

Chapter 11 Partnership Goodwill (合夥商譽)

11.2 Goodwill (商譽)

Goodwill is the excess of the **value of an entire business** (企業的整體價值) over the **fair value (market value)** (公允價值) of its **separate net assets** (可分離淨資產). Goodwill is not a **separable asset** (可分離資產) as it cannot be **sold separately** (分割出售).

Reasons for the existence of goodwill (商譽的存在的原因)

- Good reputation (良好的聲譽)
- Experienced, efficient and reliable employees (經驗豐富、效率高和可靠的員工)
- Good relationships with suppliers and customers (與供應商和顧客有良好關係)

These **advantages** (優勢) are **intangible assets (non-current)** (無形非流動) of a business that may contribute to the **existence of goodwill** (可導致商譽的形成).

11.4 Changes in the profit and loss sharing ratio (損益分配比率的改變)

The profit and loss sharing ratio is usually a basis on which profits and losses as well as the net assets (**tangible and intangible**) of a partnership are to be shared among the partners (把企業的損益及有形、無形的淨資產攤分給合夥人). Therefore, whenever there is a change in the profit and loss sharing ratio (每當損益分配比率有變動時), the **share of goodwill** by each partner will be affected (合夥人的商譽分配將受影響).

Example 5

Henry and Jason had been partners for a number of years, sharing profits and losses equally. The partners agreed to change the profit and loss sharing ratio as follows: Henry 2 : Jason 1 with effect from the financial year starting on 1 January 2011. Suppose the partnership's goodwill was valued for the first time at \$150,000.

(a) A goodwill account is opened (開設商譽帳戶)

The adjusting entries are (所需的調整分錄如下):

Dr Goodwill account (with the value of goodwill)

Cr Partners' capital accounts (with the goodwill shared in the **old** profit and loss sharing ratio)

Goodwill				
2011			\$	
Jan	1	Capital: Henry	75,000	
		Jason	75,000	
Capital				
			Henry	Jason
		2011	\$	\$
	Jan	1	Goodwill	75,000
				75,000

As the value of goodwill was **ascertained** before the change in the profit and loss sharing ratio (由於商譽價值是在損益分配比率改變前確定), it should be shared among the partners in the old instead of the new ratio (因此應按舊比率而非新比率攤分給各合夥人). Since a goodwill account is opened, the goodwill balance would be shown separately as an intangible non-current asset **below** tangible non-current assets in the balance sheet (商譽帳戶的餘額會獨立顯示在資產負債表上，列作無形非流動資產，放在有形非流動資產的下面).

Henry and Jason Balance Sheet			
		\$	\$
<i>Non-current assets</i>			
Premises		600,000	
Plant and equipment		100,000	700,000
Goodwill			150,000

Since a goodwill account is not opened, there **isn't any goodwill balance** in the balance sheet and the effects of the change in the profit and loss sharing ratio on the share of goodwill would be affected in partners' capital accounts only (損益分配比率的改變對商譽分攤的影響只會反映在合夥人的資本帳戶內). The calculations of goodwill adjustment are:

					Capital				
			Henry	Jason				Henry	Jason
			\$	\$				\$	\$
2011					2011				
Jan	1	Goodwill adjustment	25,000	---	Jan	1	Goodwill adjustment	---	25,000

Other method:

					Capital						
					Henry	Jason				Henry	Jason
					\$	\$	2011			\$	\$
2011											
Jan	1	Goodwill (2 : 1)			100,000	50,000	Jan	1	Goodwill (1 : 1)		
										75,000	75,000

8

Class work 2

1. P, S and T were in partnership, **sharing profits and losses equally**. On 31 December 2011, the partnership's balance was as follows:

		\$
Capital:	P	100,000
	S	100,000
	T	100,000

The new profit and loss sharing ratio for P, S and T would be 2 : 2 : 1. Goodwill was valued at \$300,000. It was decided that no account is to be kept for goodwill.

(a) Prepare the partners' capital accounts at 1 January 2012 in columnar form.

