

Partnerships

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What you need to know

By the end of this topic you should be able to:

1. **Explain the advantages and disadvantages of forming a partnership**, a business owned by two or more people who share its profits.
2. **Outline why a partnership agreement matters and what it contains**: capital, profit-sharing ratio, interest on capital and drawings, salaries, loan interest, limits on drawings and each partner's duties.
3. **Explain what the appropriation account is for**: it shares out the profit for the year (or loss) between the partners.
4. **Prepare the income statement, the appropriation account and the statement of financial position** of a partnership.
5. **Record interest on partners' loans, interest on capital, interest on drawings, partners' salaries and the division of the remaining profit or loss**.
6. **Make the same year-end adjustments as for a sole trader** (accruals, prepayments, depreciation, irrecoverable and doubtful debts, goods taken for own use).
7. **Explain the uses of capital accounts and current accounts, and how they differ**.
8. **Draw up partners' capital and current accounts** as ledger accounts and as part of the statement of financial position.

You do **not** need to deal with a partner joining or leaving, a partnership closing down, or a change in the profit-sharing ratio.

Understand it

What a partnership is

A **partnership** is a business owned by two or more people (the **partners**) who run it together and share its profit or loss. Each partner puts in capital, and each is usually entitled to take part in running the business. Doctors, lawyers, accountants, family shops and small building firms are often partnerships.

A sole trader often forms a partnership when the business has grown too big for one person, or needs more money than one person has.

Advantages of a partnership (compared with being a sole trader)

- **More capital:** each partner brings money, so the business has more finance and may find it easier to borrow.
- **More skills, knowledge and experience:** one partner may be good with customers, the other with the accounts.
- **The workload and responsibility are shared**, and partners can cover for each other during holidays or illness.
- **Risks and losses are shared** between the partners.
- **Decisions can be discussed** with someone who has a stake in the business.
- Like a sole trader, a partnership is still fairly easy to set up, and its accounts are private.

Disadvantages

- **The profit has to be shared.**
- **Decisions must be agreed by all partners**, so they may take longer, and **disagreements** can happen.
- **Each partner is bound by the others' actions:** a contract one partner signs for the business binds them all.
- **Unlimited liability:** in most partnerships every partner is responsible for all the business's debts, so personal possessions can be lost if it fails.
- Capital is still limited to what the partners have and can borrow; a partnership cannot sell shares.
- The partnership has no separate legal existence, so it may end when a partner dies or leaves.

A question that asks for an advantage of a **partnership** never wants "limited liability" or "continuity of existence": those belong to a limited company. "Profits are shared" is a **disadvantage**; "responsibilities are shared" and "risks are shared" are advantages.

The partnership agreement

Partners usually write down how the business will work in a **partnership agreement** (sometimes called a deed). It matters because it sets out each partner's rights and rewards **before** anything goes wrong, so it prevents arguments, and it tells the bookkeeper exactly how to share out the profit.

It usually covers:

- the **capital** each partner must put in;
- the **ratio** in which residual profits and losses are shared;
- whether **interest on capital** is paid, and at what rate;
- any **partners' salaries**, and how much;
- whether **interest on drawings** is charged, and at what rate;
- any **limit on drawings**;

- the rate of **interest on loans** a partner makes to the business;
- each partner's **duties and responsibilities**, and how disputes will be settled.

It never contains business matters with outsiders, such as the interest rate on a **bank** loan.

Rewarding each partner fairly

Partners rarely put in the same money or the same work, so the agreement rewards each of them in several steps before the rest is split.

- **Interest on capital** rewards a partner for the money they have invested. A partner with \$55 000 in the business at 4% gets \$2 200; one with \$25 000 gets \$1 000. Without it, the partner who invested more would be worse off.
- **A partner's salary** rewards a partner who does more of the work or has extra duties (managing the office, keeping the books). It is **not** wages: it is a share of the profit, so it is not an expense in the income statement.
- **Interest on drawings** is charged to partners who take money or goods out of the business. It discourages partners from taking out too much, too early, and is fair to the partners who leave their money in. It doesn't stop drawings; it makes them cost something.
- **The residual profit** is whatever is left after these, and it is split in the agreed ratio, such as 2 : 1, or 60% and 40%. A residual **loss** is shared in the same ratio.

Interest on a partner's loan is different. A partner who lends money to the partnership (on top of their capital) is a lender, like a bank. The interest is a **business expense**, charged in the **income statement** before the profit for the year is found, and it is due whether the business makes a profit or not. It is **not** in the appropriation account.

