



Partnership & Corporate Accounting Notes

Fundamentals of Accountancy, Business and Management (AMA Computer University)

Partnership Accounting (1st File)

LESSON 1: Partnership

Formation of a Business

3 Types of a Business:

- **Sole Proprietorship**
- **Partnership**
- **Corporation (includes 1 – 15 people, according to R.A 11232 Revised Corporation Code of the Philippines)**
- (Additional: Cooperatives) (More than 15 members)

Definition of Partnership

A Partnership involves 2 or more persons who agree to contribute money, property and industry (service) to a common fund; and divide profits and losses among partners.

Partnerships According to **Contribution**:

- **Capitalist Industrial Partner** (offers money, property, and industry to Partnership)
- **Capitalist Partner** (offers capital aspects to Partnership, IE money and property)
- **Industrial Partner** (offers industry/service to Partnership)

Partnerships According to **Classification/Kind**:

- **Ostensible Partner** (names are disclosed to public as actual partners)
- **Dormant/Nominal Partner** (disclosed as a partner to public or not, entitled to shares of profits and losses, yet inactive in business activity)
- **Silent Partner** (contributes to business but has no say in the business' daily operations)
- **Secret Partner** (contributes to business and participates in business activity, operates anonymously, due to reputation from previous business or prefers not to be disclosed to public)

Partnerships According to **Liability**:

- **General Partners** (Creditors can use personal assets of Partners to unpaid liabilities in the business)
- **Limited Partners** (partners whose limited investments given are proportioned to shares received, and creditors may not utilize their personal assets)

Partners According to **Activity**:

- **Trading Partnership**
 - o Merchandising (Buy and Sell)
 - o Manufacturing (Producing and Sell)
- **Non-Trading Partnership**
 - o Professional Services (Accounting, legal, etc.)
 - o Non-professional Services (Gardening, make-up, etc.)

Characteristics of **Partnership**:

- **Association of individuals**
 - o Collective agreement among people regarding Partnership
- **Mutual Agency**
 - o Agents of Partnership/Common representative
 - o Partners have equal authority to represent the Partnership and business
- **Limited Life**
 - o Partnership dissolves, depending on the Partner's status (death, voluntary leave, etc.)
- **Profit and Loss Distribution**
 - o Profits and losses are distributed, depending on the stipulation of agreement, or value of contribution.
- **Unlimited Liability**
 - o Creditors can run after Partner's personal assets to repay liabilities
- **Co-ownership Property**
 - o Partners contribute to Common fund
 - o All assets, liabilities, profits, and losses are shared mutually by all partners
- **Plurality of Capital and Drawing Accounts**
 - o Each Partner has different equity and withdrawing accounts

Advantages of Partnership

- **Combined Share of Skills, Assets and Liabilities**
- **Ease of Formation** (Partnership, through SEC, has limited legal requirements)
- **Freedom from Governmental Regulations and Requirements**
- **Ease of Decision Making** (Common Goal)

Disadvantages of Partnership

- **Ease of Decision Making** (vulnerable to wrong/unprofitable business choices)
- **Mutual Agency** (Mistake of 1 partner, mistake of all)
- **Unlimited Liability**

Legal Partnership Contract Requirements

- **Oral Contract**
 - o If contribution is at **maximum Php 3000**
- **Written Contract**
 - o if contribution is worth **more than Php 3000**
 - o if contribution contains **Immovable Property** (land, building, etc.)
 - o **Profit and Loss** is **Outlined** (Written in agreement)

Articles of Co-partnership (These items are made as a contract to officially dictate the business):

- 1. Name of Partnership**
- 2. Partners Involved**
- 3. Nature of Business**
- 4. Place of Business**
- 5. Classification of General/Limited Partnership**
- 6. Contributions**
- 7. Effective Date and Duration of Partnership**
- 8. Profit and Loss Sharing**
- 9. Rights, Powers and Duties of Partners**
- 10. Accounting Period** (Calendar or Fiscal)
- 11. Treatment of Partners' Additional Investments and Withdrawals**
- 12. Provision Pertinent to Dissolution and Liquidation**

Republic Acts Regarding Partnership

- **Republic Act No. 9184** (for the procurement of goods, supplies and services)
- **Republic Act No. 6957** (allows LGUs to enter into contractual arrangements with the private sector to implement infrastructure projects)
 - o Build-Operate-and-Transfer (BOT)
 - o Build-Transfer-and-Operate (BTO)

