

Chapter 10 Financial Statements for Partnerships (合夥的財務報表)

10.2 Partnership agreement (合夥協議)

In order to **prevent conflicts** (防止衝突), partners **need to agree** (達成共識) on **important issues** (重大事項上) **beforehand** (事先) and put them in a **partnership agreement** (合夥協議).

- 1 **Capital contribution by each partner** (每名合夥人投入的資本額)
- 2 **Profit and loss sharing ratio** (損益分配比率)
- 3 **Rate of interest on capital** (資本利率)
- 4 **Rate of interest on drawings** (提用利率)
- 5 **Salaries to partners** (合夥人薪金)

10.3 Profit and loss appropriation account (損益分配帳戶)

The profit and loss that will be shared by the partners is not the balance in the profit and loss accounts because we have to make some **appropriation adjustments** (分配調整) (**Interest on capital** (資本利息), **interest on drawings** (提用利息) and **partners' salaries** (合夥人薪金)). Therefore, the balance of the profit and loss account will first be transferred to an account called the **profit and loss appropriation account (appropriation account)** (損益分配帳戶). This account records all the **appropriation adjustments** (分配調整). Finally, the **balance** (結餘) in the profit and loss appropriation account will be **shared by the partners** (由夥伴分享) **according to the agree profit and loss sharing ratio** (根據同意的利潤和虧損分擔比例).

Profit and Loss Appropriation			
	\$		\$
Interest on capital –		Profit and loss (net profit)	90,000
Current/Capital: Chan (\$40,000x5%)	2,000	Interest on drawings –	
Current/Capital: Ng (\$30,000x5%)	1,500	Current/Capital: Chan (\$9,000x10%x1/2)	450
Salary to partner –		Current/Capital: Ng (\$60,000x10%x1/2)	300
Current/Capital: Ng	10,000		
Share of profit –			
Current/Capital: Chan (2/3)	51,500	$77,250 \times 2/3 = 51,500$	
Current/Capital: Ng (1/3)	25,750	$77,250 \times 1/3 = 25,750$	
	<u>90,750</u>		<u>90,750</u>

10.4 Capital and current account (資本及往來帳戶)

For a **sole proprietorship** (個人獨資企業), a **capital account is opened** (開設資本帳戶) to **record** (記錄) the amount of **capital contributed** (資本貢獻), the **profit or loss made by the business** (業務的利潤或虧損) and the **drawings made by the owner** (東主提用).

10.4.1 Open a capital account for each partner (為每個夥伴開設資本帳戶)

For a **partnerships** (合夥企業), a capital account is opened for each partner to record the amount of **capital contributed** (資本貢獻), the **profit and loss shared** (利潤或虧損分擔), the **amount of drawings made** (夥伴提用金額), and also the appropriations such as the **interest on capital** (資本利息), the **interest on drawings** (提用利息) and the **salary to the partner** (合夥人薪金).

10.4.2 Fluctuating and fixed capital accounts (浮動及固定資本帳戶)

Fixed capital accounts (固定資本帳戶)

Partnerships will open an **additional account** (附加) called a **current account** (往來帳戶) for each partner, that records **recurrent items** (經常性項目) such as the **profit or loss shared** (利潤或虧損分擔), the **amount of drawings made** (夥伴提用金額), the **interest on capital** (資本利息), the **interest on drawings** (提用利息) and the **salary to the partner** (合夥人薪金). As a result, the **capital account** (資本帳戶) shows only the **amount of capital contributed** (投入資本). This type of capital account is known as a **fixed capital account** (固定資本帳戶), all recurrent items affecting the **capital balance of a partner** (所有影響合夥資本帳的經常性項目) are **recorded in his current account** (記錄在往來帳戶).

Fluctuating capital accounts (浮動資本帳戶)

While the type of capital account that records all the above items in it is known as a **fluctuating capital account**.

Example 1

Chan and Ng established a partnership on 1 January 2010. They agreed to share profits and losses in the ratio of 2 : 1.

Other information for the year ended 31 December 2010 is as follows:

- 1 Cash contributed on 1 January 2010: Chan \$40,000, Ng \$30,000
- 2 Rate of interest on capital: 5% per annum.
- 3 Rate of interest on drawings: 10% per annum.
- 4 Ng was entitled to an annual salary of \$10,000.
- 5 Drawings made on 1 July 2010: Chan \$9,000, Ng \$6,000.
- 6 Net profit for the year amounted to \$90,000.

Draw up the Profit and Loss Appropriation and the fluctuating capital accounts of the partners.