Interest on drawings over part of a year

If the agreement says "5%" and gives no dates, charge 5% on the **total** drawings for the year. If it says "per annum" and gives the **dates** of the drawings, charge interest only for the months from each drawing to the end of the year:

$$\text{interest on drawings} = \text{drawings} \times \text{rate} \times \frac{\text{months to the year end}}{12}$$

For a year ending 31 December at 6% per annum: \$6 000 drawn on 30 September is charged $6\,000 \times 6\% \times \frac{3}{12} = 90$, and \$4 000 drawn on 1 April is charged $4\,000 \times 6\% \times \frac{9}{12} = 180$. Goods taken for own use are drawings too, and are charged in the same way from the date they were taken.

Year-end adjustments

The partnership's income statement uses the same adjustments as a sole trader's, and each one also changes a figure in the statement of financial position. Examples below are for a year ended 31 December 2025.

- **Expense owing (accrued):** add it to the expense; it is an other payable. Wages paid \$30 400 with \$600 owing: expense $30\,400 + 600 = 31\,000$.
- **Expense paid in advance (prepaid):** take off the part that belongs to next year; it is an other receivable. Rent of \$4 800 paid for 1 April 2025 to 31 March 2026: 9 months are this year's, so the expense is $4\,800 \times \frac{9}{12} = 3\,600$ and $4\,800 \times \frac{3}{12} = 1\,200$ is prepaid. If a payment in the trial balance covers mostly next year, **subtract** the months that belong to next year from the trial balance figure.
- **Income due or received in advance:** add income still due (an other receivable); take off income received for next year (a current liability).
- **Straight-line depreciation:** the same percentage of **cost** every year. Equipment costing \$45 000 at 10%: $45\,000 \times 10\% = 4\,500$, whatever the accumulated depreciation.
- **Reducing-balance depreciation:** the percentage of **net book value** (cost less accumulated depreciation). The same equipment with \$12 000 accumulated depreciation at 20%: $(45\,000 - 12\,000) \times 20\% = 6\,600$.
- **Irrecoverable debts:** write the debt off as an expense and take it off trade receivables. A debt of \$380: expense \$380, receivables \$9 380 become \$9 000.
- **Provision for doubtful debts:** work it out on the receivables left after write-offs; only the **change** goes in the income statement. At 4% of \$9 000 the new provision is \$360; if it was \$250, the increase of $360 - 250 = 110$ is an expense, and the SFP shows $9\,000 - 360 = 8\,640$.
- **Goods taken for own use:** take their cost off purchases and add it to **that partner's** drawings (and charge interest on drawings on it if the agreement says so). A partner takes goods costing \$700: purchases fall by \$700, their drawings rise by \$700.

The appropriation account

The income statement of a partnership is prepared exactly like a sole trader's, with the same adjustments. Its last line, the **profit for the year**, is then carried into the **appropriation account** (also called the profit and loss appropriation account). Its purpose is to **show how the profit for the year is shared out between the partners**. It is prepared after the income statement and before the current accounts.

Mei and Tariq share residual profits 2 : 1. Mei has capital of \$55 000 and Tariq \$25 000; interest on capital is 4%; Tariq gets a salary of \$8 000; interest on drawings is Mei \$300 and Tariq \$450. Their profit for the year was \$46 750.

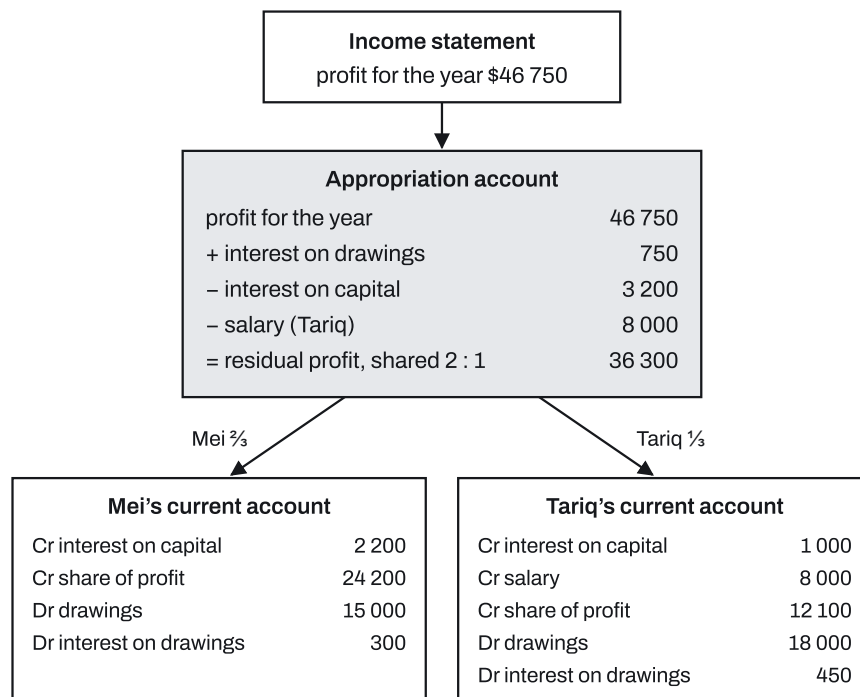
Mei and Tariq: Appropriation account for the year ended 31 December 2025

