

Partnerships

- 1 Mostafa and Salma are partners in a wholesale business. Their financial year ends on 30 April.

When they started the business they drew up a partnership agreement. The terms of the agreement included the following.

interest to be allowed on capital at 5% per annum
interest to be charged on drawings at 6%
Mostafa to be entitled to an annual salary of \$12 000
residual profits and losses to be shared in the ratio of 3 : 2.

The partners provided the following information.

At 1 May 2018

	Mostafa	Salma
	\$	\$
Capital account	45 000	25 000
Current account	3 250 credit	1 920 debit

On 1 February 2019 the partners agreed that Mostafa's salary should be increased to \$15 000 per annum.

For the year ended 30 April 2019

	Mostafa	Salma
	\$	\$
Drawings	10 000	8 000

The profit for the year ended 30 April 2019 was \$14 820.

REQUIRED

- (a) Suggest **one** reason why interest on capital was included in the partnership agreement.

.....
..... [1]

- (b) Suggest **one** reason why interest on drawings was included in the partnership agreement.

.....
..... [1]

- (c) Suggest **one** reason why a salary for Mostafa was included in the partnership agreement.

.....
..... [1]

2 Bari and Nada are in partnership. Their financial year ends on 31 December.

Their partnership agreement provides for residual profits to be shared in proportion to capital invested.

The balances on their accounts on 1 January 2018 were:

	Bari	Nada
	\$	\$
Capital account	150 000	100 000
Current account	950 credit	150 debit

During the year ended 31 December 2018 the partners made the following drawings:

Bari	Nada
\$	\$
11 000	13 000

The following is an extract from the draft appropriation account for the year ended 31 December 2018.

Bari and Nada
Draft Appropriation Account for the year ended 31 December 2018

		\$	\$
Profit for the year			35 590
Interest on drawings	Bari	660	
	Nada	<u>780</u>	<u>1 440</u>
			37 030
Interest on capital	Bari	7 500	
	Nada	<u>5 000</u>	
		12 500	
Partner's salary	Bari	<u>20 000</u>	<u>32 500</u>
Profit available for distribution			4 530

The following additional information is available at 31 December 2018.

	\$
Premises at 1 January 2018	120 000
Premises purchased on 1 July 2018	100 000
Other non-current assets	92 650
Trade payables	17 250
Trade receivables	25 500
Other payables	800
Other receivables	910
Provision for doubtful debts	510
Bank	21 890 debit
Loan (repayable 2025)	80 000

REQUIRED

(a) Prepare the draft statement of financial position at 31 December 2018.

The details of the partners' current accounts should be shown within the statement.

	\$	\$	\$
.....			
.....			
.....			
.....			

[13]

Bari and Nada's receipts and payments during the financial year ended 31 December 2018 included both capital and revenue items.

REQUIRED

(b) State the meaning of **each** of the following terms and give an example of each.

Capital expenditure

Meaning

.....

Example

Capital receipt

Meaning

.....

Example

Revenue expenditure

Meaning

.....

Example

Revenue receipt

Meaning

.....

Example [8]

After the preparation of the draft financial statements for the year ended 31 December 2018 the accounting records were checked.

The amount debited to the premises account on 1 July 2018 consisted of the following:

	\$	
Cost of premises	89 000	
Legal fees (including \$250 legal fees for recovery of a bad debt)	5 300	
Decoration costs (half of which related to the original premises)	3 300	
Insurance of new premises (for 12 months from 1 July 2018)	2 400	
	<u>100 000</u>	

REQUIRED

(c) (i) Calculate the amount which should have been debited to the premises account on 1 July 2018.

	\$	
Cost of premises	89 000	
.....	
.....	
.....	<u>.....</u>	
Correct amount to debit to premises account	<u>.....</u>	

[3]

(ii) Calculate the **correct** profit for the year ended 31 December 2018.

	\$	
Profit for the year	35 590	
.....	
.....	
.....	<u>.....</u>	
Corrected profit for the year ended 31 December 2018	<u>.....</u>	

[4]

3 John and Banu are partners.

The partners provided the following list of balances at 31 March 2021.

	\$
Revenue	158 000
Inventory at 1 April 2020	9 400
Purchases	69 200
Rates and insurance	11 250
Wages	10 475
General expenses	9 675
Discount allowed	2 000
Commission receivable	4 800
Balance at bank	4 000
Trade receivables	14 150
Trade payables	5 835
Premises at cost	130 000
Fittings at cost	18 000
Provision for depreciation of fittings	8 100
Loan from John	10 000
Capital accounts	
John	75 000
Banu	50 000
Current accounts	
John	4 050
Banu	2 365
Drawings	
John	19 000
Banu	21 000

Additional information

- 1 Inventory at 31 March 2021 was valued at \$9200.
- 2 Rates of \$650 were unpaid at 31 March 2021.
- 3 Commission receivable of \$300 was due at 31 March 2021.
- 4 Depreciation on fittings is to be charged at 15% per annum using the straight-line method.
- 5 The partnership agreement provides for:
 - interest on partner's loan of 5% per annum
 - interest on drawings of 6%
 - interest on capital of 3% per annum
 - a salary to John of \$8500 per annum
 - residual profits and losses to be shared 40% to John and 60% to Banu.

- (d) Complete the table by placing a tick (✓) against **each** statement which describes an advantage to John of being in a partnership with Banu.

Continuity of existence of the business	
Banu may have skills and knowledge which John does not have	
John is only liable for business debts up to the amount he agreed to contribute	
Additional finance is available to the business	
Risks and responsibilities are shared	
John is bound by the actions of Banu carried out on behalf of the business	
John can discuss matters with Banu before making decisions	

[4]

[Total: 20]

- 4 Priti and Paisley are in partnership renting out properties. Paisley manages the office and maintains the bookkeeping records for the partnership.

The partnership agreement provides for

Interest on drawings	5% per annum
Interest on capital	4% per annum
Salary to Paisley	\$6000 per annum
Residual profits and losses to be shared 75% to Priti and 25% to Paisley.	

The partners provided the following list of balances.

	\$
Capital accounts at 1 February 2021	
Priti	100 000
Paisley	20 000
Current accounts at 1 February 2021	
Priti	7 932 credit
Paisley	2 350 credit
Drawings for the year ended 31 January 2022	
Priti	15 000
Paisley	13 000

The profit for the year ended 31 January 2022 was \$33 100.

- (b) Prepare Paisley's current account for the year ended 31 January 2022. Balance the account and bring down the balance on 1 February 2022.

Paisley
Current account

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

[6]

- (c) Suggest three reasons why Paisley may **not** be satisfied with his overall share of the profit for the year to 31 January 2022.

- 1
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- 2
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- 3
- [3]