Partnership Accounting (2nd File)

LESSON 1: Partnership Journal Entries

(Written Contract = Article of Co-partnership)

1. Cash Contribution of Partner

Cash	xx	
Partner, Capital		xx

2. A. Receivable Contribution of Partner

Accounts Receivable (Gross Amount)	xx	
Allowance for Doubtful Accounts		xx
Partner, Capital		xx

OR

Accounts Receivable (Net Amount)	xx	
Partner, Capital		xx

***Gross Amount** if collectability is doubtful

***Net Amount** if collectability is ensured

B. Inventory Contribution of Partner

Merchandise Inventory / Finished Goods / Raw Materials	xx	
Partner, Capital		xx

C. Property, Plant, and Equipment Contribution of Partner

Property and Equipment	xx	
Partner, Capital		xx

(At FAIR MARKET VALUE *present value*)

D. Service Industry Contribution of Partner

Memorandum Entry

Signed By: Partner A
Partner B
Partner C

SAMPLE:

Jan-02					
	Cash		Php	100,000.00	
	C. Edula, Capital				100,000.00
	Equipment			120,000.00	
	Accounts Payable				15,000.00
	E. Dikokaila, Capital				105,000.00
	(or Equipment)			120,000.00	
	E. Dikokaila, Capital				120,000.00
	(If Liability is assured by Partner)				
	Ms. Pamela Tao *blah blah blah* for 10% of profits				
			Signed By:	C. Edula	
				E. Dikokaila	
				P. Tao	

METHOD 2: (Try to form the Partnership of Both businesses, making 1 Statement of Financial Position)

Dadiangas Merchandising						
Statement of Financial Position						
As of July 31, 20A						
Assets						
Current Assets						
	Cash in Bank					Php 260,000.00
	Accounts Receivable	Php	90,000.00			
	Estimated Uncollectable Accounts		<u>5,000.00</u>			85,000.00
	Merchandise Inventory					150,000.00
Non-current Assets						
	Equipment	Php	70,000.00			
	Accumulated Depreciation		<u>20,000.00</u>			<u>50,000.00</u>
	Total Assets				Php	<u>545,000.00</u>
Liabilities						
	Accounts Payable				Php	50,000.00
Owner's Equity						
	M. Penafior, Capital				Php	<u>495,000.00</u>
	Total Liabilities and Capital				Php	<u>545,000.00</u>

Dadiangas Grocery						
Statement of Financial Position						
As of July 31, 20A						
Assets						
Current Assets						
	Cash in Bank				Php	280,000.00
	Accounts Receivable	Php	50,000.00			
	Estimated Uncollectable Accounts		<u>2,000.00</u>			48,000.00
	Merchandise Inventory					190,000.00
Non-current Assets						
	Furniture and Fixtures	Php	40,000.00			
	Accumulated Depreciation		<u>30,000.00</u>			<u>10,000.00</u>
	Total Assets				Php	<u>528,000.00</u>
Liabilities						
	Accounts Payable				Php	70,000.00
Owner's Equity						
	J. Tamala, Capital				Php	<u>458,000.00</u>
	Total Liabilities and Capital				Php	<u>528,000.00</u>

Partnership Accounting (3rd File)

LESSON 1: After-Quiz Discussions

3. Always use Fair Market Value

-To record the value of acquisition, equal to the price to be sold after (or Market Value)

4. Partner Agreements of Accounts when merging businesses

- Partner's agreement of adjusting books to owner is considered final

- Unsure Collectability of accounts = minus to Accounts Receivable

- Agreement by owners = Fair Market Value

LESSON 2: Division of Profits and Losses

RULES OF DIVISION/DISTRIBUTION

PROFITS

1. Divide according to Partner's Agreements

2. If no Agreement

a. Capitalist Partners – use ratio of capital

b. Industrial Partners – just and equitable share before Capitalist divide according to ratio

LOSSES

1. Divide according to Partner's Agreements

2. If no Agreement

a. Capitalist Partners – use ratio of capital

b. Industrial Partners – no reduction of capital, since their services are rendered and are not paid back

Sample of Profit Distribution Schedule: (Also known as Bottom Portion of Comprehensive Income)