	\$	\$
Profit for the year		46 750
Add Interest on drawings: Mei	300	
Tariq	450	750
		47 500
Less Interest on capital: Mei	2 200	

	\$	\$
Tariq	1 000	
	3 200	
Salary: Tariq	8 000	11 200
Residual profit		36 300
Share of profit: Mei ($36\,300 \times \frac{2}{3}$)	24 200	
Tariq ($36\,300 \times \frac{1}{3}$)	12 100	36 300

Remember the direction of each item from **the business's** point of view:

- **Interest on drawings is added:** the partners pay it to the business, so there is more profit to share.
- **Interest on capital and salaries are subtracted:** they are given out to the partners first.
- **Drawings themselves never appear,** nor do capital or current account balances, nor loan interest.



Capital accounts and current accounts

Each partner has **two** accounts.

	Capital account	Current account
Records	the capital the partner has invested	the partner's share of each year's profit, less what they took out
Credited with	capital introduced	interest on capital, salary, share of residual profit, interest on a loan not yet paid to them

	Capital account	Current account
Debited with	capital permanently withdrawn (rare)	drawings (cash and goods), interest on drawings, share of a residual loss
Changes	seldom: it is fixed by the agreement	every year
Usual balance	always credit	usually credit, but can be debit

Why keep them apart? The capital stays at the agreed amount, so interest on capital is easy to work out and each partner's investment is always clear. The current account shows, year by year, how much of their rewards each partner has left in the business, and so how much more they could draw.

A **debit balance** on a current account means the partner has taken out more (drawings and interest on drawings) than they have been credited with. The partner **owes** that amount to the business. It is usually a sign that drawings are too high.

The double entries are:

Item	Debit	Credit
Interest on capital	Appropriation account	Partner's current account
Partner's salary	Appropriation account	Partner's current account
Share of residual profit	Appropriation account	Partner's current account
Interest on drawings	Partner's current account	Appropriation account
Drawings (at the year end)	Partner's current account	Drawings account
Interest on a partner's loan, paid	Loan interest (expense)	Bank
Interest on a partner's loan, not paid	Loan interest (expense)	Partner's current account

Mei's current account, with an opening credit balance of \$1 500 and drawings of \$15 000:

Date	Details	\$	Date	Details	\$
2025			2025		
Dec 31	Drawings	15 000	Jan 1	Balance b/d	1 500
	Interest on drawings	300	Dec 31	Interest on capital	2 200
	Balance c/d	12 600		Share of profit	24 200
		27 900			27 900
			2026		
			Jan 1	Balance b/d	12 600

An opening **debit** balance goes on the **debit** side as "Balance b/d". Only this partner's items go in, and never the capital balance or the profit for the year.

The statement of financial position

The assets and liabilities are laid out exactly as for a sole trader. A loan from a partner is a liability (non-current if it is repayable after more than 12 months). Only the capital section changes: it shows **each partner's capital account and current account**, side by side.

Capital and liabilities	Mei \$	Tariq \$	Total \$
Capital accounts	55 000	25 000	80 000
Current accounts			
Opening balance	1 500	(800)	
Add Interest on capital	2 200	1 000	
Salary		8 000	
Share of profit	24 200	12 100	
	27 900	20 300	
Less Drawings	15 000	18 000	
Interest on drawings	300	450	
Closing balance	12 600	1 850	14 450
			94 450

Tariq started with a **debit** balance of \$800, written in brackets and subtracted. A closing debit balance is shown the same way and reduces the total.

Key facts and formulas

There is no formula list in the IGCSE Accounting exam, so everything here must be learnt.

Formula	Status
Interest on capital = capital $\times$ rate	Learn it
Interest on drawings (no dates) = total drawings $\times$ rate	Learn it
Interest on drawings (dated, "per annum") = drawing $\times$ rate $\times \frac{\text{months to year end}}{12}$	Learn it
Interest on a partner's loan = loan $\times$ rate (an expense in the income statement)	Learn it

Formula	Status
Residual profit = profit for the year + interest on drawings – interest on capital – salaries	Learn it
Partner's share = residual profit × their part of the ratio (ratio 2 : 1 gives $\frac{2}{3}$ and $\frac{1}{3}$)	Learn it
Closing current account = opening balance + interest on capital + salary + share of profit + unpaid loan interest – drawings – interest on drawings	Learn it
Total credited to a current account = interest on capital + salary + share of profit (interest on drawings is a debit)	Learn it
Order: income statement → appropriation account → current accounts → statement of financial position	Learn it

How to do it

We have 69 tagged questions for this topic from 2021 to 2025 (50 different, as many appear on two or three paper variants): 57 one-mark multiple-choice questions from Paper 1 and 12 twenty-mark Paper 2 questions. 11 of the Paper 2 questions mix several types, so the counts add up to 102.

