PARTNERSHIP

A partnership business is a formal agreement between 2 or more parties to jointly operate and manage a business then share profit, losses, assets and liabilities at a pre-determined sharing ratio.

CONVERSION OF PARTNERSHIP INTO A LIMITED COMPANY

This is where a limited Company acquires the partnership business. When a partnership is converted into a limited Company, the books of partnership are closed and the books of a newly formed company are opened.

→ the purchase consideration shall be determined as follows:

Assets taken over	xx
add: Goodwill	xx
Less: liabilities taken over	(xx)
purchase consideration/Equity	xx

Goodwill = Purchase Consideration − Net assets acquired.

Accounts prepared to close of partnership books

1. Business purchase account.
2. Partners Capital Account
3. Vendors Account
4. Realization Account.

NB: Any expenses incurred prior to the formation of the new company are known as preliminary expenses which should be capitalised then amortised over a given period of time.

Formats

Business purchase Account

Liabilities taken over	xx	Assets taken over	xx
purchase consideration (Equity)	xx	Goodwill	xx
	xx		xx

Partners capital Account

	X	Y		X	Y
Drawings	xx	xx	Partners capital bal b/d	xx	xx
Loss	xx	xx	Current Account	xx	xx
Goodwill written off	xx	xx	profit	xx	xx
Assets taken over by partners	xx	xx	Goodwill	xx	xx
Realization Loss	xx	xx	Salaries/commission to partners	xx	xx
			Interest on capital.	xx	xx
purchase consideration (Equity/cash/debentures)	xx	xx	Revaluation gain.	xx	xx
			Realization gain	xx	xx
	xx	xx.		xx	xx

Partners current Account

	X	Y		X	Y
Cash drawing	xx	xx	Current A/c bal b/d	xx	xx
Interest on drawings	xx	xx	Salaries to partners	xx	xx
			Commission/Bonus	xx	xx
			Interest on capital.	xx	xx
Balance c/d [to capital A/c	xx	xx	profit share	xx	xx
	xx	xx			

Realization Account

Assets at Net book value	xx	Liabilities	xx
		Assets taken over by partners	xx
Realization gain	xx	Purchase consideration	xx.
		Realization loss	xx
	xx/		xx

Vendors A/c / purchasing company A/c

purchase consideration	xx	Distribution of purchase consideration:	
		Equity/ cash / Debentures	xx
	xx		xx

Date
M T W T F S S

MAY 2016 Q 3

(a) Business purchase A/c

	Mubah	Nyumba		Mubah	Nyumba
Bank overdraft	179,000	-	Land and Building	200,000	
Account payable	308,000	52,000	Motor Vehicles	150,000	
Debentures	14 400	9600	Equipment	33,000	
			Cash	1000	
purchase consideration (Equity)	570,600	459,400	Receivables	128,000	216,000
			Inventory	460,000	225,000
			Goodwill	100,000	80,000
	1072000	521,000		1072,000	521,000

(b) Partners Capital account

	Faith	Hope		Faith	Hope
Equity/ord.share:			Capital balance b/d	526000	324000
Mubah (W1)	475000	95600	Goodwill - Mubah 100÷2	50,000	50,000
Nyumba	141000	318400	- Nyumba 80÷2	40,000	40,000
	616,000	414 000		616,000	414 000

Equity Distribution.

		(Faith) Mubah		(Hope) Nyumba	Total.
Mubah	(23750X20)	475,000		95600	570 600
Nyumba.		141 000	(15920X20)	318400	459 400
Total.		616,000		414000	

(c) Bank Account

	Mubah	Nyumba		Mubah	
Cash balance	1000	-	Bank overdraft	179,000	-
Debentures	200,000	-	Debenture exp	7000	-
New ord shares	20,000	30,000	formation exp	13000	8000
			Balance c/d	22000	22000
	221000	30,000		221000	30,000

Date . .
M T W T F S S

(d) Vendors A/c / purchasing company A/c

	Mabati	Nyumba		Mabati	Nyumba
purchase consideration	570600	459400	Ord share capital → Faith	475000	318400
			→ Hope	95600	141000
	570600	459400		570600	459400

(e) Statement of financial position

	Mabati Ltd	Nyumba Ltd
Non-current Assets	84000	84000
Land and Buildings	200,000	
Motor vehicles	150,000	
Equipment	33000	
Goodwill	100,000	80,000
preliminary exp - formation exp	13000	8000
- Debenture exp	7000	—
Current Account		
Bank	22000	22000
Inventory	460,000	225000
Receivables	128000	216000
Total Assets	1,113,000	551,000
Equity & liabilities		
Ord share capital M 570600 + 20,000 N: 459400 + 30,000	590600	489,000
Non-current liabilities		
Debentures - 10% debenture	14400	9600
12% debentures	200,000	—
Current liabilities		
Accounts payables	308000	52000
	1,113000	551000

