

## Partnerships

An agreement between 2 or more persons in a business where they combine assets + skills to earn a profit in a pre-determined ratio.

It is advisable to have a written agreement.

There are various types of partners - I remember asking you to find out what these are. Share your answers on WhatsApp, please.

If the business makes a loss and ends up in debt, the partner's personal belongings will be sold to cover the shortfall - **unlimited liability**.

### Accounting concepts unique to partnership

#### Capital accounts

Each partner has a capital account. It shows the movement capital contributed by each partner. Amount contributed can affect profit sharing.

Cannot change capital contribution at will - the partnership agreement would have to change as capital contribution is specifically stated.

Any change in capital contributed will result in the redrafting of the partnership agreement

#### For example 1 - introducing capital into a partnership

Greeff and Harris contributed capital of R200 000 and R100 000 respectively, in the form of cheques made out in favour of GH Traders, deposited in the bank account of the business

### GENERAL LEDGER OF GH TRADERS BALANCE SHEET ACCOUNTS SECTION

#### CAPITAL: Greeff

					20.8	1	Bank	CRJ	200 000
					Mar				

#### CAPITAL: Harris

					20.8	1	Bank	CRJ	100 000
					Mar				

#### For example 2 - adding or reducing a partner's capital contribution

In terms of the partnership agreement, Harris transferred his second-hand car into the name of the business, as additional capital, R125 000. Greeff reduced his capital contribution by R40 000





## Bonus to partners

Given to Partner that is managing the business

It is a percentage of net profit

Done at the end of the financial year when closing transfers are done.

## For example 4

The partnership agreement stipulates the following:

Bonus to Song of R6 000 ( as agreed between the partners)

### GENERAL LEDGER OF SINGH SONG STORES

#### NOMINAL ACCOUNTS SECTION

##### SALARY: Song

20.2	28	Current a/c: Song	GJ	6 000					
Feb									

## Interest on capital

To compensate partner for investing more capital in the business than others

How?

First calculate the interest on capital before appropriating the remaining profit

Rate is according to the partnership agreement

It is regarded as profit shared + it is done at the end of the year.

Closed off to the Appropriation a/c + os indicated in partner's current a/c

## For example 5

The partnership agreement stipulates the following:

interest on capital at 10% p.a.

Additional info from readjusted Trial Balance

Capital: Singh                      R400 000

Capital Song                         R200 000

## How to calculating the interest on capital

Take the pre-adjusted Capital a/c amount for each partner from the pre-adjusted Trial Balance and multiply by the interest on capital rate given.

$$\text{Interest on Capital : Singh} = 400000 \times \frac{10}{100} = 40\ 000$$

$$\text{Interest on Capital : Song} = 200000 \times \frac{10}{100} = 20\ 000$$

Therefore, Interest on capital = 40 000 + 20 000 = R60 000

### GENERAL LEDGER OF SINGH SONG STORES

#### NOMINAL ACCOUNTS SECTION

##### INTEREST ON CAPITAL

20.2	28	Sundry accounts	GJ	60 000					
Feb									

## Appropriation a/c

Gross profit is calculated in the Trading a/c

Net profit is calculated in the Profit & Loss a/c which is then closed off to the Appropriation a/c

Then finally profit is distributed between partners according to the partnership agreement

## For example 6

The partnership agreement stipulates the following:

remaining profits to be shared equally between the partners

## How to do the Appropriation a/c

Before doing the Appropriation a/c you would have to do the Trading a/c {calculating the gross profit} and close it off to the Profit & Loss a/c. The balancing figure of the Trading a/c will be on the Dr side. See example below.

