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Kwame Nkrumah University of
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Session 7 – Accounting for Partnerships

Learning Objectives



Identify and explain the characteristics of partnership.

Describe the main features of partnership agreement and the rules governing partnerships in Ghana.

Explain the purpose of and be able to prepare a profit and loss appropriation account.

Prepare current accounts, capital accounts and financial statements of a partnership.

What Partnership is

- Incorporated Private Partnership Act of 1962, Act 152 (IPPA) governs partnership in Ghana.

- It is “the association of two or more individuals carrying on business jointly for the purpose of making profits”. S.3 (1) of IPPA

- Maximum number of persons is 20. S.4 (2) of IPPA

- Formed by formal agreement (partnership agreement).



What Partnership is not



A family ownership or coownership of property whether or not the family or co-owners share any profits made by the use of that property.

The remuneration of a servant or agent of a person engaged in business by a share of profits of the business shall not necessary make the servant or agent a partner.

Nature of Partnership

Firm (as a corporate body) is distinct

Formed by formal agreement

Partners are jointly and severally liable.

- The partnership is liable if any individual partner acting in *normal course of business* carries out any wrong doing.
- If one partner is sued for wrong doing, the other partners may be sued also.

from the partners. a (partnership agreement).

Relationship

Liability is

Every partner is also

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NAME AND
NATURE OF
BUSINESS OF THE
FIRM.



THE AMOUNT OF
CAPITAL TO BE
CONTRIBUTED
AND MAINTAINED
BY EACH PARTNER.



THE RATE OF
INTEREST (IF ANY)
TO BE PAID ON
CAPITAL.



THE EXTENT TO
WHICH DRAWINGS
ARE ALLOWED
AND THE RATE OF
INTEREST (IF ANY)
TO BE CHARGED
ON DRAWINGS.

- **The Partnership Deeds should provide some**

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THE
REMUNERATION
(IF ANY) TO BE
PAID TO PARTNERS
FOR THEIR
SERVICES



THE RATIO IN
WHICH PROFITS
AND LOSSES ARE
TO BE SHARED.



KEEPING OF
BOOKS AND
ACCOUNTS.

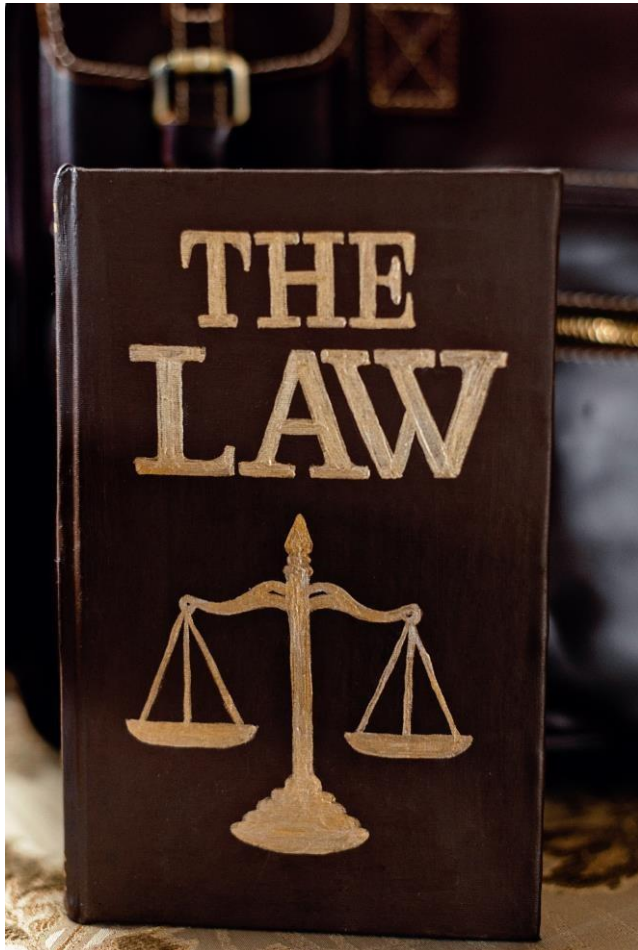


ARRANGEMENTS
FOR ADMISSION
OF NEW
PARTNERS.