Question type	Questions
Calculate a profit share or a current account balance	24
What goes in the appropriation account, and why	14
State or explain a partnership point	12
Prepare the appropriation account	11
Capital or current account, debit or credit	10
Advantages, disadvantages and the agreement (multiple choice)	9
Prepare a current account, capital account or SFP extract	8
Advise the partners on a change	7
Interest on a partner's loan	4
Prepare the income statement of a partnership	3

1. Calculate a profit share or a current account balance (24 questions)

All multiple choice. Build the appropriation account in your head, in this order:

1. Start from the **profit for the year**.
2. **Add** interest on drawings (all partners).
3. **Subtract** interest on capital and salaries (all partners). What is left is the **residual profit**.

4. **Split** the residual profit in the ratio.
5. Read the question again and give **exactly** what it asks for.

The question asks for...	Give
a partner's "share of the residual profit"	step 4 only
the amount "credited to" a partner's current account	interest on capital + salary + share of profit (not less interest on drawings)
the "amount available for distribution"	the residual profit
the current account's closing balance	opening balance (a debit is negative) + credits – drawings – interest on drawings

For example, profit \$36 000, interest on drawings \$500, interest on capital \$4 500 in total, one partner's salary \$6 000, ratio 3 : 1: residual = $36\,000 + 500 - 4\,500 - 6\,000 = 26\,000$, shared \$19 500 and \$6 500.

Variations you will meet:

- **Drawings are listed as a distractor.** Drawings never affect the residual profit; they go straight to the current account.
- **Profits shared "in proportion to capital":** capitals of \$45 000 and \$15 000 mean a 3 : 1 ratio.
- **Working backwards.** If one partner's share of the residual is known, divide by their fraction to get the whole residual, then work up to the missing item. A share of \$18 000 at $\frac{3}{5}$ means a residual of $18\,000 \div \frac{3}{5} = 30\,000$.
- **Finding the profit from a current account.** If a partner's balance moved from \$1 000 debit to \$5 000 credit with no drawings, interest or salary, the change of \$6 000 is all profit share; at $\frac{1}{4}$, the profit was \$24 000.
- **Three partners**, such as 5 : 3 : 2: the fractions are $\frac{5}{10}$, $\frac{3}{10}$, $\frac{2}{10}$.
- **A sole trader deciding whether to take a partner.** Compare what they earn now with their salary plus their share in the forecast. Earning \$30 000 alone, then a salary of \$8 000 plus half of a \$60 000 residual gives $8\,000 + 30\,000 = 38\,000$, an increase of \$8 000.

2. What goes in the appropriation account, and why (14 questions)

All multiple choice.

- **In it:** profit for the year (or loss); interest on drawings (**added**); interest on capital and partners' salaries (**subtracted**); the residual profit and each partner's share.
- **Not in it:** drawings; capital or current account balances; interest on a partner's loan (an expense in the income statement); anything with a bank.
- **Purpose:** to show the **division of the profit or loss** between the partners. It does not calculate salaries or interest, record drawings or show capital.
- **Order of preparation:** revenue and expenses (income statement) → appropriation account → current accounts.

- In the **income statement** there are no partners' salaries and no interest on capital; in the **SFP** there are the current account balances.

3. State or explain a partnership point (12 questions)

Paper 2, usually 1–3 marks each. Learn a short, precise answer for each:

- **Advantages or disadvantages** of a partnership (see "Understand it"), fitted to the story: "the new partner's existing customers would bring extra income".
- **Items in a partnership agreement** other than the ones already named in the question: capital, interest on capital, salaries, interest on drawings, a drawings limit, loan interest, duties.
- **Purpose of interest on drawings:** to discourage partners from taking out too much, and to be fair to partners who draw less. (Not "to stop drawings".)
- **Purpose of interest on a partner's loan:** to reward the partner for lending money to the business, as any lender would be paid.
- **Significance of a debit balance on a current account:** the partner has drawn more than their share of the profit and owes the business that amount.
- **Why a partner should not take more drawings** (or should reduce them): less cash in the business (liquidity), there may be a limit in the agreement, more interest on drawings, a debit balance on their current account, it may upset the other partners.
- **Why a partner might be unhappy with their share:** they do more of the work but the salary is small; their capital is small, so little interest on capital; their share of the ratio is small; a lot of interest on drawings was charged.
- **Effect of a private expense paid from the partnership bank account:** it is **drawings**, not an expense, so profit is **not affected**; the partner's drawings **increase**, and so does their interest on drawings.
- **Going concern:** the accounts assume the business will carry on trading for the foreseeable future, so assets are valued at cost less depreciation, not at what they would fetch in a closing-down sale.
- **Tick the advantages** from a list: tick more finance, extra skills, shared risks and responsibilities, discussing decisions; don't tick limited liability, continuity of existence or "bound by the actions of the other partner".

