IGCSE Accounting Partnerships

1 State two advantages in going into partnership with business.

Answer: *Increase in finance*
Additional knowledge/skills/expertise
Share risks
Sharing of tasks and responsibilities
Can discuss decision-making
Losses can be shared between partners

2 David and Edward are in partnership.
Where are Edward's interest on drawings and interest on capital recorded in his current account?

	Interest on drawings	Interest on capital	
A	credit side	credit side	☐
B	credit side	debit side	☐
C	debit side	credit side	☐
D	debit side	debit side	☐

Answer: *C.*

3 State two advantages of being a partner rather than a sole trader.

1

2

Answer: *Additional finance is available*
Additional knowledge, skills and experience are available
The risks are shared
The losses are shared
The responsibilities are shared
Discussions can take place before decisions are taken

4 State one reason why a partnership agreement should be drawn up when a partnership is formed.

Answer: *To avoid misunderstandings and disagreements in the future.*

5 Ben and Tom Panesar formed a partnership on 1 February 2014.

The following information is available.

1 On 1 February 2014 Ben contributed \$90 000 capital and Tom contributed \$60 000. On 1 August 2014 Ben contributed a further \$10 000 capital.

Interest on capital is allowed at the rate of 3% per annum.

2 Tom was to be entitled to an annual salary of \$9000 per annum for the first four months of the first financial year. After that date the salary was to increase to \$12 000 per annum.

3 During the year ended 31 January 2015 Ben's drawings amounted to \$9800 and Tom's drawings amounted to \$20 800.

4 Interest on drawings for the year ended 31 January 2015 amounted to \$490 for Ben and \$1040 for Tom.

5 Profits and losses are shared 2/3 to Ben and 1/3 to Tom.

6 On 1 February 2014 Tom made a loan of \$15 000 to the business. The loan is repayable on 31 January 2020.

Loan interest of 4% per annum is to be credited to Tom's current account.

7 The profit for the year ended 31 January 2015 (after loan interest) was \$27 920.

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 31 January 2015.

Ben and Tom Panesar

Profit and Loss Appropriation Account for the year ended 31 January 2015

	$	$
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Answer:

Ben and Tom Panesar

Profit and Loss Appropriation Account for the year ended 31 January 2015

		$	$
Profit for the year			*27 920*
Interest on drawings	*Ben*	*490*	
	Tom	*1 040*	*1 530*
			29 450
Interest on capital	**Ben*		
	3% × 90 000 × 6/12	*1 350*	
	3% × 100 000 × 6/12	*1 500*	
		2 850	
	Tom		
	3% × 60 000	*1 800*	
		4 650	
Partnership salary	*Tom*		
	(3000 + 8000)	*11 000*	*15 650*
Residual profit			*13 800*
Share of profit	*Ben*	*9 200*	
	Tom	*4 600*	
			13 800

OR	*3% x 90 000*	*2 700*
	3% x 10 000 × 6/12	*150*

Ben and Tom Panesar provided the following information on 31 January 2015.

	$
Premises at book value	95 000
Machinery and equipment at book value	46 500
Inventory	28 750
Trade receivables	30 360
Trade payables	32 170
Other payables	1 390
Bank	5 870 debit

REQUIRED

(b) Prepare the statement of financial position at 31 January 2015.

The calculation of the current account balances may be shown within the statement of financial position or as separate calculations in the space provided below.

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

	$	$	$
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
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....	....	....	....
....	....	....	....
....	....	....	....

Answer:

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

	$	$	$
Assets			
Non-current assets			
Premises (cost)			*95 000*
Machinery and equipment (book value)			*46 500*
			141 500
Current assets			
Inventory			*28 750*
Trade receivables			*30 360*
Bank			*5 870*
			64 980
Total assets			*206 480*

Capital and liabilities

	Ben	*Tom*	*Total*
Capital accounts	*100 000*	*60 000*	*160 000*
Current accounts			
Interest on loan		*600*	
Interest on capital	*2 850*	*1 800*	
Salary		*11 000*	
Profit share	*9 200*	*4 600*	
	12 050	*18 000*	
Drawings	*9 800*	*20 800*	
Interest on drawings	*490*	*1 040*	
	10 290	*21 840*	
Closing balance	*1 760*	*(3 840)*	
			(2 080)
			157 920
Non-current liabilities			
Loan – Tom			*15 000*
Current liabilities			
Trade payables			*32 170*
Other payables			*1 390*
			33 560
Total liabilities			*206 480*

Alternate presentation of current accounts.

