



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 423: ACCOUNTING FOR PARTNERSHIP

Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Ann and Kizito started business as partners on 1st Jan 2015. Identify items they required to agree on their partnership deed. **(4 marks)**
- b) Explain the rule of Garner Vs Murray on dissolution of partnership **(2 marks)**
- c) Wambua and Kacy were in partnership for many years. They agreed to admit Kamau who paid Sh. 400000 for his capital. The capital balances were : Wambua Sh. 300000, Kazy sh. 500000. Goodwill was valued at sh. 200000. Wambua and Kazy were equal partners. The new profit and loss sharing ratio was agreed at 5:3:2 respectively.

Required:

Partners' Capital Account if

- i) Goodwill is maintained **(2 marks)**
- ii) Goodwill All not maintained **(2 marks)**
- d) Neptune, Jupiter and Pluto are partners who trade sharing profit and losses in the ratio of 2:2:1 respectively. Interest on capital is allowed at 10% p.a interest on drawings is charged at 8% p.a. Neptune is entitled to

a salary of sh. 50000 p.m while Pluto gets a bonus s of $\frac{1}{500}$ th of gross profit. The following Trial Balance is provided as at 30th June 2015.

	Dr.	Cr.
	Sh 000	sh 000
Purchases/sales	20000	48000
Returns	400	200
Discounts	40	60
Capital :		
Neptune		5000
Jupiter		6000
Pluto		4000
Current All:		
Neptune	200	
Jupiter		300
Pluto		260
Drawings :		
Neptune	320	
Jupiter	480	
Pluto	300	
Buildings	27200	
Motor vehicles	4200	
Furniture & fittings	800	
Computers	600	
Provision for depreciation		
Motor vehicles		1600
Furniture & fittings		900
Computers		240
Carriage inwards	2000	

Provision for bad debts		520
Bank	4230	
Cash	770	
Administration expenses	2400	
Selling & distribution expenses	3600	
10% Bank loan (1.1.2015)		2000
Bad debts	250	
Debtors/creditors	1260	920
Stock 1.7.2011	<u>950</u>	<u> </u>
	<u>70000</u>	<u>70000</u>

Additional Information

1. Stock on 30.6.2015 was valued at sh. 2600000
2. Motor insurance sh. 200000 included in selling and expenses reliable to six months ending 30th Sept 2015
3. Electricity and water sh. 300000 is accrued this is part of Administration expenses.
4. Interest on bank loan is accrued.
5. Bad debts sh. 30000 are to be written off while provision for bad debts at 6% of remaining debtors is to be made.
6. Provision for depreciation is as follow
 - 20 % p.a on motor vehicle – straight line
 - 10 % p.a on furniture & fittings – straight line
 - 30% p.a on computers – Reducing balance method.

Required

- i) Income statement for the year ending 30th June 2015 **(9 marks)**
- ii) Profit and loss appropriation A/c **(7 marks)**

iii) Parties current accounts.

(7 marks)

Q2. North, East and West have been trading as equal partners for many years on 1st April 2015 East retired from the Partnership and South was admitted.

The balance sheet before the change were as follows

Partnership Balance sheet

As at 31st March 2015

<u>Assets</u>		Sh000	
Non-current	sh 000	Capital	
Buildings	25000	North	20000
Motor vehicles	15000	East	10000
Furniture	600	West	15000
Computer	400	Current A/c	
Current Assets		North	(400)
Inventory	2500	East	600
Prepayments	300	West	700
Trade receivables	1600	Liabilities	
Bank	<u>600</u>	Creditors	<u>100</u>
	<u>46000</u>		<u>46000</u>

The following issues were agreed

1. Assets were revalued as follows:

	Sh. 000
Buildings	36000
Motor vehicles	12000
Furniture	500
Computers	300
Inventory	2400
Trade receivables	1400

2. Goodwill was valued at sh. 12000000 No. Goodwill A/c is to be maintained

3. South paid sh. 12000000 for her capital contribution

4. East was paid all but sh.5000000 which he was lease as a 20% p.a loan to be repaid in five installments starting 30th June 2018. She took the

vehicle she was using whose book value was sh. 4400000 at agreed value of sh. 4000000.

5. The partnership took a 12% bank loan of sh. 5000000
6. The new profit and loss sharing ratio was agreed at 5:3:2 respectively for North, West and South.

Required

- i. Revaluation A/c. **(6 marks)**
- ii. Partners' Capital Account. **(7 marks)**
- iii. A statement of financial position after above changes. **(7 marks)**

Q3. The following is the balance sheet of Dam River who trade as equal Partners. On 30th April 2015 the following statement of Financial position was provided

		Sh000	
	sh 000	Capital	
Motor vehicles	12800	Dam	60000
Furniture & fitting	10000	River	40000
Inventory	45600	Creditors	25600
Receivables	27600	Accrued expenses	800
Investment	14800		
Bank	<u>15600</u>		
	<u>126400</u>		<u>126400</u>

On the same date DamrRiver Co ltd was incorporated to take over the business of Dam and River on the following terms.

- i. All assets except bank and liabilities except accrued expenses to be taken over by the company
- ii. Assets taken over had been reached at follows

	sh 000
Motor vehicles	12000
Furniture & fitting	4000
Stock	36000
Debtors	24000
Investment	21,600
Goodwill	20000

- iii) Purchase price to be settled by issue of 640 000 ordinary shares of sh. 100 at 20% premium fully paid and the balance in cash .
- iv) Over the above issuing shares to partners, the company offered for public subscription. 250 000 shares of sh. 100 each at 25% premium. The issue was fully subshipped and paid in full.

Formation expenses of sh. 3000 000 was incurred and the same was written off against share premium

Required

- a) Compute purchase consideration **(4 marks)**
- b) Realisation Account **(4 marks)**
- c) Partners' capital accounts **(5 marks)**
- d) Bank account **(2 marks)**
- e) A statement of financial position of a DamRiver company Ltd immediately on incorporation. **(5 marks)**
- Q4. a) Explain the treatment of death of a partner **(2 marks)**
- b) Explain two methods applicable in valuation of goodwill **(3 marks)**
- c) Ann and Ben, two traders decided to amalgamate their businesses to form a partnership firm on 1st July 2015. The statement of financial position of the two sole traders on 30th June 2015 were as follows.

	Ann	Ben		Ann	Ben
	Sh 000	Sh 000		Sh 000	Sh 000
Capital	300	240	Plant & machinery	120	160
Creditors	20	30	Furniture	20	15
			Stock	80	60
			Debtors	60	10
			bank	40	25
	320	270		320	270

The amalgamation took place on the following terms

- i) Ann and Ben are to be credited with sh. 30 000 and sh 20000 respectively for goodwill
- ii) The debtors of both firms were taken at book value but a provision for bad debtors at the rate of 5% was created.
- iii) The creditors of Ben were taken over by the new firm but the firm of Ann was required to discharge its own liability in respect of creditors.
- iv) Other assets of both firms were taken at book value with the following exceptions

	Ann's Firm	Bens' Firm
	Sh.	Sh
Plant & machinery	140000	
Motor vehicles		150000

Required:

- i) Partners Capital Accounts **(8 marks)**
- ii) Partners statement of financial position soon after amalgamation **(7 marks)**

END