Prepared by D. El-Hoss

Partnership Final Accounts

For Examiner's Use

3 Frankie and Johnny are in partnership. Their financial year ends on 31 August. After the preparation of their Trading and Profit and Loss Account for the year ended 31 August 2003, the following balances remained on the books.

	$	
Capital Accounts: Frankie	50 000	
Johnny	30 000	
Current Accounts: Frankie	15 000	
Johnny	5 000	(Dr)
Fixed assets at cost	85 000	
Provision for depreciation of fixed assets	10 000	
Stock	8 000	
Debtors	14 000	
Bank balance	5 000	(Dr)
Creditors	12 000	

Prepare the Balance Sheet of the partnership as at 31 August 2003. Show the working capital.

<u>Frankie and Johnny</u>

<u>Balance Sheet as at 31 August 2003</u>

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5 Ruth and Lucy Lebengo formed a partnership on 1 October 2003. They share profits and losses 2:1. They agreed that a current account and a capital account would be kept for each partner.

The Profit and Loss Account for the year ended 30 September 2004 showed a net profit of $12000.

Lucy has very little knowledge of bookkeeping, but attempted to prepare a Balance Sheet as at 30 September 2004. The Balance Sheet she prepared, containing errors, is shown below.

Balance Sheet as at 30 September 2004

	$	$	$
Premises at cost			35000
Motor vehicles at cost		15000	
Less depreciation		1500	13500
Office equipment			3000
Stock			9300
Debtors			5900
			66700
Capital – Ruth		30000	
Lucy		20000	50000
Net profit		12000	
Less drawings – Ruth	4000		
Lucy	4400	8400	3600
Creditors			7400
Bank overdraft			5100
			66100

The following matters were then discovered.

1. No adjustment had been made in the Balance Sheet for the following.

	$
Depreciation of office equipment	300
Provision for doubtful debts	200

   These items had been correctly charged in the Profit and Loss Account.

2. Cash in hand, $100, had been omitted from the Balance Sheet.

3. The overdraft shown on the bank statement had been entered in the Balance Sheet instead of the overdraft of $5300 shown in the cash book.

(a) Taking the above matters into account, prepare a corrected Balance Sheet for Ruth and Lucy as at 30 September 2004.

The Balance Sheet should be shown using a suitable form of presentation, showing the different types of assets and liabilities, the working capital, and the capital and current accounts of each partner.

Ruth and Lucy Lebengo
Balance Sheet as at 30 September 2004

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For Examiner's Use

(b) On 1 October 2004 Ruth and Lucy decided to admit their brother, Paul, to the partnership. Ruth, Lucy and Paul agreed to share profits and losses 2:1:1.

Goodwill was valued at $9000 on 1 October 2004, but did not appear in the books. The partners agreed that adjustments should be made for Goodwill, but that a Goodwill account was not to be maintained on the books permanently.

Complete the following tables to show what entries are required. It is **not** necessary to prepare the ledger accounts.

(i) To enter the Goodwill on the books –

account(s) to be debited	$	account(s) to be credited	$
………………………..	………..	………………………..	………
………………………..	………..	………………………..	………
………………………..	………..	………………………..	………

(ii) To write off the Goodwill –

account(s) to be debited	$	account(s) to be credited	$
………………………..	………..	………………………..	………
………………………..	………..	………………………..	………
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[7]

[Total: 21]

1 James and Susan Mokobi are in partnership, sharing profits and losses equally.
On 1 May 2004 the balances of their current accounts were as follows.

	$
James	400 debit
Susan	2 000 credit

During the year ended 30 April 2005 the partners made the following drawings.

	$
James	6 000
Susan	10 000

The partners prepared the following Profit and Loss Appropriation Account for the year ended 30 April 2005.

James and Susan Mokobi
Profit and Loss Appropriation Account for the year ended 30 April 2005

	$	$	$
Net Profit			16 350
Interest on drawings – James		300	
Susan		500	800
			17 150
Interest on capital – James	1 050		
Susan	600	1 650	
Partner's salary – Susan		7 000	8 650
Profit available for distribution to the partners			8 500

For Examiner's Use

REQUIRED

(a) Prepare the partners' current accounts as they would appear in the ledger for the year ended 30 April 2005.