Assign Handout P1
DFC 2023 Q3

MAY 2018 Q 3

a) - changes in legislation.
- Illegality of the business.
- Insanity of a partner.
- Death of a key partner.

b) Interest on capital

W1) Chanda 10% x 58500 = 5850
Pete 10% x 37000 = 3700
Kidde 10% x 31500 = 3150
12700

W2) Appropriation Account

Net profit	91000
Interest on capital	(12700)
Commission on Kidde (15% x 20,000)	(3000)
Adjusted Net profit	75300

profit share: Chanda : 2/5 x 75300 = 30120
Pete : 2/5 x 75300 = 30120
Kidde : 1/5 x 75300 = 15060

W3 Goodwill = purchase consideration - Net Asset
250,000 - (115000 + 25500 + 43500 + 29550 + 24765 - 62400 - 17550 - 4000]
+ 29640

Goodwill = 250,000 - 184005 = 65995

Realization Account

Land & Building (123500 - 20150)	103350	Investment Acquired.	50,000
Motor Vehicle (80600 - 54600)	26000		
Equipment	45800	Accrued expenses	4000
Furnitures & fitting	33500	Bank overdraft	17550
Investment	44800	payable	62400
Inventory	31200		
Receivables	25400	purchase consideration	250,000
Realization gain 73900			
Chanda 2/5 x 73900	29560		
Pete 2/5 x 73900	29560		
Kidde 1/5 x 73900	14780		
	383950		383950

Capital Account

	Chanda	Pete	Kidde		Chanda	Pete	Kidde
Drawing	7600	6500	3900	Balance b/d	58500	58500	31500
Investment	20000	20,000	10,000	Current A/C	20800	18200	13300
Goodwill written off	10400	10400	5200	Interest on capital.	5850	3700	3150
				Commission - Kidde	-	-	3000
Ordinary share	106630	81680	61690	profit share (W2)	30120	30120	15060
				Realization gain	29560	29560	14780
	144830	118580	80790		144830	118580	80790

Purchasing company A/C / Chapeni Ltd

Purchase consideration	250,000	Ordinary share capital in Chapeni Ltd	
		Chanda	106630
		Pete	81680
		Kaloke	61690
	250,000		250,000

ii) Chapeni Ltd
Statement of financial position as at 1 Oct 2017

	Sh000
Assets	
Non-current Assets	
Land and building	115,000
Motor vehicle	25500
Office equipment	43500
Furnitures & fixtures	29550
Goodwill (w3)	65995
Current Assets	
Inventory $(31200 \times 95\%) + 29640 + 15000$	44640
Receivables	24765
Cash	31000
Total Asset	379,950
Equity and liabilities	
Ordinary share capital	250,000
Non-current liabilities	
Debentures	50,000
Current liabilities	
Payable	62400
Bank overdraft	17550
	379950

Assig NOV 2019 Q 1b
AUG 2024 4b

AUG 2024 Q4b

Q4

Interest on capital

J → 10% x 43700 = 4370
K → 10% x 28500 = 2850
L → 10% x 18800 = 1880
9100

(i) Realization A/C

Assets at NBV		Liabilities	
Inventory	28400	payables	32700
Receivables	23800	Bank overdraft	6800
property	72950	loan.	9100
plant & machinery	37730	Equity investment takenover	18000
Motor vehicle	10580		
office equipment	25240	purchase consideration.	150,000
Equity investment	10,000		
Realization gain 7900			
J - 5/10 x 7900	3950		
K - 3/10 x 7900	2370		
L - 2/10 x 7900	1580		
	216600		216600

(ii) partner current A/c

	J	K	L		J	K	L
Drawings	4370	4020	2910	current A/c	14790	12960	9850
Investment	9000	5400	3600	Interest on capital	4370	2850	1880
Balance c/d	22640	16500	11960	profit share	16850	10110	6740
	36010	25920	18470		36010	25920	18470

Appropriation A/c

Net profit		42800
less: interest on capital		(9100)
Adjusted profit		33700
profit share :	J - 5/10 x 33700 =	16850
	K - 3/10 x 33700 =	10110
	L - 2/10 x 337000	6740

(III) Partners capital A/C

	J	K	L		J	K	L
Equity (purchase consideration)	70290	47370	32340	Capital bal b/d	43700	28500	18800
				Current A/C	22640	16500	11960
				Realization gain	3950	2370	1580
	70290	47370	32340		70290	47370	32340

