		15,000 (CR)
	60,000 (CR)	60,000 (DR)	NIL

REQUIRED

Using the capital and current accounts below record the balances brought down on each partners capital and current account at 1 January 201Y, and record the net adjustment to account for goodwill resulting from Jane leaving the partnership, in the capital accounts of the partners.

Make the transfer of the balance on Jane's current account at 1 January 201Y to her capital account.

Record the payment made to Jane to settle her claim on the assets of his business in her capital account.

Balance off the Avril and Mo's capital accounts at 1 January 201Y, carrying down and bringing down the account balances at that date. Close off Jane's capital account.

Balance off the Avril and Mo's current accounts at 1 January 201Y, carrying down and bringing down the account balances at that date. Close off Jane's current account.

