

Fifth lecture: Accounting for the creation of a company

1- Incorporation of a company: promise and release of contribution

Our study is limited to the accounting records related to the establishment of partnership companies or « the solidarity company ».

The capital of this company is account 101 and is called “the company’s capital” and represents the nominal value of the company’s shares.

The accounting registration for the incorporation of the partnership goes through two stages:

- the stage of promising contributions (or agreeing to form a company);
- And the stage of implementing the promise (or paying (providing) the promised contributions)

➤ Promise of Contributions (or Agreement to Form the Company):

This stage involves recording the commitments made by the partners regarding their contributions to the company. These commitments can be in the form of cash, assets, or services.

This is done by making account 456 “Partners: Operations on Capital” debit to the value of the promised contributions in kind or in cash, in return for making account 101 “Capital of the Company” a credit with the same value representing the capital agreed upon in the Basic Law or the subscribed value, as shown in the following entry :

456	101	Partners: Operations on Capital Capital of the Company (Promise of contributions)	xxxxxx	xxxxxx
-----	-----	---	--------	--------

Note: In order to obtain details and facilitate follow-up of accounts, account 456 can be divided into sub-accounts for each partner, and account 101 can be divided into sub-accounts for each partner’s contributions to the capital as shown in the following entry: (the case of three partners Ahmed, Ali and Fatima for example), and The previous entry becomes:

4561		Partner Ahmed: Operations on Capital	xx	
4561		Partner Ali: Operations on Capital	xx	
4563		Partner Fatima: Operations on Capital	xx	
	1011	The company's capital: the contributions of partner Ahmed		xx
	1012	The company's capital: the contributions of partner Ali		xx
	1013	The company's capital: the contributions of partner Fatima (Promise of contributions)		xx

➤ **Execution of the Promise (or Provision of Promised Contributions):**

In this stage, the partners fulfill their commitments by making the actual payment of the contributions promised during the formation of the company.

This can include transferring cash, transferring ownership of assets, or providing the agreed-upon services.

This is done by debiting one or all of the accounts of the assets provided (A/2, A/3, A/4 or A/5) in exchange for making account 456 credit with the values of the assets provided, as shown in the following entry :

		Date		
2		Fixed asset accounts	XX	
3		Inventory accounts	XX	
4		Third party accounts	X	
5		financial accounts	X	
	456	Partners: Operations on Capital (Provision of Promised Contributions)		XXXXXX

Example: Two partners, Hussein and Omar, agreed on 01/02/2005 to establish a partnership company, provided that the capital of partner Hussein is 250,000 DA, and the capital of partner Omar is 200,000 DA.

And payment is made as follows:

Partner Hussein paid half of his capital into the cashbox on the date of the contract, and presented an industrial machine worth 50,000 DA and goods worth 60,000 DA, provided that he pays the rest in the company's bank on 06/15/2005;

Partner Omar pays half of his capital in the company's bank on the date of the contract, and presents a truck with 70,000 DA, provided that he pays the rest in cash on 01/05/2005.

Required:

- 1- Make the daily entries necessary to prove the formation of the company
- 2- Preparing the opening **balance sheet** of the company after its formation.

Solution ;

The company's capital is 450 000 DA

the contributions of partner Hussein is : 250 000 DA

the contributions of partner Omar is : 200 000 DA

So that The Promise of Contributions entry is :

02/01/2005				
4561		Partner Hussein: Operations on Capital	250000	
4562		Partner Omar: Operations on Capital	200000	
	1011	company's capital: contributions of partner Hussein		250000
	1012	company's capital: contributions of partner Omar		200000
(Promise of contributions)				

And the Execution of the Promise entry shall be:

02/01/2005				
215		Industrial equipment and tools	50000	
30		merchandise stocks	60000	
53		Cashbox	125000	
	4561	Partner Hussein: Operations on Capital		135000
(Provision of Promised Contributions of Hussein)				
02/01/2005				
2182		transportation equipment (truck)	70000	
512		Bank	100000	
	4562	Partner Omar: Operations on Capital		170000
(Provision of Promised Contributions of Omar)				

2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			own funds	
215	Industrial equipment and tools	50000	1011	company's capital: the contributions of Hussein	250000
2181	transportation equipment	70000	1012	company's capital: the contributions of Omar	200000
	Current Assets			non-current liabilities	
30	merchandise stocks	60000		current liabilities	
4561	Partner Hussein: O. on Capital	15000			
4562	Partner Omar: O. on Capital	30000			
512	Bank	100000			
53	Cashbox	125000			
Total assets		450000	total liabilities		450000

2- Separation of a partner from the company

The separation or death of a partner results in the dissolution of the company, but it often stipulates in the company's contract that the company will not be dissolved and will continue in activity despite the separation or death of the partner.