GENERAL LEDGER OF SINGH SONG STORES  
FINAL ACCOUNTS SECTION

TRADING ACCOUNT

20.2	28	Cost of sales	GJ	300 000	20.2	28	Sales	GJ	500 000
Feb		Profit & loss	GJ	200 000	Feb				
				500 000					5000
				500 000					5000

Completing the Trading a/c

Close off Cost of sales → Cr Cost of sales; Dr Trading a/c

Close off Sales → Dr Sales; Cr Trading a/c

Balancing figure on Dr side = Gross Profit - transfer to the P&L a/c

PROFIT & LOSS ACCOUNT

20.2	28	Salaries and wages	GJ	70 000	20.2	28	Trading a/c	GJ	200 000
Feb		Sundry expenses	GJ	32 000	Feb		Commission income	GJ	27 000
		Depreciation	GJ	5 000					
		Appropriation a/c	GJ	120 000					
				227 000					227 000
				227 000					227 000

Completing the Profit & loss a/c

Cr P&L a/c with Gross profit amount = balancing figure on Dr side of Trading a/c

Close off all income accounts and Cr P&L a/c with all closed off income accounts

Close off expense accounts and Dr P&L a/c with all closed off expense accounts

Balancing figure on Dr side = Profit - transfer to the Appropriation a/c

### APPROPRIATION ACCOUNT

20.2	28	Salary: Singh	GJ	15 000	20.2	28	Profit & loss a/c	GJ	120 000
Feb		Salary: Song	GJ	30 000	Feb				
		Bonus: Song	GJ	6 000					
		Interest on capital	GJ	60 000					
		Current a/c: Singh	GJ	4 500					
		Current a/c: Song	GJ	4 500					
				<b>120 000</b>					<b>120 000</b>

Completing the Appropriation a/c

Cr Appropriation a/c with Profit & loss amount = **balancing figure on Dr side of Profit & loss a/c**

Close of all salary accounts and Dr Appropriation a/c with closed off salary accounts amounts

Close off bonus a/c and Dr Appropriation a/c with closed off bonus account amount

Close off Interest on capital a/c and Dr Appropriation a/c with closed off interest on capital amount

**Final distribution = net profit - primary distribution\***

\*primary distribution = salaries earned + bonus paid to partner + interest on capital

invested = 120 000 - (15 000 + 30 000 + 6 000 + 60 000) = 120 000 - 111 000 = 9 000

***"The partnership agreement stipulates the following:***

***remaining profits to be shared equally between the partners"***

Final distribution

Singh : Song

1 : 1

$9\,000 \times \frac{1}{2}$  :  $9\,000 \times \frac{1}{2}$  ... How did I get the half? I added the number in the

ratio. So the final distribution will always be the number relating to a partner ÷ the total of the ratio.

4 500 : 4 500

These amounts are written back to the partner's Current a/cs

**Current a/cs**

Records amount earned by each partner for the year

Current a/c + Capital a/c = Partner's Owner's equity

Distribution of Net profits are posted on the Cr side

Amounts withdrawn are posted on the Dr side

Balance indicates retained profits

Partners can withdraw more than their share. This will be shown by a Dr balance on the Current a/c

NB: Capital a/cs need to be maintained at cost levels

**GENERAL LEDGER OF SINGH SONG STORES  
BALANCE SHEET ACCOUNTS SECTION**

**CURRENT ACCOUNT: SINGH**

20.2	28	Drawings: Singh	GJ	36 000	20.2	28	Salary: Singh	GJ	15 000
Feb		Balance	c/d	23 500	Feb		Interest on capital	GJ	40 000
							Appropriation a/c	GJ	4 500
				<b>59 500</b>					<b>59 500</b>
					Mar	1	Balance	b/d	23 500

**CURRENT ACCOUNT: SONG**

20.2	28	Drawings: Song	GJ	24 000	20.2	28	Salary: Song	GJ	30 000
Feb		Balance	c/d	36 500	Feb		Interest on capital	GJ	20 000
							Bonus: Song	GJ	6 000
							Appropriation a/c	GJ	4 500
				<b>60 500</b>					<b>60 500</b>
					Mar	1	Balance	b/d	36 500

**Do**

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**Task 5.10 p.163**

**Task 5.11 p.163**



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