Where traditional **'T' accounts** are used they should be balanced and the balances brought down on 1 May 2005.

Where **three column running balance** accounts are used the balance column should be up-dated after each entry.

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On 1 May 2005 James and Susan decided to admit their sister Anna to the partnership. On that date the balances on their capital accounts were as follows.

	$
James	35 000
Susan	20 000

It was agreed that the profits and losses of the new partnership should be shared in the following proportions:

James 4/6 Susan 1/6 Anna 1/6

Anna paid $26 000 into the firm's bank account on 1 May 2005.

Goodwill was valued at $12 000 on 1 May 2005 but did not appear in the books. The partners agreed that the capital accounts should be adjusted for Goodwill on the admission of Anna, but that a Goodwill account was **not** to be maintained on the books.

For Examiner's Use

REQUIRED

(b) Prepare the capital accounts of James, Susan and Anna as they would appear in the ledger immediately after Anna was made a partner.

Where traditional **'T' accounts** are used they should be balanced and the balances brought down on 2 May 2005.

Where **three column running balance** accounts are used the balance column should be up-dated after each entry.

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[Total: 23]

5 Ebor and Olicana are in partnership trading in sports goods. Their financial year ends on 31 July. After the preparation of their Trading and Profit and Loss Account for the year ended 31 July 2005 the following errors were discovered.

1 Olicana had taken goods costing $500 for her own use. This had not been recorded.
2 $15 paid for carriage inwards had been debited to the carriage outwards account.
3 The purchase of computer paper, $30, had been debited to the purchases account.
4 Motor vehicle repairs of $200 had been debited to the motor vehicles account. Motor vehicles are depreciated by 25% on the cost of motors held at the end of each financial year.

REQUIRED

(a) Complete the following table to show the effect of **correcting the errors** on the gross profit and the net profit. If the correction of the error does not affect the profit write 'no effect'.

The first one has been completed as an example.

Error	Effect of correcting the error on the gross profit	on the net profit
1	+$500	+$500
2		
3		
4		

[7]

You may use the space below for your workings.

Ebor and Olicana maintain a full set of books of account.

The following transactions took place on 31 August 2005.

1 Olicana took further goods costing $400 for her own use.
2 Ebor brought his own computer, valued at $900, into the business.
3 Ebor's current account showed a credit balance of $10 000. It was agreed that he should transfer half of this to his capital account.

REQUIRED

(b) Prepare the necessary journal entries to record the above transactions. Narratives **are** required.

Ebor and Olicana
Journal

	Debit $	Credit $
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[9]

Ebor and Olicana have invited Lindum to join the partnership and have given him their final accounts for the year ended 31 July 2005.

Lindum is aware that these final accounts will not provide all the relevant information he needs.

REQUIRED

(c) State and explain **two** limitations Lindum should be aware of when he is studying the set of final accounts Ebor and Olicana have provided.

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....[4]

[Total: 20]

5 David and Janet Szabo are in partnership. Their financial year ends on 28 February.

On 1 March 2005 the credit balances on their capital accounts were as follows:

	$
David Szabo	19 000
Janet Szabo	14 000

On 1 January 2006 David transferred the $3000 debit balance on his current account to his capital account. On 1 February 2006 Janet paid an amount of cash into the business so that her capital was equal to David's.

REQUIRED

(a) Write up the partners' capital accounts as they would appear in the ledger for the year ended 28 February 2006.

Where traditional "T" accounts are used they should be balanced and the balances brought down on 1 March 2006. Where three column running balance accounts are used the balance column should be up-dated after each entry.

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David and Janet Szabo own a fashion store. David manages the department dealing in men's clothes and Janet manages the department dealing in ladies' clothes.

David suggested that it would assist in the management of the business if the results of each department were shown separately.