Current accounts

		Ben	*Tom*			*Ben*	*Tom*
		$	*$*			*$*	*$*
2015				*2015*			
Jan 31	*Drawings*	*9 800*	*20 800*	*Jan 31*	*Interest on loan*		*600*
	Interest on Drawing	*490*	*1 040*		*Interest on capital*	*2 850*	*1 800*
	Balance c/d	*1 760*			*Salary*		*11 000*
					Profit share	*9 200*	*4 600*
					Balance c/d		*3 840*
		12 050	*21 840*			*12 050*	*21 840*

5 Where do interest on capital and interest on partners' loans appear?

	Interest on capital	Interest on partners' loans
A	appropriation account	appropriation account
B	appropriation account	income statement
C	income statement	appropriation account
D	income statement	income statement

Answer: *B*

6 Sanchi and Syed Mirza are in partnership, sharing profits and losses equally.

Their summarised income statement for the year ended 31 July 2015 was as follows.

	$	$
Revenue		45 000
Cost of sales		
Opening inventory	5 500	
Purchases	33 500	
	39 000	
Closing inventory	6 500	32 500
Gross profit		12 500
Expenses		3 500
Profit for the year		9 000

REQUIRED

(a) **(i)** State the formula for the calculation of the rate of inventory turnover.

(ii) Calculate the rate of inventory turnover.

The calculation should be correct to two decimal places.

(iii) Suggest two reasons why the rate of inventory turnover is lower than it was in the previous year.

1

2

Answer: *(a) (i)* $\dfrac{\textit{Cost of sales}}{\textit{Average inventory}}$

(ii) $\left.\dfrac{32\ 500}{6\ 000}\right\}$ *= 5.42 times*

(iii) Higher inventory levels
Lower sales activity
Or other suitable reason

(b) **(i)** State the basis on which inventory should be valued.

(ii) Name the accounting principle which is being applied when inventory is valued on this basis.

Answer: (i) *Lower of cost and net realisable value*
(ii) *Prudence*

After the preparation of the appropriation account for the year ended 31 July 2015, Sanchi and Syed Mirza updated their capital and current accounts.

At 31 July 2015 the partners' accounts were as follows.

Capital accounts

Date	Details	Sanchi $	Syed $	Date	Details	Sanchi $	Syed $
				2014 1 Aug	Balance b/d	20 000	60 000
				2015 1 Feb	Current a/c	10 000	

Current accounts

Date	Details	Sanchi $	Syed $	Date	Details	Sanchi $	Syed $
2015 1 Feb	Capital a/c	10 000		2014 1 Aug	Balance b/d	16 000	4 000
31 Jul	Drawings	14 000	6 000	2015 31 Jul	Profit share	4 500	4 500

REQUIRED

(c) Prepare an extract from the statement of financial position at 31 July 2015 to show the total funds provided by the partners. See next page.

Extract from Statement of Financial Position at 31 July 2015

	Sanchi Mirza $	Syed Mirza $	Total $
Capital account	………………	………………	………………
Current account	………………	………………	………………
	………………	………………	………………

Answer:

Extract from Statement of Financial Position at 31 July 2015

	Sanch Mirza *$*	Syed Mirza *$*	Total *$*
Capital account	*30 000*	*60 000*	*90 000*
Current account	*(3 500)*	*2 500*	*(1 000)*
	26 500	*62 500*	*89 000*

(d) (i) Suggest two reasons why Syed Mirza would like to have interest on capital included in the partnership agreement.

1____

2____

(ii) Suggest one reason why Syed Mirza would like to have interest on drawings included in the partnership agreement.

(iii) Suggest one reason why Sanchi Mirza would like to have partner's salary included in the partnership agreement.

Answer: (i) *To compensate him for investing the most capital*
To encourage Sanchi to invest more
Or other suitable reason

(ii) *To penalise Sanchi for making more drawings*
To discourage Sanchi from making excessive drawings Or other suitable reason

(iii) *To compensate Sanchi for extra workload*
To reward Sanchi for extra skills
Or other suitable reason

6 Moses and Tobias Iyambo are in partnership. Their financial year ends on 31 October. They share profits and losses equally. A capital and a current account are maintained for each partner.

Despite having little accounting knowledge, Tobias prepared the following statement of financial position on 31 October 2015.

Statement of Financial Position 31 October 2015

			$	$
Premises at cost				80 000
Fixtures and equipment at book value 1 September 2014				24 800
Inventory				6 950
Trade receivables				5 200
Bank				1 500
Drawings – M Iyambo			8 000	
T Iyambo			5 500	13 500
				131 950
Trade payables				8 520
Provision for doubtful debts				130
Capital account 1 September 2014 –	M Iyambo		65 000	
	T Iyambo		35 000	100 000
Current account 1 September 2014 –	M Iyambo	Debit	2 000	
	T Iyambo	Credit	3 500	5 500
				114 150
Balance				17 800
				131 950

The following matters were then discovered.

1 The income statement included adjustments for the following which should have been included in the statement of financial position:

	$
Depreciation for the year on fixtures and equipment	3100
Expenses accrued	1130

2 Bank charges, $70, had been correctly recorded in the income statement but had not been entered in the cash book.

3 Cash in hand, $500, had not been included in the statement of financial position.

4 Profit for the year was $18 000.

REQUIRED

(a) Prepare a corrected statement of financial position at 31 October 2015 showing the different types of assets and liabilities, and the capital and current accounts of each partner.