(a)

Partner	Goodwill in old ratio	Goodwill in new ratio	Gain (loss) from change	Required adjustment
P	(1/3)\$100,000	(2/5)\$120,000	\$20,000	Dr Capital: P \$20,000
S	(1/3)\$100,000	(2/5)\$120,000	\$20,000	Dr Capital: S \$20,000
T	(1/3)\$100,000	(1/5)\$60,000	(\$40,000)	Cr Capital: S \$40,000

Capital

	P	S	T		P	S	T
	\$	\$	\$		\$	\$	\$
Goodwill adjustment	20,000	20,000	—	Balances b/f	100,000	100,000	100,000
Balance c/f	80,000	80,000	140,000	Goodwill adjustment	—	—	40,000
	<u>100,000</u>	<u>100,000</u>	<u>140,000</u>		<u>100,000</u>	<u>100,000</u>	<u>140,000</u>

or

Capital

	P	S	T		P	S	T
	\$	\$	\$		\$	\$	\$
Goodwill (2 : 2 : 1)	120,000	120,000	60,000	Balances b/f	100,000	100,000	100,000
Balance c/f	80,000	80,000	140,000	Goodwill (1 : 1 : 1)	100,000	100,000	100,000
	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>		<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

3. Amy, Bob and Cary were in partnership, sharing profits and losses in the ratio of 3 : 2: 1. The partnership's balance sheet as at 31 December 2010 was as follows:

Amy, Bob and Cary Balance Sheet as at 31 December 2010					
	\$	\$		\$	\$
<i>Non-current assets</i>			<i>Capital account</i>		
Office equipment, at net book value	438,000		Amy	338,000	
Motor vehicles, at net book value	200,000		Bob	200,000	
	<u>638,000</u>		Cary	<u>200,000</u>	738,000
<i>Current assets</i>			<i>Current account</i>		
Inventory	53,551		Amy	80,000	
Accounts receivable	170,000		Bob	30,000	
Bank	<u>131,800</u>	355,351	Cary	<u>(10,000)</u>	100,000
			<i>Current liabilities</i>		
			Accounts payable		<u>155,351</u>
		<u>993,351</u>			<u>993,351</u>

For personal reasons, Amy decided to spend less time in the partnership. The partners agreed to share the profits and losses equally with effect from 1 January 2011. Goodwill was to be valued at \$450,000.

- (a) Show the capital accounts (in columnar form) and the balance sheet as at 1 January 2011 if
- a goodwill account was to be opened.
 - a goodwill account was not to be opened.
- (b) Prepare the journal entries for the goodwill adjustment in (a). (No narrations are required.)

(a) (i)

Capital							
	Amy	Bob	Cary		Amy	Bob	Cary
	\$	\$	\$		\$	\$	\$
Balances c/d	563,000	350,000	275,000	Balances b/f	338,000	200,000	200,000
				Goodwill	225,000	150,000	75,000
	<u>563,000</u>	<u>350,000</u>	<u>275,000</u>		<u>563,000</u>	<u>350,000</u>	<u>275,000</u>

Amy, Bob and Cary Balance Sheet as at 1 January 2011					
	\$	\$		\$	\$
<i>Non-current assets</i>			<i>Capital account</i>		
Office equipment, at net book value	438,000		Amy	563,000	
Motor vehicles, at net book value	200,000	638,000	Bob	350,000	
Goodwill		450,000	Cary	275,000	1,188,000
		<u>1,088,000</u>			
<i>Current assets</i>			<i>Current account</i>		
Inventory	53,551		Amy	80,000	
Accounts receivable	170,000		Bob	30,000	
Bank	<u>131,800</u>	355,351	Cary	<u>(10,000)</u>	
			<i>Current liabilities</i>		
			Accounts payable		155,351
		<u>1,443,351</u>			<u>1,443,351</u>

(a) (ii)