(IV) JKL Ltd

Opening statement of financial position as at 1 July 2024

	Sh000
Assets	
Non-current asset	
property	74560
plant & machinery	35200
Motor vehicle	9520
office equipment	23860
Goodwill (W2)	10100
current asset	
Inventory 28400 x 85%	24140
Receivables 23800 x 90%	21420
Cash (W1)	4100
	202700
Equity & liabilities	
Ord share capital 150,000 + (2000 x 10)	170,000
Liabilities	
payables	32700
	202700

W1 Cash A/C

New shares 2000x10	20,000	Bank overdraft	6800
		Loan	9100
		Working capital (bal c/d)	4100
	20,000		20,000

W.2

Goodwill		
Purchase consideration		150,000
Less: net assets taken over		
Assets taken over	188500	
Less: liabilities taken over	(48600)	(139900)
Goodwill		10100

: NOV 2015 Q 3

Workings

Depreciation:

- Furnitures & fitting: partnership = 10% x 2400 x 3/12 = 60
  : Company = 12% x [2400 - 60] x 9/12 = 210   270
- Motor vehicle: partnership → 20% x (2800 - 700) x 3/12 = 105
  Company → 18% x [2100 - 105] x 9/12 = 269
  18% x 700 x 8/12 = 84   353
- Cost of sales = os + p - cs = 25000 + 57000 - 20825 = 61175

(a) Income statement for the year ended 31 Dec 2014

	Partnership 3 month	Company 9 month
Sales 77025 x 20% (77025 x 80%)	15405	61620
cost of sales 61175 20% 80%	(12,235)	(48940)
Gross profit	3170	12680
Discount allowed	(320)	(1280)
Bad debt	-	(800)
Rent	(450)	(1350)
Distribution exp	(150)	(450)
Formation exp	-	(240)
Salaries	(1350)	(4050)
Sundry expenses	(237.5)	(712.5)
Depreciation - Furnitures & fittings	(60)	(210)
- Motor vehicles	(105)	(353)
Directors salary 1800 x 2 x 9/12	-	(2700)
profit	497.5	534.5

(b) Ambuza Ltd

Statement of financial position as at 31 Dec 2014

Assets	shs'000
Non-current Assets	
Furnitures & fittings 2400-60-210	2130
Motor vehicles 2800-105-269-84	2342
Goodwill (W1)	402.5
Current Assets	
Inventory	20825
Cash at bank	5635
Recievables	8100
Drawings recievables (2700+2300-600-1300)	3100
	42,534.5
Equity and liabilities	
Ord share capital 200X150	30000
Retained earnings	534.5
Current liabilities	
Trade payables	9300
Directors salary payable	2700
	42,534.5

Goodwill

		shs'000
Purchase consideration (200X150)		30000
Net assets acquired		
Ord share capital (18000+13000) = 31000		
add: profit	497.5	
Less: Drawings (600+1300)	(1900)	(29597.5)
		402.5

JUNE 2013 Q 8

Solution.

Assets taken over

	AB	MN	total
Motor vehicle	11250	10,000	21250
Equipment	4375	3750	8125
Goodwill	9375	6250	15625
Receivable (95%)	23750	15437.5	39187.5
total	48750	35437.5	84187.5

Realisation A/C (Alice & Benard)

Motor vehicle	12500	Investment	10,000
Equipment	5000	Assets taken over	48750
Goodwill	7500	loss 625	
Investment	9375	A 3/5×625	375
Receivables	25000	B 2/5×625	250
	59375		59375

Realisation A/C (Maneno & Neno)

Motor vehicle	11250	Assets taken over	35437.5
Equipment	3750	loss 2062.5	
Goodwill	6250	Maneno 2/3×2062.5	1375
Receivable	16250	Neno 1/3×2062.5	687.5
	37500		37500

Partners Capital Account

	A	B	M	N		A	B	M	N
Realisation loss	375	250	1375	687.5	Capital bal b/d	31250	18750	18750	12500
Cash (bal fig)	-	-	-	2437.5	Cash (bal fig)	6625	9625	1375	-
Bal c/d (Note 4)	37500	28125	18750	9375					
	37875	28375	20125	12500		37875	28375	20125	12500

Cash Account

Balance b/d	3125	Bank overdraft	1875
Investment	10,000	Capital account	2437.5
Capital A/C A	6625	payable (6250+4375)	10625
B	9625	client A/C	6250
M	1375	Bal c/d	9562.5
	30750		30750

Abliman Advocate

Purchase consideration (capital)	93750	A -	37500
		B -	28125
		M -	18750
		N -	9375
	93750		93750

Abimun Advocate

Statement of financial position as at 1 July 2012

Assets	Sh000
Non-current Assets	
Motor vehicle	21250
Equipment	8125
Goodwill	15625
Current Asset	
Receivables	39187.5
Cash	9562.5
	93750
Capital and liabilities	
Capital	93750
	9370