The calculation of the current account balances may be shown within the statement of financial position or as separate calculations in the space provided on the next page.

Moses and Tobias
Corrected Statement of Financial Position at 31 October 2015

	$	$	$

You may use the space below for your workings.

Answer:

Moses and Tobias Lyambo
Corrected Statement of Financial Position at 31 October 2015

	$	$	$
Assets			
Non-current assets			
Premises at cost			*80 000*
Fixtures and Equipment at book value (24 80 – 3100)			*21 700*
			101 700
Current Assets			
Inventory			*6 950*
Trade Receivable		*5 200*	
Provision for doubtful debts		*130*	*5 070*
Bank (1500 – 70)			*1 430*
Cash			*500*
			13 950
Total assets			*115 650*
Capital and liabilities			
	M lyambo	*T lyambo*	*Total*
Capital Accounts	*65 000*	*35 000*	*100 000*
Current Accounts			
Balance	*(2 000)*	*3 500*	
Share of Profit	*9 000*	*9 000*	
	7 000	*12 500*	
Drawings	*8 000*	*5 500*	
	1 000	*7 000*	*6 000*
			106 000
Current liabilities			
Trade Payables			*8 520*
Other Payables			*1 130*
			9 650
Total Liabilities			*115 650*

(b) State two items which Moses and Tobias Iyambo could have included in their partnership agreement in addition to profit-sharing ratios.

1____

2____

Answer: *Introduce more capital*
Obtain long-term loan
Mortgage premises
Or other suitable way

(c) State two ways in which Moses and Tobias Iyambo could obtain long-term funds to finance expansion of the business.

1____

2____

Answer: *Introduce more capital*
Obtain long-term loan
Mortgage premises
Or other suitable way

(d) Complete the following table by placing a tick ( ) in the correct column to show how each of the following transactions would affect the working capital of Moses and Tobias Iyambo.

	Increase	Decrease	No effect
Selling surplus equipment			
Delay paying credit suppliers			
Paying surplus cash into bank			
Writing off a bad debt			

Answer:

	Increase	Decrease	No effect
Sale of surplus equipment	✓		
Delay payment to credit suppliers			✓
Paying surplus cash into bank			✓
Writing off a bad debt		✓	

7 Why does a partnership prepare an appropriation account?

A to allocate profit for the year to each partner ☐

B to calculate interest on partners' loans ☐

C to ensure that drawings are accounted for ☐

D to record dividends paid and proposed ☐

Answer: *A. to allocate profit for the year to each partner*

8 A and B were in partnership. Their current accounts for the year were as follows.

	A $	B $		A $	B $
drawings	7 500	2 500	balance b/d	10 200	12 000
balance c/d	11 700	17 500	interest on capital	2 000	1 000
			share of profit	7 000	7 000
	19 200	20 000		19 200	20 000
			balance b/d	11 700	17 500

What was the profit for the year?

A $7 000 ☐

B $14 000 ☐

C $17 000 ☐

D $27 000 ☐

Answer: *C. $17 000*

9 Ann and Bindu have been in partnership for some years. Previously they had both been sole traders.

REQUIRED

(a) State **two** advantages to Ann and Bindu of being in partnership.

1...

....

2...

....

Answer: *more capital introduced to business*
more expertise available
responsibilities are shared e.g. holidays, sickness
risk is shared
losses are shared

On 1 March 2016 the balances on their current accounts were as follows.

	$	
Ann	5000	debit
Bindu	3000	credit

REQUIRED

(b) **(i)** State **one** reason why a current account is maintained for each partner.

....

....

(ii) State what the current account balance of each partner represents.

Ann..

....

Bindu ....

....

Answer: (i) *To record the difference between the amounts earned from the partnership and the amounts withdrawn from the partnership.*
To show the retained profit of each partner.
To make it easier to calculate interest on capital.
To reveal excess drawings.

(ii) *Ann owes money to the partnership.*
The partnership owes money to Bindu.

The partnership agreement provides for:

interest on capital of 10% per annum
a partnership salary for Ann of $4000 per annum
profits and losses to be shared between Ann and Bindu in a ratio of 3 : 2

The following additional information is available.

	$
Capital accounts at 1 March 2016 – Ann	30 000
– Bindu	25 000
For the year ended 28 February 2017	
Profit for the year	24 500
Drawings – Ann	12 500
– Bindu	10 000

REQUIRED

(c) Prepare the partnership appropriation account for the year ended 28 February 2017.

Ann and Bindu
Appropriation Account for the year ended 28 February 2017

	$	$
....	....	....
....	....	....
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Answer:

Ann and Bindu
Appropriation Account for the year ended 28 February 2017

	$	$
Profit for the year		*24 500*
Less interest on capital – Ann	*3000*	
– Bindu	*2500*	*5 500*
Less salary – Ann		*4 000*
		15 000
Shares of profit – Ann	*9000*	
– Bindu	*6000*	*15 000*

(d) Prepare the partners' current accounts for the year ended 28 February 2017. Balance the accounts and bring down the balances on 1 March 2017.