4. Prepare the appropriation account (11 questions)

Paper 2, usually 5–8 marks.

1. **Heading:** the partners' names, then "Appropriation account for the year ended [date]".
2. **Profit for the year**, from the question or your income statement. If you are given profit **before** loan interest, take the loan interest off first.
3. **Add interest on drawings**, one line per partner **with the name**, total in the outer column. Work each out with dates if the rate is per annum and dates are given.
4. **Less interest on capital** (each partner, named) and **salaries** (named), totalled.
5. **Residual profit**, then each partner's **share of profit** (named), which must add back to the residual.

Worked Example 2 shows the full layout with dated drawings.

Variations you will meet:

- **Goods taken for own use** are drawings: include them in that partner's interest on drawings (from the date taken).
- **A residual loss:** if interest and salaries are more than the profit, the residual is negative and each partner's share is a loss, debited to their current account.
- **Rates in words:** "2% per annum on capital", "a salary of \$11 000 per annum". Use the capital at the start of the year.

5. Capital or current account, debit or credit (10 questions)

All multiple choice. Use the double-entry table in "Understand it":

- Interest on capital, salary, profit share and unpaid loan interest: **credit** the partner's **current** account.
- Interest on drawings: **debit** the partner's current account, **credit** the appropriation account.
- Loan interest **paid**: debit loan interest, credit bank.
- A **debit** balance is possible on a current account, never on a capital account. A loan from a partner is kept in a separate loan account, not added to capital.

6. Advantages, disadvantages and the agreement (multiple choice) (9 questions)

1. Cross out anything that belongs to a limited company: directors, shareholders, dividends, limited liability, continuity.
2. "Profits are shared" and "decisions must be agreed by all" are disadvantages; "responsibilities shared", "risks shared", "extra capital", "extra skills" are advantages.
3. For the agreement, cross out anything with an outsider (a bank loan).
4. **No agreement yet:** the item that helps the partner who invested more is **interest on capital**; the item that helps the partner who works more is a **salary**; the item that helps the partner who draws less is **interest on drawings**.

7. Prepare a current account, capital account or SFP extract (8 questions)

Paper 2, 5–8 marks. **Ledger form** (one partner):

1. **Debit:** opening debit balance ("Balance b/d") if there is one; drawings (cash **plus** goods); interest on drawings; a share of a loss.
2. **Credit:** opening credit balance ("Balance b/d"); interest on capital; salary; share of profit; unpaid loan interest.
3. "Balance c/d" on the smaller side; total both sides; bring the balance down on the first day of the next year.
4. Dates and details on every line. Use your own figures from the appropriation account: they earn own-figure marks.

Capital account: if nothing changed, it has just "Balance b/d" at the start, "Balance c/d" at the end, and "Balance b/d" brought down.

SFP extract: capital accounts in one row, then the current accounts in columns for each partner as in "Understand it", with a total column. Show debit balances in brackets and subtract them.

8. Advise the partners on a change (7 questions)

Paper 2, 5 marks: two or more points **for**, two or more **against**, each one mark, and a **recommendation** for one mark. Every point must fit the story.

- **Converting to a limited company.** For: limited liability (personal possessions are safe); a separate legal identity, so the business continues if an owner leaves; it can raise finance by selling shares and may find loans easier. Against: costs and legal formalities of forming a company; the owners may lose control if others buy shares; profit shared with new shareholders; salaries paid to new directors reduce profit. If the partners will be the **only** shareholders, loss of control and sharing dividends don't apply: say so.
- **Taking in a new partner.** For: their skills, experience and reputation (more customers); new capital; workload and risk shared. Against: profit shared (a profit share may cost more than an employee's wages); disagreements; the others are liable for the new partner's actions.
- **A partner taking more drawings** or paying private bills from the business: see type 3.

9. Interest on a partner's loan (4 questions)

1. Interest = loan $\times$ rate, for the part of the year the loan existed.
2. It is an **expense**: in the income statement below "profit from operations", before the profit for the year. Never in the appropriation account.
3. **Paid**: journal debit loan interest, credit bank. **Not paid**: debit loan interest, credit the partner's current account.
4. **Effect of loan interest not yet recorded**: profit falls by the interest, so **every** partner's share falls; the lending partner also gains the interest in their current account. With \$900 of unpaid interest and the lender taking $\frac{2}{3}$ of the residual, the lender's balance rises by $900 - 600 = 300$.