Goodwill Adjustment				
Partner	Goodwill in old ratio	Required entries	Goodwill in new ratio	Required entries
Amy	(3/6)\$ 225,000	Cr Capital: Amy \$225,000	(1/3)\$ 150,000	Dr Capital: Amy \$150,000
Bob	(2/6)\$ 150,000	Cr Capital: Bob \$150,000	(1/3)\$ 150,000	Dr Capital: Bob \$150,000
Cary	(1/6)\$ 75,000	Cr Capital: Cary \$75,000	(1/3)\$ 150,000	Dr Capital: Cary \$150,000

Capital

	Amy	Bob	Cary		Amy	Bob	Cary
	\$	\$	\$		\$	\$	\$
Goodwill (1 : 1 : 1)	150,000	150,000	150,000	Balances b/f	338,000	200,000	200,000
Balances c/d	413,000	200,000	125,000	Goodwill (3 : 2 : 1)	225,000	150,000	75,000
	<u>563,000</u>	<u>350,000</u>	<u>275,000</u>		<u>563,000</u>	<u>350,000</u>	<u>275,000</u>

Amy, Bob and Cary
Balance Sheet as at 1 January 2011

	\$	\$		\$	\$
<i>Non-current assets</i>			<i>Capital account</i>		
Office equipment, at net book value		438,000	Amy	413,000	
Motor vehicles, at net book value		200,000	Bob	200,000	
		638,000	Cary	125,000	738,000
<i>Current assets</i>					
Inventory	53,551		<i>Current account</i>		
Accounts receivable	170,000		Amy	80,000	
Bank	131,800	355,351	Bob	30,000	
			Cary	(10,000)	100,000
			<i>Current liabilities</i>		
			Accounts payable		155,351
		<u>933,351</u>			<u>933,351</u>

(b)

Journal			
	Details	Dr	Cr
		\$	\$
a (i)	Goodwill	450,000	
	Capital: Amy		225,000
	Capital: Bob		150,000
	Capital: Cary		75,000
a (ii)	Capital: Cary	75,000	
	Capital: Amy		75,000

11.5 Admission of partners (合夥人加入)

Whenever a new partner is admitted, the goodwill of the old partnership has to be valued and adjusting entries are required in the partners' capital accounts.

Example 6

Dennis and Eddy were partners, sharing profits and losses equally. On 1, January 2011, the partners agreed to admit John as a new partner and the new profit and loss sharing ratio would be: Dennis 1 : Eddy 2 : John 2. John brought in \$40,000 cash as capital. On the date of John's admission, the goodwill of the partnership between Dennis and Eddy was valued for the first time at \$60,000 and the partners' capital balances were adjusted as follows.

(a) A goodwill account is opened (開設商譽帳戶)

Goodwill				
	\$			
Capital: Dennis	30,000			
Eddy	30,000			
Capital				
		Dennis	Eddy	John
		\$	\$	\$
Cash	---	---	---	40,000
Goodwill	30,000	30,000		---

(b) A goodwill account is not opened (不開設商譽帳戶)

The effects of the admission of a new partner on the share of goodwill are as follows:

Partner	Goodwill in old ratio	Goodwill in new ratio	Gain (loss) from change	Required adjustment
Dennis	(1/2)\$30,000	(1/5)\$12,000	(\$18,000)	Cr Capital: Dennis \$18,000
Eddy	(1/2)\$30,000	(2/5)\$24,000	(\$6,000)	Cr Capital: Eddy \$6,000
John	----	(2/5)\$24,000	\$24,000	Dr Capital: John \$24,000

Capital				
	Dennis	Eddy	John	
	\$	\$	\$	
Goodwill (1 : 2 : 2)	12,000	24,000	24,000	
				Dennis Eddy John
				\$ \$ \$
Cash	---	---	40,000	
Goodwill (1 : 1)	30,000	30,000	---	

New partner pays for his gain in share of goodwill (新合夥人為商譽分攤的獲益付款)

Sometimes, the new partner may be asked to pay for his gain in share of goodwill. Suppose John brought in \$40,000 cash as capital and an additional sum of cash for his share of goodwill (i.e., \$24,000)

