THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 423: ACCOUNTING FOR PARTNERSHIPS

Date: JULY 2016	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. Mr. Queen and Mrs. King are trading in partnership as transporters, wholesalers and distributors. They close their accounts on 30th November each year. Their trial balance as at 30th November 2015 appeared as follows:

	RR SHS	CR SHS
Capitals: Queen		250,000
King		150,000
Motor vehicle at cost	2,500,000	
Provision of depreciation		750,000
Provision for bad debts		25,000
Debtors and creditors	850,000	440,000
Salaries and wages	150,000	
Transportation income		1,200,000
Sales and purchases	4,080,000	6,145,000
Returns outwards and inwards	225,000	450,000
Stocks on 1st Dec 2014	1,065,000	
Rents	18,000	
Water and electricity	4,800	
Telephone and postage	10,800	
Printing and sta tionery	4,500	

Petrol and oil	548,000	
Servicing and spares	202,550	
Legal fees and expenses	15,000	
Insurance premiums	73,000	
Current accounts: Queen		45,000
King	29,000	
Loan and overdraft interest	75,300	
Bank charges	12,150	
Bank overdraft		255,000
Bank loan	_____	154,000
	9,864,000	9,864,000

The following additional information is also provided

- i Salary at sh 15,000 per month should be credited to the current account of Mrs. King
- ii Partners are entitled to interest or capital at 12% per annum
- iii Profits and losses are to be shared equally
- iv Motor vehicle is to be depreciated at 25% by the straight line method
- v Provision is to be made for accounting and auditing fees shs 56,000
- vi Bad debts amounting to shs 44,000 are to be written off
- vii Provision for bad debts should be increased by shs 60,000
- viii Stocks as at 30th November 2015 were valued at sh 1,075,000

Required

a) Trading account for the year **(5 marks)**
b) Profit and loss account **(5 marks)**
c) Partnership appropriation account **(4 marks)**
d) Partners fluctuating capital accounts **(4 marks)**
e) Partners current accounts **(4 marks)**
f) Partnership balance sheet as at 30th November 2015 **(8 marks)**

Q2. On 31st December 2015, Prince, Queen and Pascal decided to dissolve their partnership. They had always shared their profits and losses in the ratio of 3: 2:1 respectively. Their goodwill was sold for shs 3,000,000 the machinery for sh 1,800,000 and the stock for sh 1,900,000. There were three motor vehicles and all were taken over by the partners at agreed values prince 800,000, Queen 1,000,000 and Pascal 500,000. The premises were taken over by Pascal at an agreed value of 5.5M. The amounts collected for debtors amounted to 2.7M after bad debts and discount were deducted. The creditors were discharged for 1.6M, the difference due to discount received. The costs of dissolution amounted to 1,000,000. Their last balance sheet is summarized as follows

Balance sheet as at 31 December 2015

	1000 Shs	1000 shs	1000 shs
Fixed assets: Premises			5,000
Machinery			3,000
Motor vehicles			2,500
			10,500
Current Assets			
Stock		1800	
Debtors	3,000		
Less: provisions for bad debts	(200)	2,800	
Bank		1,400	
		6,000	
Less: current liabilities: creditors		(1,700)	4,300
			14,800
Financed by: capitals: Prince		6,000	
Queen		5,000	
Pascal		3,000	14,000
Current accounts: Prince		200	
Queen		100	
Pascal		500	800
			14,800

Required

Prepare the following partnership dissolution records

a) Partnership realization account **(7 marks)**

b) Bank account **(4 marks)**

c) Partners current accounts separately for each partner **(3 marks)**

d) Partners capital accounts individually for each partner **(6 marks)**

Q3. Nairobi and Mwanza are partners sharing profits and losses in their ratio 3:1 respectively. They prepared the following balance sheet for the business

Balance sheet as at 31 December 2015

Fixed assets	'000 shs		'000 shs
Land and buildings	25,000		
Office furniture	1,000		26,000
Current assets			
Stock		20,000	
Debtors		16,000	
Bills receivable		3,000	
Cash at bank		22,500	
		61,500	
Less: current liabilities: Creditors		(37,500)	24,000

			50,000
Financed by:	Partners capitals		
	Nairobi	30,000	
	Mwanza	16,000	46,000
	General reserve		4,000
			50,000

The partners have agreed to admit a new partner Kigali on the following terms and conditions

i That Kigali pays sh 10 million as his capital for $^1/_5$ share in future profits

ii That a goodwill account be created in the books of the new partnership firm at agreed value of shs 20 million.

iii Stock and furniture be reduced by 10%

iv A 5% provision for doubtful debts be created on debtors

v Land and buildings be appreciated by sh 5 million

vi The capital accounts of all the partners be re-adjusted on the basis of their profit and loss sharing arrangements and any additional amounts be temporarily credited to their current accounts and then be immediately withdrawn by them.

Required

a) Partnership revaluation account **(4 marks)**

b) Partners fluctuating capital accounts **(6 marks)**

c) Goodwill account **(2 marks)**

d) Partners current accounts **(2 marks)**

e) Opening balance sheet of the new partnership firm **(6 marks)**

Q4. a) Clearly define the meaning of the term 'partnership' as described by the partnership Act. **(1 mark)**

b) Distinguish between the following types of partners

i Dormant vs active partner **(1 mark)**

ii Nominal vs Quasi partner **(1 mark)**

iii Major vs minor partner **(1 mark)**

iv Limited vs general partner **(1 mark)**

c) Describe FOUR contents of the partnership deed. **(2 marks)**

d) 'If the partners did not have a partnership deed and a dispute was eventually taken to a court of law for final arbitration, the consequences would e grave…..' Give your comments on the possible implications of this statement, with special reference to the provisions of the partnership Act. **(2 marks)**

e) State the 'Garner vs Murray Rule' and its possible implications on the dissolution of a partnership business **(1 mark)**

f) Anne, Barry and Cherry were equal partners. On 31 December 2015, they agreed to dissolve their partnership business. Their balance sheet showed the following balances:

Balance sheet as at 31 December 2015

Assets:	shs	shs
Stock		1,000,000
Other assets		750,000
Cash		250,000
		2,000,000
Financed by: Partners capitals: Anne	700,000	
Barry	600,000	
Cherry	200,000	1,500,000
Liabilities: General liabilities		500,000
		2,000,000

Additional information

i Other assets and stock realized shs 1,030,000

ii Cherry has been declared bankrupt and insolvent and hence cannot pay anything

Required

Close the books of the partnership firm. **(10 marks)**

END