10. Prepare the income statement of a partnership (3 questions)

Paper 2, about 8 marks. It is prepared exactly as for a sole trader, with every adjustment in "Year-end adjustments" above (work each one out beside its line first), then:

- **Profit from operations**, less **interest on the partner's loan**, gives **profit for the year**.
- No partners' salaries, interest on capital or drawings in it: they go in the appropriation account and current accounts.
- Service businesses (lawyers, repairers) have no trading section.

Worked examples

Example 1

Hana and Dev are partners sharing residual profits and losses in the ratio 3 : 2. For the year ended 31 March 2026:

	Hana \$	Dev \$
Interest on capital	2 500	1 500
Salary	–	6 000
Interest on drawings	400	200
Drawings	12 000	9 000

The profit for the year was \$41 000. What was Hana's share of the residual profit? **[1]**

A \$18 600 B \$18 960 C \$21 460 D \$24 600

Residual = $41\,000 + 600 - 4\,000 - 6\,000 = 31\,600$. Hana's share = $31\,600 \times \frac{3}{5} = 18\,960$. **B (1)**

A forgets to add the interest on drawings; C is the total credited to Hana (her share plus her interest on capital); D shares the profit for the year without any appropriations. Drawings are not used at all.

Example 2

Leila and Oscar are partners. Their year ends on 31 March. The partnership agreement provides for:

- interest on capital of 5% per annum;
- interest on drawings of 6% per annum;
- a salary to Oscar of \$9 600 per annum;
- residual profits and losses shared Leila 5, Oscar 3.

	Leila \$	Oscar \$
Capital accounts at 1 April 2025	70 000	44 000
Current accounts at 1 April 2025	3 850 credit	1 150 debit

Leila drew \$12 000 from the bank on 30 September 2025. Oscar drew \$9 000 from the bank on 31 December 2025, and took goods costing \$2 400 for his own use on 30 June 2025. The profit for the year ended 31 March 2026 was \$51 497.

(a) Prepare the appropriation account for the year ended 31 March 2026. **[7]**

(b) Prepare Oscar's current account for the year ended 31 March 2026. Balance the account and bring down the balance on 1 April 2026. **[7]**

(a) Workings, interest on drawings:

- Leila: $12\,000 \times 6\% \times \frac{6}{12} = 360$ (October to March);
- Oscar: $9\,000 \times 6\% \times \frac{3}{12} = 135$ and $2\,400 \times 6\% \times \frac{9}{12} = 108$, total 243.

Leila and Oscar: Appropriation account for the year ended 31 March 2026

	\$	\$
Profit for the year		51 497
Add Interest on drawings: Leila	360 (1)	
Oscar	243 (1)	603
		52 100
Less Interest on capital: Leila	3 500	
Oscar	2 200 (1)	
	5 700	
Salary: Oscar	9 600 (1)	15 300
Residual profit		36 800
Share of profit: Leila ($36\,800 \times \frac{5}{8}$)	23 000 (1)OF	
Oscar ($36\,800 \times \frac{3}{8}$)	13 800 (1)OF	36 800

One more (1) for the heading and for naming the partner on every line.

(b)

Oscar: Current account

Date	Details	\$	Date	Details	\$
2025			2026		
Apr 1	Balance b/d (1)	1 150	Mar 31	Interest on capital (1)OF	2 200
2026				Salary (1)	9 600
Mar 31	Drawings ($9\,000 + 2\,400$) (1)	11 400		Share of profit (1)OF	13 800
	Interest on drawings (1)OF	243			
	Balance c/d	12 807			
		25 600			25 600
			2026		
			Apr 1	Balance b/d (1)OF	12 807

The goods taken are drawings as well as the cash. Leila's capital, and her items, do not belong in Oscar's account.

Example 3

Nkechi and Bruno run a bicycle repair workshop as partners. Their balances at 30 June 2026 included:

	\$
Repair fees	148 600
Rent receivable	4 200
Wages	52 300
Rent and rates	14 400
Insurance	3 900
General expenses	5 180
Loan interest paid	450
Equipment at cost	36 000
Provision for depreciation of equipment	9 000
Loan from Bruno (repayable 2030)	18 000

Additional information:

1. The insurance covers the 15 months from 1 July 2025 to 30 September 2026.
2. Wages of \$1 150 were owing at 30 June 2026.
3. Equipment is depreciated at 20% per annum on the reducing balance.
4. Bruno's loan was made on 1 July 2025 at 5% per annum. Any interest not yet paid is to be credited to his current account.
5. The partnership agreement provides for interest on capital of 3% per annum, interest on drawings of 4%, a salary to Nkechi of \$12 000 per annum, and residual profits and losses shared equally.
6. Capital accounts: Nkechi \$64 000, Bruno \$36 000. Drawings for the year: Nkechi \$20 000, Bruno \$25 000.