Capital				
	Dennis	Eddy	John	
	\$	\$	\$	
Goodwill (1 : 2 : 2)	12,000	24,000	24,000	
				Dennis Eddy John
				\$ \$ \$
Cash (\$40,000 + \$24,000)	---	---	64,000	
Goodwill (1 : 1)	30,000	30,000	---	

New partner pays the old partners privately for their loss in share of goodwill

Sometimes, the new partner may choose to pay the old partners privately for their loss in share of goodwill (有時，新合夥人會選擇私下付款給舊合夥人，補償他們商譽分攤的損失). For example, John paid \$18,000 and \$6,000 directly to Dennis and Eddy, respectively. No entries are required for these payments in the partnership books. Moreover, no adjustments are required for goodwill in the partners' capital accounts (在此情況下，合夥的帳目不用記錄這些付款，合夥也不用在合夥人的資本帳戶內作任何調整).

Class work 3

1. S and T were in partnership, sharing profits and losses equally. On 31 December 2011, the partnership's balance was as follows:

		\$
Capital: S	100,000	
T	100,000	

On 1 January 2012, P was admitted to the partnership with an initial capital contribution of \$200,000 and profits and losses are to be shared equally. Goodwill was valued at \$300,000. It was decided that no account is to be kept for goodwill.

Prepare the partners' capital accounts at 1 January 2012 in columnar form.

Partner	Goodwill in old ratio	Required entries	Goodwill in new ratio	Required entries
S	(1/2)\$150,000	Cr Capital: S \$150,000	(1/3)\$100,000	Dr Capital: S \$100,000
T	(1/2)\$150,000	Cr Capital: T \$150,000	(1/3)\$100,000	Dr Capital: T \$100,000
P	—	—	(1/3)\$100,000	Dr Capital: P \$100,000

Capital

	S	T	P		S	T	P
	\$	\$	\$		\$	\$	\$
Goodwill (1 : 1 : 1)	100,000	100,000	100,000	Balances b/f	100,000	100,000	—
Balance c/f	150,000	150,000	100,000	Goodwill (1 : 1)	150,000	150,000	—
				Cash at bank	—	—	200,000
	250,000	250,000	200,000		250,000	250,000	200,000

2. Andy, Ben, Derek have been in partnership, sharing profits and losses in the ratio of 3 : 2 : 5, respectively. Their capital accounts showed the following balances as at 31 December 2010:

Andy	25,000	Cr
Ben	18,000	Cr
Derek	32,000	Cr

On 1 Jul 2011, Eason was admitted to the partnership with an **initial capital contribution of \$25,000**. Goodwill was valued at **\$20,000**. The new profit and loss sharing ratio would be Andy 4 : Ben 3 : Derek 2 : Eason 1. Show the required entries in the partners' capital accounts in columnar form.

Goodwill Adjustment		
Partner	Goodwill in old ratio	Goodwill in new ratio
Andy	(3/10)\$6,000	(4/10)\$8,000
Ben	(2/10)\$4,000	(3/10)\$6,000
Derek	(5/10)\$10,000	(2/10)\$4,000
Eason	----	(1/10)\$2,000

Capital

	Andy	Ben	Derek	Eason		Andy	Ben	Derek	Eason
	\$	\$	\$	\$		\$	\$	\$	\$
Goodwill (4:3:2:1)	8,000	6,000	4,000	2,000	Balances b/d	25,000	18,000	32,000	—
Balances c/d	23,000	16,000	38,000	23,000	Cash at bank	—	—	—	25,000
					Goodwill (3:2:5)	6,000	4,000	10,000	—
	31,000	22,000	42,000	25,000		31,000	22,000	42,000	25,000

4. Lee, Mok and Siu were in partnership. They shared profits and losses in the ratio of 2 : 5 : 3. It was decided to admit a new partner, Lui. The goodwill of the old partnership was valued at \$10,000, but this had not been recorded in the books. Lui brought in \$4,000 cash as capital. The new profit and loss sharing ratio would be Lee 3 : Mok 4 : Siu 2 : Lui 1. The balance sheet before Lui's admission was as follows:

Balance Sheet		\$
Assets (other than cash)		11,000
Cash		2,500
		<u>13,500</u>
Capital: Lee		3,000
Mok		5,000
Siu		4,000
Accounts payable		1,500
		<u>13,500</u>

- (a) Draw up the capital account of Lee, Mok, Siu and Lui in columnar form, showing necessary entries.
 (b) Prepare the journal entries to record Lui's admission. (No narrations are required.)
 (c) Prepare the balance sheet after Lui had been admitted.