The following information is available for the year ended 28 February 2006:

	Men's Clothing Department	Ladies' Clothing Department
	$	$
Stock 1 March 2005	1 000	2 200
Stock 28 February 2006	1 500	1 800
Purchases	12 000	26 700
Carriage inwards	50	150

The total sales for the year were $48 000, which was split between the departments ⅓ for Men's Clothing and ⅔ for Ladies' Clothing.

The total expenses for the year were $4260. These are apportioned between the departments in proportion to the total sales made by each department.

For Examiner's Use

REQUIRED

(b) Prepare a columnar Trading and Profit and Loss Account for David and Janet Szabo for the year ended 28 February 2006 to show the gross profit and net profit earned by each department. Total columns are **not** required.

David and Janet Szabo
Departmental Trading and Profit and Loss Account for the year ended 28 February 2006

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The partners are disappointed with the results of the ladies' clothing department. They decide to ask Ann Ambondo to become a partner and take over the running of this department as she has had experience in a similar business for many years.

REQUIRED

(c) Explain why David and Janet Szabo should value the Goodwill of the business before admitting Ann Ambondo to the partnership.

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(d) **(i)** Explain to Ann Ambondo **two** advantages of joining the partnership.

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(ii) Explain to Ann Ambondo **two** disadvantages of joining the partnership.

1 ....

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2 ....

.... [2]

[Total: 22]

5 Smith and Travers are in partnership sharing profits and losses in accordance with their partnership agreement which states the following:

1 Interest on capital is allowed at 5% per annum.
2 Salary to be paid to Smith of $15 000 per annum.
3 Interest to be charged on each partner's total drawings for the year at 4% per annum.
4 Travers and Smith share the balance of profits in the ratio 3 : 2.

The balances on the partners' capital accounts at 1 October 2005 were:

Smith	$30 000
Travers	$40 000

The partners' drawings for the year ended 30 September 2006 were:

Smith	$35 000
Travers	$15 000

The net profit of the partnership for the year ended 30 September 2006 was $89 000.

REQUIRED

(a) Prepare the Profit and Loss Appropriation Account for the partnership for the year ended 30 September 2006.

You may use the space below for workings.

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For Examiner's Use

Smith and Travers
Profit and Loss Appropriation Account for the year ended 30 September 2006

[14]

For Examiner's Use

Smith's current account in the partnership books showed a balance of $2300 Cr. at 1 October 2005.

REQUIRED

(b) Using the information above and your answer to part **(a)**, calculate the balance on Smith's current account at 30 September 2006.

Show your workings.

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[Total: 22]

3 Jamil and Sara Suliman are in partnership.

On 30 April 2007 they discovered that a quantity of stock was missing from the warehouse. This loss is fully covered by their insurance company.

They are able to provide the following information for the year ended 30 April 2007:

	$
Sales	30 000
Purchases	26 000
Stock 1 May 2006	5 000
Stock in warehouse 30 April 2007	4 500

The gross profit margin is 20 %.

REQUIRED

(a) Calculate **by means of a trading account** the value of the missing stock on 30 April 2007.

Jamil and Sara Suliman
Trading Account for the year ended 30 April 2007

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The partners provide the following additional information:

		$
At 1 May 2006		
Current account –	Jamil	200 debit
	Sara	600 credit
For the year ended 30 April 2007		
Running expenses		4600
Interest on capital –	Jamil	2000
	Sara	1000
Drawings –	Jamil	3100
	Sara	2800

Profits and losses are shared equally.

REQUIRED

(b) Using your answer to **(a)** and the information above calculate the net profit for the year ended 30 April 2007. Show your workings.

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(c) Calculate each partner's share of the residual profit or loss for the year ended 30 April 2007. Show your workings.

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For Examiner's Use

(d) Prepare the partners' current accounts as they would appear in the ledger for the year ended 30 April 2007.

Where traditional "T" accounts are used they should be balanced and the balances brought down on 1 May 2007. Where three column running balance accounts are used the balance column should be updated after each entry.