Schedule of Profit Distribution						
Interest	Partner A		Partner B		Combined	
Partner A: (Base Amount x %)	Php	xx			Php	xx
Salary			Php	xx		xx
Partner B: (Periodic Salary x # of periods (eg: Monthly, weekly, yearly, etc.)						
Bonus						
Partner A		xx				xx
Partner B				xx		xx
Remainder for Distribution						
Partner A: (Ratio x Remainder)		xx				xx
Partner B: (Ratio x Remainder)						
Total	Php	xx	Php	xx	Php	xx

LESSON 3: Correction of Prior Period Errors

Ex:

- Estimation of Depreciation
- Inventory Valuation
- Omission of accruals of Revenue and Expenses
 1. Adjustments are to be done on the **Opening Balances** of **Partner's Equity** and affected **Assets and Liabilities**
 2. Correction of prior period error is **excluded** from **Profit/loss** for the period in which error is discovered
 3. Effect of error correction will be divided based on an applicable profit and loss ratio

If Partners have no Agreed Ratio to divide Profit/Loss:

$$\frac{\text{Partner A or B or C}}{\text{Partners A + B + C}} \times \text{Profit / Loss}$$

NO capital given, NO loss received

Profit: Income Summary	xx	
Partner A, Capital		xx
Partner B, Capital		xx
Loss: Partner A, Capital	xx	
Partner B, Capital	xx	
Income Summary		xx

Header of Schedule: "Schedule of Profit/Loss Distribution" (No more company name/ date)

Common Methods of Distribution/Profit Sharing

- **Arbitrary Ratio** (Agreed amount by partners)
- Ratio of Capital Contribution
 - * **Original Investment**
 - * **Beginning Capital Balance**
 - * **Ending Capital Ratio**
 - * **Detailed Average Capital Ratio**
 - * **Simple Average Capital Ratio**
- In accordance to **ratio of time** devoted to Partnership
- Allowing Interest, Salaries, or Bonus to partners and dividing any ratio agreed to Remainder

Before Bonus: Percentage of Profit

After Bonus: Profit – x% = Bonus

Original Investment Ratio:

First investment of Partner A/B/C

Total first investment of Partners ABC

Beginning Capital Balance Ratio:

Beginning balance of the Year of Partner A/B/C

Total Beginning balance of the Year of Partners ABC

Ending Capital Balance Ratio:

Ending balance of the Year of Partner A/B/C

Total Ending balance of the Year of Partners ABC

Simple Average Ratio:

Beginning + Final balance of the Year of Partner A/B/C

Total Beginning + Final balance of the Year of Partners ABC

Weighted Average Ratio:

Individual investments of Partner x (months before next change/12)

Total investments of Partners x (months before next change/12)

Sample Statement of Changes in Partner's Equity:

Statement of Changes in Partners' Equity							
		A		B		C	
Partner's Equity, Beginning		Php	xx	Php	xx	Php	xx
Add: Additional Investments			<u>xx</u>		<u>xx</u>		<u>xx</u>
Total		Php	xx	Php	xx	Php	xx
Less: Permanent Withdrawals			<u>xx</u>		<u>xx</u>		<u>xx</u>
Balances		Php	xx	Php	xx	Php	xx
Add: Profits			<u>xx</u>		<u>xx</u>		<u>xx</u>
Total		Php	xx	Php	xx	Php	xx
Less: Temporary Withdrawals			<u>xx</u>		<u>xx</u>		<u>xx</u>
Partner's Equity, End		Php	<u>xx</u>	Php	<u>xx</u>	Php	<u>xx</u>

DISSOLUTION AND LIQUIDATION

Dissolution – Partnership ends, Business continues

Liquidation – Partnership ends, Business Ends

Net Assets = Total Assets – Total Liabilities = Capital Net of Drawing

Problem Solving Dissolution:

Amy and Ben has a Partnership. Amy's Capital is worth Php 20,000 and Ben's Capital is Php 10,000. Chad wants to join the partnership by buying 1/4th of Amy's interest by buying Php 7,400.

1) What is the journal entry if Chad pursues?

Answer: Amy, Capital = Php 5000 (Dr); Chad, Capital = Php 5000 (Cr)

1/4th of Amy's Interest/Capital is Php 5000 only, the bonus of Chad's investment (Php 2400) is a personal transaction to Amy to acquire her Php 5000 share of business Assets, creating a new partnership by admission of partner purchasing assets of another partner.

2) Chad invests Php 10,000 for 1/3 of the business. What journal entry is present?