(a)

Goodwill Adjustment		
Partner	Goodwill in old ratio	Goodwill in new ratio
Lee	(2/10)\$2,000	(3/10)\$3,000
Mok	(5/10)\$5,000	(4/10)\$4,000
Siu	(3/10)\$3,000	(2/10)\$2,000
Lui	----	(1/10)\$1,000

Capital

	Lee	Mok	Siu	Lui		Lee	Mok	Siu	Lui
	\$	\$	\$	\$		\$	\$	\$	\$
Goodwill(3:4:2:1)	3,000	4,000	2,000	1,000	Balances b/f	3,000	5,000	4,000	---
Balances c/d	2,000	6,000	5,000	3,000	Goodwill(2:5:3)	2,000	5,000	3,000	---
					Cash	---	---	---	4,000
	<u>5,000</u>	<u>10,000</u>	<u>7,000</u>	<u>4,000</u>		<u>5,000</u>	<u>10,000</u>	<u>7,000</u>	<u>4,000</u>

(b)

Journal		
Details	Dr	Cr
	\$	\$
Cash	4,000	
Capital: Lee	1,000	
Capital: Mok		1,000
Capital: Siu		1,000
Capital: Lui		3,000

(c)

Balance Sheet

	\$	\$
Assets (other than cash)		11,000
Cash (\$2,500 + \$4,000)		6,500
		<u>17,500</u>
Capital: Lee	2,000	
Mok	6,000	
Siu	5,000	
Lui	3,000	16,000
Accounts payable		1,500
		<u>17,500</u>

HKCEE (2008, 6)

Dave and Eva were in partnership sharing profits and losses in the ratio of 2 : 1 respectively. Their balance sheet as at 31 December 2006 was as follows:

Balance Sheet as at 31 December 2006

	\$	\$		\$	\$
Fixed Assets			Capital Accounts		
Office equipment (net)		202,000	Dave	300,000	
Motor vehicles (net)		<u>156,000</u>	Eva	<u>63,000</u>	363,000
		358,000			
Current Assets			Current Accounts		
Stock	41,600		Dave	26,600	
Debtors	<u>40,000</u>	81,600	Eva	<u>(48,000)</u>	(21,400)
			Current Liabilities		
			Bank Overdraft	36,000	
			Creditors	<u>62,000</u>	<u>98,000</u>
		<u>439,600</u>			<u>439,600</u>

On 1 January 2007, Dave invited Fred, the manager, to join the partnership on the following terms:

- Fred's initial capital was agreed at \$100,000, although he would only bring in \$25,000 cash as capital. The difference was settled by a personal loan from Dave to Fred, through a transfer between the capital accounts.
- Goodwill was estimated at \$60,000. No goodwill account was to remain in the books of the partnership. Fred would bring in additional cash for his share of goodwill.
- Dave, Eva and Fred were to share profits and losses in the ratio of 2 : 1 : 1 respectively.
- Fred was to receive a salary of \$5,000 per month.

No current accounts were to be maintained for the partners in the new partnership. The existing balances were to be transferred to the partners' respective capital accounts.

REQUIRED:

- (a) Prepare the capital account of Dave, Eva and Fred in columnar form to record Fred's admission.

