WEEK 1 E- LESSON NOTE

PARTNERSHIP ACCOUNT

DEFINITION OF PARTNERSHIP

The partnership Act of 1890 defined partnership as 'the relation which exists between persons carrying on a business in common with a view of profit'.

Partnership can be formed by two to twenty persons. The owners of partnership business are called partners.

Partnership Agreement

This refers to rules and regulations put in place by the partners for smooth operation of the partnership business. The guiding rules will be contained in a written agreement known as **partnership deed**. The agreement must be signed by the partners in the presence of a lawyer.

CONTENTS OF PARTNERSHIP AGREEMENT

1. The capital to be contributed by each partner.
2. The rate of interest on capital.
3. The rate of interest on drawings.
4. The division of profits and losses.
5. Partners' salaries, commissions and other remunerations.
6. Valuation of goodwill on the death or retirement of a partner.

WHEN THERE IS NO AGREEMENT

Where there is no specific arrangement pertaining to the partnership agreement, the following provisions of the partnership Act of 1890 must be applied. Section 24 of the Act lays down the following:

a. No interest on capital

b. No remuneration or salary

c. Profits and losses are to be shared equally

d. 5% interest a year on loans made by partners in excess of the agreed capitals

e. No interest is to be allowed on drawings

Accounting entries

In partnership accounting, the following accounts are prepared:

- trading ,profit and loss account
- appropriation account
- current and capital account
- balance sheet