Ann and Bindu
Current accounts

Details	$ Ann	$ Bindu	Details	$ Ann	$ Bindu
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Answer:

Ann and Bindu
Current accounts

Details	*$ Ann*	*$ Bindu*	*Details*	*$ Ann*	*$ Bindu*
Balance b/d	*5 000*		*Balance b/d*		*3 000*
Drawings	*12 500*	*10 000*	*Interest on capital*	*3 000*	*2 500*
Balance c/d		*1 500*	*Salary*	*4 000*	
			Shares of profit	*9 000*	*6 000*
			Balance c/d	*1 500*	
	17 500	*11 500*		*17 500*	*11 500*
Balance b/d	*1 500*		*Balance b/d*		*1 500*

It was later discovered that some items in inventory at the year end had been damaged during the year. This would have reduced the actual value of inventory at the year end by $750 if it had been recorded.

REQUIRED

(e) Complete the table to show the **effect** of this error on **each** of the following.

	effect (understated or overstated)	$
gross profit		
profit for the year		
share of profit – Ann		
– Bindu		

Answer:

	effect (understated or overstated)	$	
gross profit	*overstated*	*$750*	
profit for the year	*overstated*	*$750*	
share of profit – Ann	*overstated*	*$450*	
– Bindu	*overstated*	*$300*	

10 Meena and Rafah are in partnership. Their financial year ends on 30 April.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 3% per annum
Interest on drawings at 4% per annum
An annual salary of $6000 for Meena
Sharing of residual profits and losses in the ratio 2 : 1

On 1 May 2016 the balances on the partners' capital accounts were as follows:

	Meena	Rafah
	$	$
Capital account	40 000	20 000

On 1 November 2016 Rafah introduced a further $10 000 into the business as capital.

The partners agreed that Meena's salary should be increased by $1000 per annum starting on 1 November 2016.

Drawings and interest on drawings during the year ended 30 April 2017 were as follows:

	Meena	Rafah
	$	$
Drawings	7300	5100
Interest on drawings	292	204

The profit for the year ended 30 April 2017 was $7534.

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 30 April 2017. See next page.

Meena and Rafah
Profit and Loss Appropriation Account for the year ended 30 April 2017

	$	$
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....	....	....
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....	....	....
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....	....	....
....	....	....
....	....	....

Answer:

Meena and Rafah
Profit and Loss Appropriation Account for the year ended 30 April 2017

		$	$
Profit for the year			*7 534*
Interest on drawings –	*Meena*	*292*	
	Rafah	*204*	*496*
			8 030
Interest on capital –	*Meena*	*1 200*	
	Rafah		
	3% × 20 000 × 6 / 12 = 300		
	3% × 30 000 × 6 / 12 = 450	*750*	
		1 950	
Partner's salary –	*Meena*		
	6000 × 6 / 12 = 3000		
	7000 × 6 /12 = 3500	*6 500*	*8 450*
			(420)
Share of loss –	*Meena*	*280*	
	Rafah	*140*	*(420)*

Alternative calculations **3% × 20 000 = 600 + 3% × 10 000 × 6 / 12 = 150*
*** 6000 + (100 × 6 / 12) = 500*

(b) Prepare the current account of Meena for the year ended 30 April 2017. Balance the account and bring down the balance on 1 May 2017.

Meena
Current account

Date	Details	$	Date	Details	$
2016					
May 1	*Balance b/d*	*1490*	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
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....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Answer:

Meena
Current account

		$			$
2016			*2017*		
May 1	*Balance b/d*	*1 490*	*April 30*	*Interest on capital*	*1 200*
2017				*Salary*	*6 500*
April 30	*Drawings*	*7 300*		*Balance c/d*	*1 662*
	Int on drawings	*292*			
	Share of loss	*280*			
		9 392			*9 362*
2017					
May 1	Balance b/d	1 662			

11 Amina and Samara are in partnership. Their partnership agreement states that interest on capital is paid at the rate of 10% per annum and that profits and losses are shared in the ratio of 3:2 respectively.

The following information is available.

	$
At 1 July 2016	
Capital accounts	
Amina	50 000
Samara	20 000
Current accounts	
Amina	4 000 credit
Samara	3 000 credit
For the year ended 30 June 2017	
Profit for the year	17 500
Drawings	
Amina	8 000
Samara	12 000

On 1 January 2017 Amina introduced additional capital of $10 000 into the partnership in the form of cash.

REQUIRED

(a) State what is meant by a 'partnership'.

....

....

Answer: *A business in which two or more people work together as owners.*

(b) Prepare the appropriation account for the year ended 30 June 2017.