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On 1 May 2007 Jamil and Sara decided to admit their sister Fatima to the partnership. Jamil, Sara and Fatima agreed to share profits and losses 2 : 2 : 1.

Goodwill was valued at $20 000 on 1 May 2007, but did not appear in the books. The partners agreed that adjustments should be made for goodwill, but that a goodwill account was not to be maintained on the books permanently.

REQUIRED

(e) Complete the following tables to show the partners what entries are required in the ledger.

It is **not** necessary to prepare the ledger accounts.

(i) To enter goodwill on the books.

account(s) to be debited	$	account(s) to be credited	$
....	....	....	....
....	....	....	....
....	....	....	....

(ii) To write off the goodwill.

account(s) to be debited	$	account(s) to be credited	$
....	....	....	....
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[7]

[Total: 24]

4 Ann and Fay are in partnership. They share profits and losses 3 : 2. On 1 October 2007 Ann's capital was $30 000 and Fay's was $15 000.

They invited Kim to join the partnership and to be responsible for the day-to-day running of the business.

Kim decided to join the partnership on 1 October 2007. She agreed to contribute $10 000 as capital, to be paid into the business bank account, and a computer system valued at $1000. Ann, Fay and Kim agreed to share profits and losses 5 : 3 : 2.

REQUIRED

(a) State **one disadvantage** to Ann and Fay of Kim joining the partnership.

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.... [1]

(b) (i) Explain why, **in addition to** agreeing the profit-sharing ratio, Ann, Fay and Kim should draw up a partnership agreement.

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(ii) Suggest **one** item which Ann would particularly want to include in the partnership agreement.

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(iii) Suggest **one** item Kim would particularly want to include in the partnership agreement.

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On 1 October 2007 goodwill was valued at $17 000 but did not appear in the books. The partners agreed that adjustments should be made for goodwill but that a goodwill account was **not** to be maintained on the books permanently.

REQUIRED

(c) Prepare the following accounts in the ledger of the partnership on 1 October 2007.

(i) Goodwill account

(ii) Capital accounts of Ann, Fay and Kim

Where traditional "T" accounts are used they should be balanced and, where appropriate, the balance brought down on 2 October 2007. Where three column running balance accounts are used the balance column should be updated after each entry.

(i) Goodwill account

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.... [5]

For Examiner's Use

(ii) Capital accounts

[12]

[Total: 22]

For Examiner's Use

1 Raminder and Vijay Singh formed a partnership and drew up a partnership agreement.

REQUIRED

(a) State **two** advantages of being in partnership rather than being a sole trader.

(i) ....

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(ii) ....

.... [2]

(b) State why, in addition to agreeing the profit-sharing ratio, partners should draw up a partnership agreement.

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.... [1]

On 1 April 2009 the balances of the partners' current accounts were as follows.

	$
Raminder Singh	4 660 debit
Vijay Singh	1 820 credit

During the year ended 31 March 2008 the partners made the following drawings.

	$
Raminder Singh	21 000
Vijay Singh	28 000

The following information was extracted from the profit and loss appropriation account for the year ended 31 March 2010.

		$	$
Net profit for the year			58 040
Interest charged on drawings –	Raminder	840	
	Vijay	1 120	1 960
Interest allowed on capital –	Raminder	6 000	
	Vijay	3 000	9 000
Partner's salary –	Vijay		20 000

Profits and losses are shared equally.

For Examiner's Use

REQUIRED

(c) (i) Calculate the profit available for distribution between the partners.

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.... [2]

(ii) Calculate **each** partner's share of the profit available for distribution.

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.... [1]

(iii) Prepare the partners' current accounts as they would appear in the ledger for the year ended 31 March 2010.

Where traditional "T" accounts are used they should be balanced and the balances brought down on 1 April 2010.

Where three column running balance accounts are used the balance column should be up-dated after each entry.

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3 Abdul and Amina Mahmoud are in partnership. Their financial year ends on 30 April. The trial balance prepared on 30 April 2008 failed to agree. The debit side totalled $95 857 and the credit side totalled $95 457. The difference was entered in a suspense account.