In this case, **the closing balance sheet** must be prepared on the date of separation and the rights of the separated or deceased partner on the date of separation or death should be determined as follows:

- Determining his share in **the profits or losses** of the company from the beginning of the year until the date of separation ;
- Determine his share in **the net assets** shown in the budget.
- In addition to the partner's current account.

And the accounting registration of the withdrawing partneris as follows:

		Separation date		
101		Company capital (contributions of the withdrawing partner)	X	
105		Revaluation difference (share of the withdrawing partner)	X	
106		Reserves(share of the withdrawing partner)	X	
110		capital postponement (share of the withdrawing partner)	X	
120		result (profit) (share of the withdrawing partner)	X	
455		Partner current account (if it is creditor)	X	
	119	capital postponement (share of the withdrawing partner)		X
	129	result (losses) (share of the withdrawing partner)		X
	455	Partner current account (if it is bebtor)		X
	512	Bank		X
(Closing all accounts of the withdrawing partner)				

Example: Fatima, Bilal and Jalal are joint partners and share profits and losses equally.The balance sheet of their company on 07/31/2006 was as follows:

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	230000	1011	C.c. Fatima contributions	100000
	Current Assets		1012	C.c. Bilal contributions	100000
30	Merchandise stocks	600000	1013	C.c. Jalal contributions	100000
411	Customers	160000	105	Revaluation difference	30000
413	Receivable trade bills	100000	106	Reserves	360000
4553	Jalal current account	285000	110	Capital postponement	180000
512	Bank	15000	120	Result (profit)	30000
53	Cashbox	80000		Current liabilities	
			401	Inventory and services suppliers	570000
Total assets		1470000	Total liabilities		1470000

The partners agreed that Jalal would separate from the company on 07/31/2006 and compensate all his rights in the company with a bank check.

Required:

- 1- Determining all the rights of partner Jalal in the company
- 2- Registration of separation.
- 3-Preparing the company's balance sheet on 08/01/2006.

Solution

- 1- Determination of all the rights of the separated partner (Jalal)

The partners share the profits equally, thus, Jalal's partner's **share is 1/3**

As for his current account (A/4553) it appeared **debit**.

Elements	A/101	A/105	A/106	A/110	A/120	(A/4553)	the total
Total amount	300000	30000	360000	180000	30000	/	/
Share of partner Jalal (1/3)	100000	10000	120000	60000	10000	(285000)	15000

- 2- Registration of separation

		07/31/2006			
101		Company capital (contributions of partner Jalal)		100000	
105		Revaluation difference (share of partner Jalal)		30000	
106		Reserves(share of partner Jalal)		120000	
110		capital postponement (of partner Jalal)		60000	
120		result (profit) (share of partner Jalal)		10000	
	455	Partner current account			285000
	512	Bank			15000
(Closing all accounts of partner Jalal)					

- 3- The company's balance sheet on 08/01/2006

Assets (The uses)			Liabilities (Sources of funds)		
A.N	account name	The Amount	A.N	account name	The Amount
	Non-current Assets			Own funds	
215	Industrial equipment and tools	230000	1011	C.c. Fatima contributions	100000
	Current Assets		1012	C.c. Bilal contributions	100000
30	Merchandise stocks	600000	105	Revaluation difference	20000
411	Customers	160000	106	Reserves	240000
413	Receivable trade bills	100000	110	Capital postponement	120000
53	Cashbox	80000	120	Result (profit)	20000
				Current liabilities	
			401	Inventory and services suppliers	570000
	Total assets	1170000		Total liabilities	1170000