Amina and Samara
Appropriation Account for the year ended 30 June 2017

	$	$
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

Answer:

Amina and Samara
Appropriation Account for the year ended 30 June 2017

		$	$
Profit for the year			*17 500*
Interest on capital	*– Amina*	*5 500*	
	– Samara	*2 000*	
			7 500
			10 000
Share of profit	*– Amina*	*6 000*	
	– Samara	*4 000*	
			10 000

(c) Prepare the following ledger accounts for the year ended 30 June 2017. Balance the accounts and bring down the balances on 1 July 2017.

Amina and Samara
Capital accounts

Date	Details	Amina $	Samara $	Date	Details	Amina $	Samara $
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

Current accounts

Date	Details	Amina $	Samara $	Date	Details	Amina $	Samara $
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
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....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....

Answer:

Amina and Samara
Capital accounts

Date	Details	Amina $	Samara $	Date	Details	Amina $	Samara $
2017 Jun 30	*Balance c/d*	*60 000*	*20 000*	*2016 Jul 1*	*Balance b/d*	*50 000*	*20 000*
				2017 Jan 1	*Cash*	*10 000*	
		60 000	*20 000*			*60 000*	*20 000*
				2017 Jul 1	*Balance b/d*	*60 000*	*20 000*

Current accounts

Date	Details	Amina $	Samara $	Date	Details	Amina $	Samara $
2017 Jun 30	*Drawings*	*8 000*	*12 000*	*2016 Jul 1*	*Balance b/d*	*4 000*	*3 000*
	Balance c/d	*7 500*		*2017 Jun 30*	*Interest on capital*	*5 500*	*2 000*
					Share of profit	*6 000*	*4 000*
					Balance c/d		*3 000*
		15 500	*12 000*			*15 500*	*12 000*
Jul 1	*Balance b/d*		*3 000*	*Jul 1*	*Balance b/d*	*7 500*	

(d) Explain how the financial statements would have been affected if Amina had made a loan to the partnership instead of introducing additional capital.

....

....

....

....

Answer: *Profit for the year would be lower by the amount of the loan interest.*
Interest on capital would be lower by the interest on the additional capital.
Shares of profit might be higher or lower depending on rate of loan interest.

Amina is not happy that Samara's drawings are greater than hers. Samara says she is entitled to take out of the business more drawings than Amina because she does a greater share of the work.

REQUIRED

(e) Explain **two** reasons why Amina is not happy that Samara's drawings are greater than hers.

1 ....

....

....

2 ....

....

....

12 Eli and Sumit are in partnership.

Balances on the partners' capital and current accounts on 1 November 2016 were:

	capital account	current account
	$	$
Eli	50 000	4 500
Sumit	40 000	1 800 debit

REQUIRED

(a) Explain why each partner has **both** a current and a capital account.

....

....

....

....

Answer: *To keep a separate record of capital introduced/be able to calculate interest on capital.*
To allow easy comparison of drawings and total profit share/see if partner has overdrawn on profit allocation.

(b) State what the debit balance on Sumit's current account on 1 November 2016 represents.

....

....

Answer: *The amount that Sumit owes the partnership.*

The partnership agreement includes the following terms.

Annual salary to Eli	$7500
Interest on capital	8% per annum
Interest on drawings	4%
Share of profits/losses	Eli 3: Sumit 2

Additional information

1 Profit for the year ended 31 October 2017 was $12 500.

2 Additional capital, $5000, was introduced by Sumit on 1 May 2017.

3 Drawings for the year were Eli, $5000, Sumit, $6500.

REQUIRED

(c) Suggest **one** reason why Eli and Sumit are charged interest on drawings.

....

....

Answer: *To discourage partners from taking drawings/to reduce the level of drawings.*

(d) Prepare the partnership appropriation account for the year ended 31 October 2017. See next page.

Eli and Sumit
Appropriation Account for the year ended 31 October 2017

	$	$
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

Answer:

Eli and Sumit
Appropriation Account for the year ended 31 October 2017

		$	$
Profit for the year			*12 500*
Add: interest on drawings	*Eli*	*200*	
	Sumit	*260*	*460*
			12 960
Less: interest on capital	*Eli*	*4 000*	
	Sumit	*3 400*	
		7 400	
Less: salary	*Eli*	*7 500*	*(14 900)*
			(1 940)
Share of residual loss	*Eli*	*1 164*	
	Sumit	*776*	*(1 940)*

(e) Prepare an extract from the statement of financial position of Eli and Sumit at 31 October 2017 showing the partners' capital accounts and full details of the partners' current accounts.

Eli and Sumit
Extract from Statement of Financial Position at 31 October 2017

	$ Eli	$ Sumit	$ Total
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....
....	....	....	....

