COURSE : II B.COM (CA)
SEMESTER : III
SUBJECT : Partnership Accounting
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SYLLABUS : Partnership Accounts-Past Adjustments and Guarantees- Goodwill treatments- Fixed and Fluctuating Capital.

DEFINITION:

According to Indian Partnership Act 1932, "Partnership is the relation between persons who have agreed to share the profit of the business carried on by all or any of them acting for all". Individually the persons who work in the firm are called partners and the name with which all partners work collectively is called the firms name.

Essential Features Of Partnership:

The following are the essential features of a partnership firm.

1. Persons: In order to constitute a partnership firm, there must be at least two persons. The maximum number in partnership is 20 in case the firm is doing ordinary business and 10 in case of banking.
2. Agreement: In order to have a partnership, it is necessary that there must be an agreement between partners.
3. Sharing of Profit: It is one of the important terms to constitute a partnership firm. Generally sharing of profits or losses is one of the important elements to constitute firm.
4. Business: It includes trade, vocation and profession. The firm must be engaged in a law ful business.
5. Management: The management of the partnership firm will be done either by all the partners or any one of them on behalf of all other partners. There is mutual agency among the partners.

Partnership Deed:

A written document which contains the terms and conditions regarding the conduct of partnership business, is called partnership deed. The following are the important clauses in a partnership deed.

1. The name of the partnership firm,
2. The nature of the business which the firm is supposed to do,
3. The amount of capital contributed by each partner,
4. The proportion in which the partners will share profits and losses,
5. The amount of drawings which a partner can draw from the firm.
6. Whether interest on capital will be allowed? If so, then what will be the rate of interest changed on the partners?
7. What will be the authority of each partner? Will some restrictions be imposed on the duties of the partners?
8. What will be the duration of the firm?
9. How the amount of goodwill of the firm will be ascertained at the time of charge in profit sharing ratio, admission, retirement or death of a partner?
10. Will some remuneration or salary or commission allowed to any partner because of his working in the firm.
11. How the annual accounts of the firm will be prepared? Will the accounts be audited by an independent chartered accountant? How the auditor will be appointed.
12. In case of retirement or death of a partner, how the amount which is to be padi to the partner or his legal representatives is ascertained?
13. If a partner has given any amount of loan besides his capital, will interest be allowed to him? If so, what will be the rate?
14. In case a partner becomes insolvent, how the accounts of the firm will be settled?
15. In case some disputes arises among the partners, how will it be settled? Will it be referred to some arbitrator?
16. Any other clause on which the partners may agree at the time of agreement.

CAPITAL:

Partner's contribution to the business of the firm is called his capital. Capital account of the partners may be fixed or fluctuating.

Fixed Capital: When the partners agree that the amount of capital contributed by them shall remain fixed and shall not be reduced or increased during the term of the partnership except by special agreements, the capital accounts are said to be fixed. Under this arrangement, a current account will be opened in the name of each partner.

Fluctuating Capital: Fluctuating capital is one which changes form year to year. When all adjustments relating to interest on capital, interest on drawings, salary, commission, the balance of capital accounts will fluctuate from year to year. This is called fluctuating capital.

INTEREST ON CAPITAL: Interest is allowed on partner's capitals only if the partnership agreement specifically allows it a particular rate. Interest for a year is usually calculated on the opening capital and the capital introduced during the year. If the rate of interest is not given, it is assumed to be 6% p.a.

INTEREST ON DRAWINGS: Interest on drawings is not charged on partners drawings unless their agreement specifically provides for it at a particular rate. If the rate is not given it is assumed to be 6% p.a.

INTEREST ON LOAN FROM A PARTNER: A partner may lend money to his firm. It is credited not to him capital account but to loan account opened in his name. Even if the partnership agreement is silent on interest on loan, a partner's loan is entitled to interest at 6% p.a. This interest should be paid when there is profit or loss in a year.

PARTNERS SALARY: Salaries will be paid to one or more partners, only if the partnership agreement allows it. Salary, if allowed, will be forced through the respective partners capital account.

SUM NO 1: Satish and Prakash are partners in a business with fixed capitals of Rs. 50,000 and Rs. 30,000 respectively. They are entitled to interest on capital at 5% p.a. but not on current account. Mr. Satish is entitled to a salary of Rs. 100 per month which is not yet drawn. Separate current account is maintained for each partner. Drawings are permitted interest free to the extent of opening credit balance in the current account. Drawings in excess of the limit are subject to interest at a flat rate of 8% irrespective of the date of withdrawal. The opening balances in the current accounts are Mr. Satish Rs. 1,500 and Mr. Prakash Rs. 2000 respectively. Drawings of each partner are Rs. 3,000.

The profit for the year 1981 before making the above adjustments is Rs. 15,000. of the net divisible profit, Mr.satish is entitled to 60% and Mr. Prakash 40% on the first 4000, above that amt. profit is shared equally. Prepare Profit and Loss Appropriation Account and the Partner's Current Accounts.

SUM NO 2: P & L Appropriation a/c.

Ram and Ravi were partners sharing Profits and losses as ¾ and ¼ resp. capitals of them were 18000 and 12000 resp. during the year they lost 10608 without taking into account interest on capital and drawings. Accd. To the deed, int. on cap. Is 5% drawings at average of 2%. Drawings of ram and ravi were 3000 and 2400 resp. and int on them 60 and 48 resp. draw up P & L Appropriation a/c and capital a/c of the partners.

SUM NO 3: P & L Appropriation a/c and Partners capital a/c in both method.

On 1st jan 2010, Kavitha and Sumathy entered into partnership and contributed 80000 and 60000 resp. they share P & L in the ratio 3:2. S is allowed to salary of 16000 p/a. int. on capital 5% and int. on drawings 5%. Drawings K 12000, S 24000. int being 280 of K and 200 of S. Profit before adjustment is 42320. Show the profit distribution and prepare capital a/c in both methods.

SUM NO 4: Guarantee (Firm to a partner.)

X and Y sharing profits in ratio of 2:1, they admitted Z who is to have 1/10 share of profits with a guaranteed minimum of 32000. X and Y continue to share profit as before. Profit is 200000. Prepare P & L Appropriation a/c.

SUM NO 5: Guarantee (Partner to another partner.)

A,B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 subject to the following. (i) C's share of profits is guaranteed to be not less than 24000 pa. (ii) any excess amount to be paid to C (ie the diff. Betn. The minimum guaranteed and his share of profit) is to be borne by B. the profit amts to 120000. show the profit DISTRIBUTION.

BOOK REFFERED : FINANCIAL ACCOUNTING BY T.S.REDDY AND MOORTHI