Profit and Loss Appropriation

		\$		\$
Interest on capital –			Profit and loss (net profit)	90,000
Capital: Chan (\$40,000x5%)		2,000	Interest on drawings –	
Capital: Ng (\$30,000x5%)		1,500	Capital: Chan (\$9,000x10%x1/2)	450
Salary to partner –			Capital: Ng (\$6,000x10%x1/2)	300
Capital: Ng		10,000		
Share of profit –				
Capital: Chan (2/3)	51,500			
Capital: Ng (1/3)	25,750	77,250		
		90,750		90,750

Profit and Loss Appropriation

	\$	\$
Profit and loss (net profit)		90,000
Add: Interest on drawings – Chan (\$9,000x10%x1/2)	450	
– Ng (\$6,000x10%x1/2)	300	750
		90,750
Less: Interest on capital – Chan (\$40,000x5%)	2,000	
– Ng (\$30,000x5%)	1,500	
Salary to partner – Ng	10,000	13,500
		77,250
Share of profit		
= Chan (2/3)		51,500
= Ng (1/3)		25,750
		77,250

Capital

	Chan	Ng		Chan	Ng
	\$	\$		\$	\$
Drawings	9,000	6,000	Cash	40,000	30,000
P & L appropriation –			P & L appropriation –		
Interest on drawings	450	300	Interest on capital	2,000	1,500
Balance c/f	84,050	60,950	Salary to partner	—	10,000
			Share of profit	51,500	25,750
	93,500	67,250		93,500	67,250

Chan and Ng established a partnership on 1 January 2010. They agreed to share profits and losses in the ratio of 3 : 2. Other information for the year ended 31 December 2010 is as follows:

- 1 Cash contributed on 1 January 2010: Chan \$50,000, Ng \$80,000
- 2 Rate of interest on capital: 10% per annum.
- 3 Rate of interest on drawings: 20% per annum.
- 4 Chan was entitled to an annual salary of \$4,000.
- 5 Drawings made on 1 July 2010: Chan \$3,000, Ng \$2,000.
- 6 Net profit for the year amounted to \$50,000.

Profit and Loss Appropriation

	\$	\$		\$
Interest on capital –			Profit and loss (net profit)	50,000
Current: Chan (\$50,000x10%)		5,000	Interest on drawings –	
Current: Ng (\$80,000x10%)		8,000	Current: Chan (\$3,000x20%x1/2)	300
Salary to partner - Current: Chan		4,000	Current: Ng (\$2,000x20%x1/2)	200
Share of profit –				
Current: Chan (3/5)	20,100			
Current: Ng (2/5)	13,400	33,500		
		50,500		50,500

	\$	\$
Profit and loss (net profit)		50,000
Add: Interest on drawings –Chan (\$3,000x20%x1/2)	300	
–Ng (\$2,000x20%x1/2)	200	500
		50,500
Less: Interest on capital –Chan (\$50,000x10%)	5,000	
–Ng (\$80,000x10%)	8,000	
Salary to partner –Chan	4,000	17,000
		33,500
Share of profit		
= Chan (3/5)		20,100
= Ng (2/5)		13,400
		33,500

	Chan	Ng		Chan	Ng
	\$	\$		\$	\$
Balance c/f	50,000	80,000	Cash	50,000	80,000

	Chan	Ng		Chan	Ng
	\$	\$		\$	\$
Drawings	3,000	2,000	P & L appropriation –		
P & L appropriation –			Interest on capital	5,000	8,000
Interest on drawings	300	200	Salary to partner	4,000	—
Balance c/f	25,800	19,200	Share of profit	20,100	13,400
	29,100	21,400		29,100	21,400

10.5 Preparation of financial statement of a partnership (編製合夥企業的財務報表)

Income statement of a partnership (合夥的損益表)

Lam and Kwan			
Income Statement for the year ended 31 December 2010 (extract)			
	\$	\$	\$
Net profit for the year			50,000
Add Interest on drawings: Lam		300	
Kwan		200	500
			<u>50,500</u>
Less Interest on capital: Lam	5,000		
Kwan	<u>8,000</u>	13,000	
Salary: Lam		<u>4,000</u>	(17,000)
			<u>33,500</u>
Balance of profit shared:			
Lam (3/5)		20,100	
Kwan (2/5)		<u>13,400</u>	<u>33,500</u>

Balance Sheet of a partnership (合夥的資產負債表)

Lam and Kwan			
Balance Sheet as at 31 March 2009			
		\$	\$
Total Net Assets			<u>175,000</u>
Financed by:			
Capital: Lam			50,000
Kwan			<u>80,000</u>
			130,000
Current account: Lam	25,800		
Kwan	<u>19,200</u>	45,000	
			<u>175,000</u>

Example 3

1. Based on the following information, draw up an income statement and current account extract for the year ended 31 December 2009, and a balance sheet extract as at that date.
 - (i) Net profit for the year \$30,350
 - (ii) 5% interest was to be paid on capital.
 - (iii) Interest on drawings: Wing \$240, Poon \$180, Ho \$130.
 - (iv) Salary to partners: Poon \$2,000, Ho \$3,500.
 - (v) Profits and losses to be shared: Wing 50%, Poon 30%, Ho 20%.
 - (vi) Current account balances as at 1 January 2009: Wing \$1,860, Poon \$946, Ho \$717.
 - (vii) Capital account balances as at 1 January 2009: Wing \$40,000, Poon \$30,000, Ho \$18,000.
 - (viii) Drawings made during the year: Wing \$9,200, Poon \$7,100, Ho \$6,900.