Answer:

Eli and Sumit
Extract from Statement of Financial Position at 31 October 2017

	$ Eli	$ Sumit	$ Total
Capital accounts	*50 000*	*45 000*	*95 000*
Current accounts			
Opening balance	*4 500*	*(1 800)*	
Interest on capital	*4 000*	*3 400*	
Salary	*7 500*	*–*	
	16 000	*1 600*	
Drawings	*(5 000)*	*(6 500)*	
Interest on drawings	*(200)*	*(260)*	
Share of residual loss	*(1 164)*	*(776)*	
	(6 364)	*(7 536)*	
	9 636	*(5 936)*	*3 700*
			98 700

13 Beth and Carla are in partnership, sharing profits and losses 3:2. They provided the following information at 31 January 2018.

		$	$
Profit for the year			42 000
Interest on capital:	Beth	4 000	
	Carla	3 000	7 000
Salary: Beth			10 000

What was the **total** amount credited to Beth's current account on 31 January 2018?

A $15 000

B $25 200

C $29 000

D $39 200

Answer: *C. $29 000*

14 Sumit and Theo have been in partnership for some years running a manufacturing business.

REQUIRED

(a) Complete the following table indicating with a tick (✓) where **each** item would appear in their financial statements.

	prime cost section of the manufacturing account	overheads section of the manufacturing account	income statement
office rent			
factory supervisor's salary			
carriage on raw materials			
purchase of finished goods			
salesman's commission			

Answer:

	prime cost section of the manufacturing account	overheads section of the manufacturing account	income statement
office rent			✓
factory supervisor's salary		✓	
carriage on raw materials	✓		
purchase of finished goods			✓
salesman's commission			✓

(b) State **one** advantage and **one** disadvantage of Sumit and Theo being in a partnership.

Advantage ....

....

Disadvantage ....

....

Answer: *Advantage*

- *more capital introduced to business*
- *more expertise available*
- *responsibilities are shared e.g. holidays, sickness*
- *risk is shared*
- *losses are shared*

Disadvantage

- *profits must be shared*
- *decision making may be more difficult*
- *disagreements may occur*

(c) State **one** reason why it is helpful for a partnership agreement to be prepared.

....

....

Answer: *To avoid disagreements in the future*

(d) State **one** reason why each of the following might be included in a partnership agreement.

Interest on capital ....

....

Interest on drawings ....

....

Answer: *Interest on capital – to reward partners who invest more.*
Interest on drawings – to discourage drawings.

Sumit receives a salary of $7000 a year from the partnership. Interest on capital is paid at the rate of 10% and profits are split in the ratio 3:2. The partnership agreement also provided for interest on drawings.

On 1 January 2015 their balances were as follows.

	Sumit	Theo
	$	$
Capital accounts	100 000	150 000
Current accounts	2 100 credit	6 900 debit

The following further information was available for the year ended 31 December 2015.

Profit for the year $64 000

	Sumit	Theo
	$	$
Drawings	19 000	12 000
Interest on drawings	1 800	1 200

REQUIRED

(e) Prepare the partnership's appropriation account for the year ended 31 December 2015.

Sumit and Theo
Appropriation Account for the year ended 31 December 2015

	$	$

Answer:

Sumit and Theo
Appropriation account for the year ended 31 December 2015

		$	$
Profit for the year			*64 000*
Interest on drawings	*– Sumit*	*1 800*	
	– Theo	*1 200*	*3 000*
			67 000
Salary	*– Sumit*		*(7 000)*
Interest on capital	*– Sumit*	*(10 000)*	
	– Theo	*(15 000)*	*(25 000)*
			35 000
Profit shares	*– Sumit*	*21 000*	
	– Theo	*14 000*	*35 000*

(f) Prepare Theo's current account for the year ended 31 December 2015. Balance the account and bring down the balance on 1 January 2016.

Theo
Current account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Answer:

Theo
Current account

2015		*$*	*2015*		*$*
Jan 1	*Balance b/d*	*6900*	*Dec 31*	*Interest on capital*	*15000*
Dec 31	*Drawings*	*12000*		*Share of profit*	*14000*
	Interest on drawings	*1200*			
	Balance c/d	*8900*			
		29 000			*29000*
			2016		
			Jan 1	*Balance b/d*	*8900*

15 David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of $12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

	$	
Capital accounts – David	80 000	
– Harold	25 000	
Current accounts – David	8 100	debit
– Harold	6 200	credit
Fixtures and fittings at cost	37 200	
Provision for depreciation of fixtures and fittings	11 160	
Inventory at 1 April 2015	36 000	
Trade receivables	7 000	
Trade payables	6 140	
Bank	12 100	debit
Sales (Revenue)	142 000	
Purchases	83 100	
Rent	12 000	
Other operating expenses	11 800	
Wages	16 500	
Drawings – David	32 000	
– Harold	14 700	

Additional information

1 Other operating expenses included $500 for insurance which was paid in advance at 31 March 2016.

2 Inventory on 31 March 2016 amounted to $26 800.

3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.