**information on how the
partnership will be run.**

Partnership Agreement

Rules in the Absence of Partnership Agreement. [Section 35]



All partners are to share equally in capital, profits and losses.

No interest is allowed to be charged on capital.

No remunerations are to be paid to partners.

Any advance made by a partner in excess of his agreed shared capital will receive an interest of 5% p.a.

Every partner may take part in the management of the business of the firm

No partner shall be entitled to remuneration for acting in the firm's business

No person may be introduced as a partner without his consent and the consent of all the existing partners

The partnership books and accounts shall be kept at the place of business of the firm

Accounting Requirements

- Every firm shall cause to be kept proper accounts with respect to:
- its financial position and changes therein,
- the control of, and accounting for, all property acquired.



Partnerships and Other Forms of Businesses

- Now lets compare partnerships with other forms of business organizations.

Partnership vs. Sole Proprietor

- Risk is spread and shared.
- Partners provide a range of specialised skills.
- More capital available.

- Some partners work harder for the firm than others.
- There may be disputes.
- Slow decision making.
- Joint and several liability.

Partnership vs. Companies

- Less formal set up.
- No company formalities (e.g. statutory audits and accounts filing).

- Much easier to sell shares than to realise capital in a partnership.
- Partnership structure can be cumbersome.
- Liabilities are unlimited.

Differences in Financial Statements

Statement of Profit or Loss

- Profit and loss appropriation account

Statement of Financial Position

- Capital accounts for each partner
- Current accounts for each partner

Profit and Loss Appropriation Account

- Typical appropriations are:
 - ✦ interest on capital (%) – gives recognition to partners contributing different amounts of capital to the firm

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- ✦ salary (annual) – not to be confused with salaries paid to employees (which are an expense in the Profit and loss)
- ✦ Interest on drawings
- ✦ Interest on current accounts
- ✦ Share of profit and loss

Profit and Loss Appropriation account for the year ended ...

Net Profit b/d		xxx
Add: Interest on drawings		
A	xx	
B	<u>xx</u>	xx
Interest on current accounts		
B (DR)		<u>xx</u>
		xxx
Less: Interest on capital		
A	xx	
B	<u>xx</u>	(xx)
Interest on current accounts		
A (CR)		(xx)
Partner's salary: B		<u>(xx)</u>

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Profit to be shared		<u>XXX</u>
Share of profit		
A		XXX
B		<u>XXX</u>
		<u>XXX</u>

Format of Appropriation Account

Capital Account

- Account maintained to record the capital contributions of the individual partners.
 - It is credited with contributions from partners and debited with withdrawals from capital by partners.
- Fixed Capital Account
 - Only capital increases and decreases are recorded in the capital account.
- Floating/ Fluctuating Capital Account
 - Records all other resource flow, to and from the partners.

Current Account

- When a fixed capital account method is used, the current account takes care of all the short-term interests or otherwise of the partners in the firm. This relieves the capital account of the details such as share of profit, interest on capital and drawings, partners' salaries among others.

A Typical Current Account In Columnar Form

Details/Particulars	A	B	Details/Particulars	A	B
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Balance b/d	-	xx	Balance b/d	xx	-
Interest on drawings	xx	xx	Interest on capital	xx	xx
Drawings (cash/goods)	xx	xx	Interest on current a/c	xx	-
Balance c/d	-	xx	Partners salaries	xx	xx
			Share of profit	xx	xx
			Balance c/d	xx	-
	xx	xx		xx	xx
Balance b/d	xx		Balance b/d	-	xx

Partner's Loan Account

- Where a partner gives a loan to the firm or makes an advance in excess of the agreed capital contribution, the amount should be credited to a separate loan account and not included in the capital account:
 - Such advances attracts an interest rate of 5% **per annum**.
(S 35 of ACT 152)
 - On the winding up of the firm, repayment of partners' loans rank at a higher priority to that of partners' capital.

Example

Worksheet 5

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