(a) Prepare the income statement for the year ended 30 June 2026. [7]

(b) Prepare the appropriation account for the year ended 30 June 2026. [5]

(a) Workings: insurance $3\,900 \div 15 \times 12 = 3\,120$; depreciation $(36\,000 - 9\,000) \times 20\% = 5\,400$; loan interest $18\,000 \times 5\% = 900$, of which \$450 is still owing.

Nkechi and Bruno: Income statement for the year ended 30 June 2026

	\$	\$
Repair fees		148 600

	\$	\$
Rent receivable		4 200
		152 800
Less Expenses		
Wages (52 300 + 1 150)	53 450 (1)	
Rent and rates	14 400	
Insurance (3 900 ÷ 15 × 12)	3 120 (1)	
General expenses	5 180 (1)	
Depreciation of equipment	5 400 (1)	81 550
Profit from operations		71 250 (1)OF
Less Loan interest (18 000 × 5%)		900 (1)
Profit for the year		70 350 (1)OF

It is a service business, so there is no trading section. The loan interest is the full year's \$900, not the \$450 paid.

(b) Interest on drawings has no dates, so it is 4% of each total: Nkechi $20\,000 \times 4\% = 800$, Bruno $25\,000 \times 4\% = 1\,000$. Interest on capital: Nkechi $64\,000 \times 3\% = 1\,920$, Bruno $36\,000 \times 3\% = 1\,080$.

Nkechi and Bruno: Appropriation account for the year ended 30 June 2026

	\$	\$
Profit for the year		70 350
Add Interest on drawings: Nkechi	800	
Bruno	1 000	1 800 (1)
		72 150
Less Interest on capital: Nkechi	1 920	
Bruno	1 080	
	3 000 (1)	
Salary: Nkechi	12 000 (1)	15 000
Residual profit		57 150
Share of profit: Nkechi	28 575 (1)OF	
Bruno	28 575 (1)OF	57 150

Example 4

This continues Example 3. At 1 July 2025 Nkechi's current account had a credit balance of \$2 400 and Bruno's a debit balance of \$3 100.

(a) Prepare the extract from the statement of financial position at 30 June 2026 showing the partners' capital accounts and full details of their current accounts. [7]

(b) Explain what Bruno's debit balance at 1 July 2025 tells the partners. [2]

Bruno's cousin Amara, an experienced cycle mechanic, has offered to join as a third partner. She would bring \$30 000 of capital and would expect one third of the residual profit.

(c) Advise Nkechi and Bruno whether or not they should accept Amara as a partner. Justify your answer. [5]

(a)

Nkechi and Bruno: Statement of financial position (extract) at 30 June 2026

	Nkechi \$	Bruno \$	Total \$
Capital accounts	64 000	36 000	100 000 (1)
Current accounts			
Opening balance	2 400	(3 100) (1)	
Add Interest on capital	1 920	1 080	
Salary	12 000		
Interest on loan		450 (1)	
Share of profit	28 575	28 575 (1)OF	
	44 895	27 005	
Less Drawings	20 000	25 000 (1)	
Interest on drawings	800	1 000 (1)OF	
Closing balance	24 095	1 005	25 100 (1)OF
			125 100
Non-current liabilities			
Loan from Bruno			18 000

The \$450 of loan interest still owing to Bruno is credited to his current account, as the question says.

(b) Bruno had taken out more (drawings and interest on drawings) than he had been credited with in earlier years. (1) He owed the partnership \$3 100, which reduced the total the partners had invested. (1)

(c)

For:

- Amara's skills as a mechanic would let the workshop take on more repairs, raising fees and profit. **(1)**
- Her \$30 000 of capital would add finance, and she would share the workload and the risks. **(1)**

Against:

- The residual profit would be shared three ways: on this year's figures each partner's share would fall from \$28 575 to \$19 050, and the extra profit may not make up for it. **(1)**
- There would be three people to agree every decision, and Nkechi and Bruno would be bound by Amara's actions on behalf of the business. **(1)**

Recommendation: they should accept Amara, but only if a new partnership agreement sets out her capital, duties and profit share, as her skills should bring in enough extra work to make up for the smaller shares. **(1)**