(a)

Capital

	Dave	Eva	Fred		Dave	Eva	Fred
	\$	\$	\$		\$	\$	\$
Goodwill (2:1:1)	30,000	15,000	15,000	Balances b/d	300,000	63,000	—
Current	—	48,000	—	Goodwill (2:1)	40,000	20,000	—
Capital – Fred	75,000	—	—	Cash (\$25,000 + \$15,000)	—	—	40,000
Balances c/d	261,600	20,000	100,000	Current	26,600	—	—
				Capital – Dave	—	—	75,000
	<u>366,600</u>	<u>83,000</u>	<u>115,000</u>		<u>366,600</u>	<u>83,000</u>	<u>115,000</u>

11.6 Withdrawal or death of partners

Whenever an old partner withdraws (death, ill health, retirement or other reasons) from a partnership, the goodwill of the partnership has to be valued and adjusting entries are required in the partners' capital accounts. **The current account of the withdraw partner must transfer to the capital account of that partner.**

Example 7

Harry, Irene and Joe were partners, sharing profits and losses equally. On 1 January 2011, the first day of the new financial year, Joe would leave and the remaining partners would continue to share profits and losses equally. On the date of Joe's withdrawal, the capital balances of the partners were: Harry \$50,000, Irene \$50,000, Joe \$40,000; and the goodwill of the partnership was valued for the first time at \$45,000. The partners' capital balances were adjusted as follows:

(a) A goodwill account is opened

					Goodwill						
2011					\$						
Jan	1	Capital: Harry	15,000								
		Irene	15,000								
		Joe	15,000								
					Capital						
			Harry	Irene	Joe				Harry	Irene	Joe
2011			\$	\$	\$	2011			\$	\$	\$
Jan	1	Cash	—	—	55,000	Jan	1	Balance b/f	50,000	50,000	40,000
"	31	Balance c/f	65,000	65,000	—	"	1	Goodwill	15,000	15,000	15,000
			65,000	65,000	55,000				65,000	65,000	55,000

(b) A goodwill account is not opened

The effects of the withdrawal of an old partner on the share of goodwill are as follows:

Partner	Goodwill in old ratio	Goodwill in new ratio	Gain (loss) from change	Required adjustment
Harry	(1/3)\$15,000	(1/2)\$22,500	\$7,500	Dr Capital: Harry \$7,500
Irene	(1/3)\$15,000	(1/2)\$22,500	\$7,500	Dr Capital: Irene \$7,500
Joe	(1/3)\$15,000	----	(\$15,000)	Cr Capital: Joe \$15,000

Capital											
			Harry	Irene	Joe				Harry	Irene	Joe
2011			\$	\$	\$	2011			\$	\$	\$
Jan	1	Goodwill(1 : 1)	22,500	22,500	---	Jan	1	Balance b/f	50,000	50,000	40,000
						"	1	Goodwill (1:1:1)	15,000	15,000	15,000

After adjustments, Joe's capital balance amounted to \$55,000. This balance is the same whether a goodwill account is opened or not. Joe should be paid \$55,000 on his withdrawal. The required double entry for this is:

Dr Joe's capital account \$55,000
 Cr Cash/Bank accounts \$55,000

Capital											
			Harry	Irene	Joe				Harry	Irene	Joe
2011			\$	\$	\$	2011			\$	\$	\$
Jan	1	Goodwill(1 : 1)	22,500	22,500	---	Jan	1	Balance b/f	50,000	50,000	40,000
"	1	Cash/Bank	---	---	55,000	"	1	Goodwill (1:1:1)	15,000	15,000	15,000
"	31	Balance c/f	42,500	42,500	---						
			65,000	65,000	55,000				65,000	65,000	55,000

Again, if existing partners gain goodwill when it is shared in the new ratio, they must be charged by having their capital account debited with the amount of the gain.

Sometimes the withdrawing partner may not take away all his capital (and current account) balance(s) in cash. He may leave part of it with the new partnership as a loan.

Example 8

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
			\$	\$	\$				\$	\$	\$
2011						2011					
Jan	1	Goodwill(1 : 1)	22,500	22,500	---	Jan	1	Balance b/f	50,000	50,000	40,000
"	1	Cash/Bank	---	---	27,500	"	1	Goodwill (1:1:1)	15,000	15,000	15,000
"	1	Loan from Joe	---	---	27,500						
"	31	Balance c/f	42,500	42,500	---						
			65,000	65,000	55,000				65,000	65,000	55,000

The loan from Joe would be shown as a liability in the balance sheet of the new partnership subsequently, and interest might be charged on it.