Income Statement for the year ended 31 December 2009 (extract)

	\$	\$	\$
Net profit for the year			30,350
Add Interest on drawings: Wing		240	
Poon		180	
Ho		130	550
			30,900
Less Interest on capital: Wing (\$40,000x5%)	2,000		
Poon (\$30,000x5%)	1,500		
Ho (\$18,000x5%)	900	4,400	
Salaries:			
Poon	2,000		
Ho	3,500	5,500	(9,900)
			21,000
Balance of profit shared:			
Wing (50%)		10,500	
Poon (30%)		6,300	
Ho (20%)		4,200	21,000

Current

	Wing \$	Poon \$	Ho \$		Wing \$	Poon \$	Ho \$
Drawings	9,200	7,100	6,900	Balances b/f	1,860	946	717
P & L app –				P & L app –			
Interest on drawings	240	180	130	Interest on capital	2,000	1,500	900
Balance c/f	4,920	3,466	2,287	Salary to partner	—	2,000	3,500
				Share of profit	10,500	6,300	4,200
	14,360	10,746	9,317		14,360	10,746	9,317

Balance Sheet as at 31 December 2009 (extract)

	\$	\$
Financed by:		
Capital : Wing	40,000	
Poon	30,000	
Ho	18,000	88,000
Current : Wing	4,920	
Poon	3,466	
Ho	2,287	10,673
		98,673

10.7 Admission of partners (合夥人加入)

Whenever a new partner is admitted, the adjusting entries are required in the partners' capital accounts.

Classwork 4

Chan and Tai had been in partnership for many years. As at 31 December 2010, their capital accounts showed credit balances: Chan \$60,000 and Tai \$40,000. As their workloads were increasing, they intended to admit one more partner, Lam, on 1 January 2011. Lam contributed \$20,000 cash as capital. Show the required entries in the partners' capital accounts in columnar form.

Capital							
	Chan	Tai	Lam		Chan	Tai	Lam
	\$	\$	\$		\$	\$	\$
Balances c/d	60,000	40,000	20,000	Balances b/f	60,000	40,000	—
				Cash	—	—	20,000
	60,000	40,000	20,000		60,000	40,000	20,000

10.8 Withdrawal or death of partners (合夥人退出或去世)

Whenever an old partner withdraws (death, ill health, retirement or other reasons) from a partnership, the adjusting entries are required in the partners' capital and current accounts. **When a partner withdraws, his current account balance is to be transferred to his capital account** (當一個合夥人退出，他的往來帳戶帳餘額將轉移到他的資本帳戶).

Classwork 5

- Harry, Irene and Joe were partners. On 1 January 2011, the first day of the new financial year, Joe would leave. On the date of Joe's withdrawal **and take away all his capital in cash**, the capital accounts balances were: Harry \$50,000, Irene \$50,000, Joe \$40,000 and the current account balances were Harry \$5,000, Irene \$4,000, Joe \$6,000. Show the required entries in the partners' capital and current accounts in columnar form.

Current							
	Harry	Irene	Joe		Harry	Irene	Joe
	\$	\$	\$		\$	\$	\$
Capital: Joe	—	—	6,000	Balances b/f	5,000	4,000	6,000
Balances c/f	5,000	4,000	—				
	5,000	4,000	6,000		5,000	4,000	6,000

Capital							
	Harry	Irene	Joe		Harry	Irene	Joe
	\$	\$	\$		\$	\$	\$
Cash/Bank	---	---	46,000	Balance b/f	50,000	50,000	40,000
Balance c/f	50,000	50,000	---	Current: Joe	—	—	6,000
	50,000	50,000	46,000		50,000	50,000	46,000

Sometimes the **withdrawing partner** (退出合夥人) may not take away all his capital (and current account) balance(s) (可能沒帶走他所有的資本及往來帳戶餘額) in cash. He may **leave part of it** (留下部分) with the **new partnership as a loan** (作為新夥伴的貸款).

- Suppose Joe take away half of his capital balance in cash on withdrawal and left the other half with the new partnership as a loan. The capital accounts would appear as follows:

Capital							
	Harry	Irene	Joe		Harry	Irene	Joe
	\$	\$	\$		\$	\$	\$
Cash/Bank	—	—	23,000	Balance b/f	50,000	50,000	40,000
Loan from Joe	—	—	23,000	Current: Joe	—	—	6,000
Balance c/f	50,000	50,000	---				
	50,000	50,000	40,000		50,000	50,000	46,000