4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

(a) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

	$	$
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

Answer:

David and Harold
Appropriation Account for the year ended 31 March 2016

		$
Profit for the year		*6 180*
Salary – David		*(12 000)*
		(5 820)
Share of residual loss – David	*(3 880)*	
– Harold	*(1 940)*	*(5 820)*

(b) State why it might be useful if the partnership agreement contained a provision for interest on drawings.

....

....

Answer: *Interest on drawings might encourage partners to reduce drawings.*

16 Benjamin and Cody's partnership agreement states that Benjamin is to receive an annual salary of $10 000 and that profits and losses are to be shared in the ratio 3:2. The partnership's profit for the year is $45 000.

What is Benjamin's total allocation of profit?

A $14 000 ☐

B $23 000 ☐

C $27 000 ☐

D $31 000 ☐

Answer: *D. $31 000*

17 Abid and Faiz are partners. They operate a secretarial agency. Their financial year ends on 31 March.

In addition to the capital invested, Abid made a 10-year loan to the business on 31 March 2016.

REQUIRED

(a) State **one** advantage of being a partner rather than a sole trader.

....

....

(b) State **one** disadvantage of being a partner rather than a sole trader.

....

....

(c) State **one** reason why a partner may make a loan to the business rather than investing additional capital.

....

....

(d) State **two** reasons why it is important for the partnership to have an adequate amount of working capital.

1 ....

....

2 ....

....

Answer: *(a)* *Share losses*
Share responsibilities
Share risks
Share decision-making
Additional finance may be available
Additional skills and experience are available

(b) *Share profits*
Decisions must be recognised by all partners Decisions may take longer to implement.
One partner's actions can bind the other partners
Disagreements can occur
All partners are responsible for the debts of the business

(c) *Greater security than capital*
Repaid before capital in a winding-up
Extra funds may be required for a limited period only

(d) *To be able to meet debts when they fall due To be able to take advantage of cash discounts*
To be able to take advantage of business opportunities as they arise
To ensure that there is no difficulty if obtaining supplies/services on credit

Abid and Faiz share profits and losses in the ratio of 2 : 1.

The balances on their accounts on 1 April 2015 were:

	Abid	Faiz
	$	$
Capital account	80 000	55 000
Current account	110 debit	800 credit

During the year ended 31 March 2016 the partners made the following drawings:

Abid	Faiz
$	$
6 000	7 000

The following is an extract from the profit and loss appropriation account for the year ended 31 March 2016.

Abid and Faiz
Profit and Loss Appropriation Account for the year ended 31 March 2016

		$	$
Profit for the year			13 170
Interest on drawings	Abid	120	
	Faiz	140	260
			13 430
Interest on capital	Abid	2 400	
	Faiz	1 650	
		4 050	
Salary	Faiz	5 000	9 050
Profit available for distribution			4 380

The following additional information is available on 31 March 2016.

	$
Fixtures and equipment at book value	104 000
Motor vehicles at book value	28 520
Trade payables	11 900
Other payables	160
Trade receivables	19 320
Bank	16 080 debit
Loan from Abid	20 000

REQUIRED

(e) Prepare the statement of financial position at 31 March 2016.

The details of the partners' current accounts may be shown within the statement or as a separate calculation in the space provided.

You may use this space for the partners' current accounts

Abid and Faiz
Statement of Financial Position at 31 March 2016

	$	$	$

Answer:

Current accounts

		Abid $	Faiz $			Abid $	Faiz $
2015 Apl 1	Balance b/d	110		2015 Apl 1	Balance b/d		800
2016 Mar 31	Drawings	6 000	7 000	2016 Mar 31	Interest on Capital	2 400	1 650
	Interest on drawings	120	140		Salary		5 000
	Balance c/d		1 770		Profit share	2 920	1 460
					Balance c/d	910	
		6 230	8 910			6 230	8 910

Abid and Faiz
Statement of Financial Position at 31 March 2016

	$	$	$
Assets			
Non-current assets			
Fixtures and equipment (book value)			104 000
Motor vehicles (book value)			28 520
			132 520
Current assets			
Trade receivables			19 320
Bank			16 080
			35 400
Total assets			167 920
Capital and liabilities			
	Abid	*Faiz*	*Total*
Capital accounts	80 000	55 000	135 000

Current accounts			
Opening balance	*(110)*	*800*	
Interest on capital	*2 400*	*1 650*	
Salary		*5 000*	
Profit share	*2 920*	*1 460*	
	5 210	*8 910*	
Drawings	*6 000*	*7 000*	
Interest on drawings	*120*	*140*	
	6 120	*7 140*	
Closing balance	*(910)*	*1 770*	
			860
			135 860
Non-current liabilities			
Loan – Abid			*20 000*
Current liabilities			
Trade payables			*11 900*
Other payables			*160*
			12 060
Total liabilities			*167 920*

18 Amina also brought in a delivery vehicle valued at $8100 to the partnership and Doreen brought in fixtures and fittings valued at $4800.