Answer: 1/3 of Amy + Ben + Chad (Investment) = Chad's Capital = Php 13,333. Chad only invested Php 10,000 (journal entry increase to cash), so the extra amount is a bonus to Chad, but a credit to both Amy

and Ben. To divide the transfer of Capital between the two of them, they are divided according to the ratio of their investment: 20,000:10,000 x 3,333, so:

Amy, Capital = Php 2,222 (Dr); Ben, Capital = 1,111 (Dr); Cash = 10,000 (Dr); Chad, Capital = Php 13,333 (Cr) (similar if Chad invests 15,000 to business)

3) Chad wants to withdraw from business, taking Php 10,000, Amy offers to pay.

Answer: Chad, Capital = Php 10000 (Dr); Amy, Capital = Php 10000 (Cr)

By offering Chad his withdrawal of business of 10K, Amy gets to keep Chad's share of assets worth 10K, increasing her capital amount. (Similar if Partnership pays, the partnership will offer cash instead of either of capital amounts)

4) Chad withdraws from business, taking Php 10000, the Partnership only offers Php 9000.

Chad, Capital = Php 10000 (Dr); Cash = 9,000 (Cr); Amy, Capital = Php 667 (Cr); Ben, Capital = 333 (Dr)

LIQUIDATION

Liquidation happens if the Partnership cannot fulfil to pay back creditors with their cash assets.

Steps of Completing Liquidation:

1. Sell Non-cash Assets for Cash
2. Allocate Gain or Loss on realization to the partners based on realization
3. Pay Partnership Liabilities in Cash
4. Distribute Remaining Cash to Partners based on their remaining Capital Balances

CORPORATE ACCOUNTING INTRODUCTION

Corporation:

- Artificial Being (Separate from shareholders)
- Created by Operation of Law (Cannot be created by mere agreement of parties, must be lawful)
- Right of Succession (Continues to exist regardless of shareholders)
- Powers, attributes & properties expressly authorized by law (Can only exercise certain actions under law)

Advantages of Corporations:

1. **Limited Liability** (Creditors cannot acquire assets of shareholders)
2. **Unlimited life** (Old constitution state Corporations can only exist until 50 years, now infinite)⁴
3. **Minimum Capital** for Corporations:
 - Minimum Paid-up Capital must be Php 5,000
 - Subscribed Capital must be 25% of Authorized Share Capital
 - Paid-up Share capital must be 25% of Subscribed Capital

Corporation Owner Requirements:

- **1 Person Corporation** – Minimum investment of Php 1,000,000
- **More than 1 Person Corp** – Minimum Php 1,000,000 capital Php 62,500 paid share capital

Corporate Accounting Terms:

1. **Shares and Stocks are the same:**
 - **Ordinary Share/Preference Share** (International Accounting Standards (IAS) terminology)
 - **Common Stock/Preference Stock** (Corporate Law terminology)
2. **Stock Corporations**
 - Corporations for profit, sharing stocks to increase Share Capital
3. **Share Capital**
 - Part of the Corporation's Capital to be shared to Shareholders through Stocks/Shares
4. **Share**
 - A proportioned, equal part of a Company's capital, entitling the holder to a proportion of profits
5. **Dividends**
 - Capital compensations to Shareholders, since they have invested money into the business (by buying shares), dividends are treated as "rewards" to shareholders.
6. **Cash Dividend**
 - Capital Compensation of Cash to Shareholders
7. **Share Dividend**
 - A payment of share, instead of cash, a proportion of share to add into the shareholder's number of shares

- Does not create an outflow of cash, but decreases value of share

8. Retained Earnings

- Amount of Net Income left over for the business after paying dividends to shareholders
- $RE = \text{Beginning RE} + \text{Net Income (or - Net Loss if loss incurs)}$

9. Preferred and Common Shares/Stocks

- Preferred Shareholders are considered Creditors, they buy preferred shares to receive a fixed amount of dividends, but are not liable to have a part in Corporate Decisions/Voting
- Common Shareholders are considered part of the Company, they buy Common Shares to receive dividends, and have the right to be a part of Corporate Decisions and Voting.
- Preferred = First Paid dividends, Common = Last paid Dividends
- Fixed amount of dividends vs. Fluctuating amount of dividends respectively

10. Authorized Shares

- Maximum number of Shares corporations can legally issue, through the Securities and Exchange Commission (SEC)