Class work 4

1. Chiu, Ho and Kan had been in partnership for many years, sharing profits and losses in the ratio of 4 : 3 : 1. As at 31 March 2010, their capital accounts and current accounts showed the following balances:

	Capital accounts	Current accounts
Chiu	\$80,000 Cr	\$5,620 Cr
Ho	\$60,000 Cr	\$2,350 Dr
Kan	\$20,000 Cr	\$6,180 Cr

As there were conflicts, they decided to let Ho withdraw and get back his capital balance on 1 April 2010. The new profit and loss sharing ratio would be: Chiu 4 : Kan 1.

- (a) If the partnership's goodwill was valued at \$16,000 and goodwill account was not to be opened. Show the necessary entries in the capital accounts on the withdrawal of Ho.
 (b) Explain why a partner's current account may show a debit balance instead of a credit balance.

(a)

Capital								
	Chiu	Ho	Kan		Chiu	Ho	Kan	
	\$	\$	\$		\$	\$	\$	
Goodwill (4: 1)	12,800	---	3,200	Balances b/f	80,000	60,000	20,000	
Current: Ho	---	2,350	---	Goodwill (4:3:1)	8,000	6,000	2,000	
Cash at Bank	---	63,650	---					
Balances c/d	75,200	---	18,800					
	88,000	66,000	22,000		88,000	66,000	22,000	

- (b) When a partner's current account shows a debit balance, this means that he is indebted to the partnership. This situation may arise when a partnership has incurred a substantial loss one year or a partner has taken out more than his balance of undrawn profits from the partnership.

2. Fong, Ma and Kwan sharing profits and losses in the ratio of 5 : 3 : 2. As at 30 June 2009, their capital accounts showed the following credit balances: Fong \$50,000, Ma \$30,000, Kwan \$20,000. Fong decided to retire on 1 July 2009. But he agreed to leave half of his capital balance with the firm as a loan. The new profit and loss sharing ratio would be: Ma 4 : Kwan 3. If goodwill was valued at \$14,000 upon the withdrawal of Fong, show the necessary entries in the capital accounts in columnar form if a goodwill account was not to be opened.

Capital								
	Fong	Ma	Kwan		Fong	Ma	Kwan	
	\$	\$	\$		\$	\$	\$	
Goodwill (4 : 3)	---	8,000	6,000	Balances b/f	50,000	30,000	20,000	
Cash at Bank	28,500	---	---	Goodwill (5:3:2)	7,000	4,200	2,800	
Loan from Fong	28,500	---	---					
Balances c/d	---	26,200	16,800					
	57,000	34,200	22,800		57,000	34,200	22,800	

Chung and Wun were partners, sharing profits and losses in the ratio of 2 : 1. They agreed that interest was to be allowed on capital balances at 8% per annum. Interest of 10% per annum would be charged on drawings.

	Capital	Current	
Chung	\$60,000	\$37,600	
Wun	\$40,000	\$7,800	Dr

(iv) Tang brought in cash of \$20,000 on 1 January 2010.

2 The drawings made in the year 2010 were as follows:

	Chung	Wun	Tang
1 April	\$60,000	—	—
1 July	\$10,000	—	\$48,000
1 October	\$10,000	—	—

(c) Draw up the partners' capital accounts for the year ended 31 December 2010.

Income Statement for the year ended 31 December 2010 (extract)

[illegible]

(b)

Current

	Chung	Wun	Tang		Chung	Wun	Tang
	\$	\$	\$		\$	\$	\$

(c)

Capital

	Chung	Wun	Tang		Chung	Wun	Tang
	\$	\$	\$		\$	\$	\$
Goodwill (4 : 3 : 3)	14,400	10,800	10,800	Balance b/f	60,000	40,000	—
Balance c/d	69,600	41,200	9,200	Goodwill (2 : 1)	24,000	12,000	—
				Cash	—	—	20,000
	84,000	52,000	20,000		84,000	52,000	20,000