The partnership agreement stated that profits and losses would be shared in the ratio 2:1.

Depreciation was to be provided on a monthly basis, at the rate of 20% per annum for the delivery vehicle and 10% per annum for the fixtures and fittings.

In the first month of trading they had the following transactions.

Jan 1	Paid 3 months' rent totalling $2700, by cheque
2	Bought 1000 calculators for $4 each from Bertie on credit
6	Sold 800 calculators for cash for $10 each, keeping $100 in hand and banking the remaining cash
13	Sold 50 calculators for $10 each to Charlie on credit
20	Paid Bertie by cheque, deducting 3% discount for prompt payment
31	Paid wages for the month, $800, by credit transfer

REQUIRED

(a) Prepare the cash book (bank columns only) for the month of January 2016. Bring down the balance on 1 February 2016.

Amina and Doreen
Cash book (bank columns)

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Answer:

Amina and Doreen
Cash book (bank columns)

2016		*$*	*2016*		*$*
Jan 1	*Capital A*	*5 000*	*Jan 1*	*Rent*	*2 700*
	Capital D	*5 000*	*20*	*Bertie*	*3 880*
6	*Sales*	*7 900*	*31*	*Wages*	*800*
				Balance c/d	*10 520*
		17 900			*17 900*
Feb 1	*Balance b/d*	*10 520*			

(b) **(i)** Calculate the gross profit for the month ended 31 January 2016.

....

....

....

....

....

(ii) Calculate the profit for the month of January 2016.

....

....

....

....

....

Answer: **(i)**

	$	$
Revenue		*8 500*
Purchases	*4 000*	
Closing inventory	*(600)*	
Cost of sales		*3 400*
Gross profit		*5 100*

(ii)

Amina and Doreen

Calculation of profit for the month ended 31 January 2016

	$	$
Gross profit		*5 100*
Discount received		*120*
		5 220
Rent	*900*	
Wages	*800*	
Depreciation fixtures and fittings	*40*	
Depreciation delivery van	*135*	*1 875*
Profit for the month		*3 345*

19 A partnership had a profit for the year of $60 000.

Interest on capital was

Jamila $4 000

Kate $2 000

Drawings were

Jamila $18 000

Kate $10 000

Profits were shared equally.

What was the total amount credited to Jamila's current account at the end of the year?

A $13 000 ☐

B $27 000 ☐

C $29 000 ☐

D $31 000 ☐

Answer: *D. $31 000*

20 Arun, a trader, admitted Rajiv as a partner on 1 July 2015.

REQUIRED

(a) State **one** advantage to Arun of admitting a partner.

....

....

(b) State **one** reason why it was useful for Arun and Rajiv to have a partnership agreement.

....

....

(c) State **two** items which might be included in a partnership agreement.

1 ....

2 ....

Answer: *(a)* *to access additional capital*
for additional expertise/more ideas
to share responsibilities/cover sickness and holidays to shares losses/risks

(b) *to avoid disagreements in the future*

(c) *capital contribution by each partner profit sharing ratio interest on capital interest on drawings partners' salaries interest on partners' loans*

21 Friedrich and Graham were also in partnership as accountants with a year end of 31 July.
On 31 July 2016 the balances in their books of account were as follows.

	$
Bank	4 800 debit
Cash	200
Fees received	81 000
Rent paid	12 000
Wages	6 800
Administration costs	19 500
Drawings – Friedrich	25 000
– Graham	16 100
Equipment	24 200
Provision for depreciation	6 500
Trade receivables	17 400
Other payables	1 100
Capital account – Friedrich	20 000
– Graham	15 000
Current account – Friedrich	?
– Graham	3 300 credit

REQUIRED

(a) Prepare the partnership's trial balance at 31 July 2016.

Friedrich and Graham
Trial Balance at 31 July 2016

	$	$
Bank	....	....
Cash	....	....
Fees received	....	....
Rent paid	....	....
Wages	....	....
Administration costs	....	....
Drawings – Friedrich	....	....
– Graham	....	....
Equipment	....	....
Provision for depreciation	....	....
Trade receivables	....	....
Other payables	....	....
Capital account – Friedrich	....	....
– Graham	....	....
Current account – Friedrich	....	....
– Graham	....	....
	______________	______________
	______________	______________

Answer:

Friedrich and Graham
Trial Balance at 31 July 2016

	$	$
Bank	*4 800*	
Cash	*200*	
Fees		*81 000*
Rent	*12 000*	
Wages	*6 800*	
Administration costs	*19 500*	
Drawings – Friedrich	*25 000*	
– Graham	*16 100*	
Equipment	*24 200*	
Provision for depreciation		*6 500*
Trade receivables	*17 400*	
Other payables		*1 100*
Capital account – Friedrich		*20 000*
– Graham		*15 000*
Current account – Friedrich	*900*	
– Graham		*3 300*
	126 900	*126 900*