Common mistakes

- **Getting the signs wrong in the appropriation account.** Examiners see interest on drawings subtracted and interest on capital added, every year. Interest on drawings is **added**; interest on capital and salaries are **subtracted**.
- **Putting the wrong things in the appropriation account:** drawings, capital or current account balances, loan interest. These corrupt every share that follows.
- **Not starting with the profit for the year** (or leaving it out), especially when it has just been calculated in an income statement.
- **Leaving out the partners' names**, or using initials and abbreviations ("I on C", "S of P", "Int"). Every interest, salary and share line needs the partner's full name and the full words.
- **Charging interest on drawings for the whole year** when the dates are given and the rate is per annum. Count the months from each drawing to the year end.
- **Filling a current account with extra items:** the capital balance, the profit for the year, or the other partner's figures. Only this partner's own items belong.
- **Forgetting goods taken for own use** in drawings and in interest on drawings.
- **Not bringing the balance down** on a current account. Every ledger account must be balanced and brought down.
- **Unrecorded loan interest.** Candidates add (or subtract) the interest alone and forget that the lower profit also reduces the lender's share.
- **Thinking interest on drawings stops partners taking drawings**, or that loan interest is "to encourage loans". It discourages excessive drawings, and it rewards the lender.
- **In multiple choice**, dividing the profit for the year instead of the residual profit, or adding drawings to the profit.
- **One-sided advice.** Answers about converting to a company often list only advantages, or ignore the scenario (discussing selling shares to the public when the partners would be the only shareholders), or give no recommendation.

How to get the marks

- **Headings:** the partners' names, the account, and "for the year ended [date]"; an SFP extract is "at [date]".
- **Workings in brackets** beside each figure: $(12\,000 \times 6\% \times \frac{6}{12})$. A working can earn the mark even if a slip spoils the total.
- **Own-figure marks** (OF) are given for the residual profit, the shares and the current account balance worked from your earlier figures. Always finish the account, even if an earlier line is wrong.
- **Names and full words** on every appropriation line. "Balance b/d" and "Balance c/d", not just "b/d".
- **Ledger accounts:** date, detail and amount on the correct side for every line; totals level; balance brought down on the first day of the next year.
- **SFP extract:** capital accounts, then the current accounts in columns with each item named, and totals. Show a debit balance in brackets.
- **"State"** needs a short phrase, such as "going concern" or "to reward Bruno for lending money". **"Explain"** needs the reason too.
- **"Advise ... Justify your answer":** at least two points for and two against, each tied to the story, then a clear recommendation ("They should..."). One mark each, usually 5 in all.
- **"Other than ...":** don't repeat items the question has already named (such as profit sharing in the agreement).
- **Multiple choice:** work out exactly what is asked (share of residual, total credited, closing balance) before looking at the options; the wrong options are the other three.

Quick check

1. Say whether each item is added in the appropriation account, subtracted in it, or doesn't appear in it: (i) interest on capital, (ii) interest on drawings, (iii) interest on a loan from a partner, (iv) a partner's salary, (v) drawings.
2. A partnership's year ends on 31 December and interest on drawings is charged at 8% per annum. Pia drew \$3 000 on 31 March and \$4 800 on 31 October. Calculate her interest on drawings.
3. A partner's current account moved from \$1 400 debit to \$5 600 credit during a year. She made no drawings and received no interest or salary. Her share of profits is 40%. Calculate the partnership's profit for the year.
4. Pia and Quentin share residual profits 3 : 1. Quentin has a salary of \$5 000; there is no interest on capital or drawings. The profit for the year was \$29 000. Pia's current account started with a credit balance of \$2 300 and she drew \$14 000. Calculate the closing balance on her current account.
5. Uma and Vik share profits equally. Vik lent the partnership \$12 000 at 5% per annum a year ago. No interest has been paid or recorded. State the effect on the closing balance of Vik's current account when the interest is recorded.

Answers

1. (i) Subtracted. (ii) Added. (iii) Doesn't appear: it is an expense in the income statement. (iv) Subtracted. (v) Doesn't appear: it is debited to the current account.
2. $3\,000 \times 8\% \times \frac{9}{12} = 180$ and $4\,800 \times 8\% \times \frac{2}{12} = 64$, so **\$244**.
3. Change = $1\,400 + 5\,600 = 7\,000$, which is 40% of the profit: $7\,000 \div 0.4 = \mathbf{\$17\,500}$.
4. Residual = $29\,000 - 5\,000 = 24\,000$; Pia's share = $24\,000 \times \frac{3}{4} = 18\,000$. Closing balance = $2\,300 + 18\,000 - 14\,000 = \mathbf{\$6\,300 \text{ credit}}$.
5. Interest = $12\,000 \times 5\% = 600$, credited to Vik's current account. Profit falls by \$600, so Vik's half share falls by \$300. Net effect: Vik's balance **increases by \$300** (and Uma's falls by \$300).

Past questions to try

- **0452/22/F/M/23 Q5**: an appropriation account, a partner's current account and the effect of private expenses paid by the business.
- **0452/22/O/N/22 Q5**: interest on drawings for part of a year, and an SFP extract with both partners' current accounts.
- **0452/21/M/J/21 Q2**: a partnership income statement with a partner's loan, then the appropriation account.
- **0452/12/F/M/23 Q24**: a partner's closing current account balance.