11. Issued Shares

- Number of released shares to be publicly sold in the Market

12. Subscribed Shares

- Shares an Investor agrees to purchase, but may or may not have been paid

13. Outstanding Shares

- All shares being held by Shareholders/Capital Stock

14. Treasury Shares

- Shares that were released to the market, but bought back by the Company
- Can also be shares donated from shareholders, under the title "Donated Shares"

15. Share Premium

- An excess/gain of cash from selling/buying of shares more than its Par/Cost value

16. Share/Stock Certificate

- Receipt/Evidence of buying shares

17. Delinquent Shares

- Portion of Unpaid Shares subscribed by investors
- Unpaid Portion of Shares are bidden/auctioned to other investors (Action known as Delinquency Sale)

18. Accounting Share Capital

- **Par/Stated Value:** Value of the stated amount of the Share
- **Cost Value:** Value being sold in the market

RETAINED EARNINGS AND SHARES:

Retained Earnings are used to:

- **Buy Assets for business**
- **Divide to shareholders as dividends**
- **Repay Liabilities**
- **Buy back shares to reduce shares sold in markets (Allocation for Treasury Shares)**

Dividend impact to Retained Earnings

1. Cash Dividends

- Reduces value of RE, as well as cash, so there is a cash outflow
- (Paying shareholders Cash for investing in the company through purchasing of shares)

2. Stock Dividends

- No outflow of cash, decreases RE
- Decreases value of share

REVENUE is NOT equal to Retained Earnings

- Revenue is total income of the company
- Retained Earnings is an allocated portion of Revenues, related to net income

TREASURY STOCKS

- When a company releases stocks/shares to the market, they are bought by anyone who is willing to buy these shares so that they can returns from a company's portion of profits. Considering that maybe there are too many shares not bought by other investors or an opposing company wishes to buy the remaining shares, they can "buyback" shares to reduce the amount of shares in the market (increasing the value of shares limited in the market), and avoiding too many people or entities entitlement to acquire shares of their profits
- Since these shares are owned originally by the company, the company cannot give itself profits, so these shares are void of profit and are deducted to retained earnings.

Buying Treasury Stocks

- **Cost Method (Most used):** Buying Shares back at its Market Value
- **Par/Stated Value Method:** Buying Shares back at its stated value

Problem Solving:

Sea Wind Resort releases shares after having a profitable year, to increase their business' value. To avoid corporate Takeover by outsiders, they bought back 1,500 shares with a par value of Php 1,000 , for Php 2,000

Answer:	Treasury Stock (1500 x Php 2000 at cost)	Php 3,000,000
	Cash	Php 3,000,000

If Treasury shares are re-issued (sold again to market) at:

Cost:

Cash	Php 3,000,000
Treasury Shares (1500 x Php 2000 at cost)	Php 3,000,000

Above Cost (Php 2500 per share):

Cash	Php 3,750,000
Treasury Shares (1500 x Php 2000 at cost)	Php 3,000,000
Share Premium – Treasury	750,000

Below Cost (Php 1500 per share):

Cash	Php 2,250,000
Retained Earnings	750,000
Treasury Shares (1500 x Php 2000 at cost)	Php 3,000,000

If Treasury shares are bought at Php 750 (Instead of Php 2000), but retired after (Removed from being sold, void share):

Ordinary Shares (1,500 shares x Php 1000 par)	Php 1,500,000
Share Premium	Php 375,000
Treasury Shares (1500 x Php 750 at cost)	1,125,000

If the Php 1,000 share was revalued at Php 1,500, but purchased at Php 2,000 , then retired:

Ordinary Shares (1,500 shares x Php 1000 par)	Php 1,500,000
Share Premium (1,500 shares x (1500 – 1000 par)	750,000
Retained Earnings	750,000
Treasury Shares (1500 x Php 2000 at cost)	Php 3,000,000

DONATED CAPITAL

-Shareholders giving capital assets or any contribution as gifts to the company

If Shareholder gives Service vehicle worth Php 350,000:

Service Vehicle	Php 350,000
Donated Capital	Php 350,000

If Shareholder gives shares (recorded at memorandum entry since no cash or cash value is involved):

“Received 500 ordinary shares as donation”

Donated shares are essentially treasury shares. If these were sold at Php 50 each:

Cash	Php 40,000
Donated Capital	Php 40,000