The following errors were later discovered:

1 Abdul had spent $20 of his personal funds to purchase business stationery. This had not been recorded in the books.

2 Goods withdrawn by Abdul for personal use, costing $300, had been debited to his drawings account but no other entry had been made.

3 $50 recovered from a bad debt (written off in 2006) had been correctly entered in the cash book and had been debited to the bad debts account.

4 The partners decided that the debit balance of $2200 on Amina's current account should be transferred to her capital account. This had not been recorded.

REQUIRED

(a) Prepare the entries in Abdul and Amina Mahmoud's journal to correct the above errors.

Narratives are **not** required.

Journal

	Debit $	Credit $
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[9]

(b) Prepare the suspense account in Abdul and Amina Mahmoud's ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional "T" account is used it should be balanced or totalled as necessary. Where a three column running balance account is used the balance column should be updated after each entry.

Suspense account

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Before the errors were discovered Abdul and Amina Mahmoud calculated that they had made a net profit of $12 900 for the year ended 30 April 2008.

REQUIRED

(c) Prepare a statement to show the effect of correcting errors 1-4 on the original net profit and calculate the corrected net profit.

If the error does not affect the net profit write "No effect".

The first correction has been completed as an example.

Abdul and Amina Mahmoud
Statement of corrected net profit for the year ended 30 April 2008

			$
Net profit before corrections			12 900
	Effect on net profit		
	Increase	Decrease	
	$	$	
Error 1		*20*	
2			
3			
4			
Corrected net profit			

[4]

4 Terry and Candy Wang are in partnership. Their financial year ends on 31 July. They share profits and losses in proportion to the capital invested by each partner.

On 1 August 2009 the balances on their accounts were as follows:

		$
Terry Wang	capital account	60 000
	current account	5 050 debit
Candy Wang	capital account	40 000
	current account	4 950 credit

Goodwill was valued at $30 000 on 1 August 2009 but did not appear on the books. On that date Terry and Candy Wang invited their brother Paul to become a partner.

Paul decided to join the partnership and agreed to contribute $16 000 to be paid into the business bank account and a motor vehicle valued at $4000.

Terry, Candy and Paul Wang agreed to share profits and losses in the ratio 3 : 2 : 1.

The partners agreed that adjustments should be made for goodwill but that a goodwill account was not to be maintained permanently in the books.

REQUIRED

(a) Prepare the following accounts in the ledger of the partnership on 1 August 2009.

(i) Goodwill account

(ii) Capital accounts of Terry Wang, Candy Wang and Paul Wang

Where traditional "T" accounts are used they should be balanced and, where appropriate, the balance brought down on 2 August 2009. Where three column running balance accounts are used the balance column should be up-dated after each entry.

(i) Terry, Candy and Paul Wang
Goodwill account

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For Examiner's Use

(ii) Capital accounts

[12]

(b) Explain why it was necessary for Terry and Candy Wang to value the goodwill of the business before admitting Paul to the partnership.

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.... [2]

Terry, Candy and Paul Wang decided to prepare an opening balance sheet for the new business on 1 August 2009.

REQUIRED

(c) Prepare the capital section of Terry, Candy and Paul Wang's balance sheet at 1 August 2009.

Terry, Candy and Paul Wang
Balance Sheet extract at 1 August 2009

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[Total: 22]

3 Arthur and Nancy formed a partnership on 1 May 2009 to start a business selling furniture. Their partnership agreement states:

1. Interest on capital is to be allowed at 3% per annum.
2. Salary of $15 000 per annum is to be paid to Arthur.
3. Interest is to be charged on drawings at 4% per annum on total drawings.
4. Arthur and Nancy are to share the balance of profits or losses in the ratio 2:3.

The initial capital introduced on 1 May 2009 was:

Arthur	$30 000
Nancy	$40 000

The partners' drawings for the year ended 30 April 2010 were:

Arthur	$35 000
Nancy	$15 000

The net profit of the partnership for the year ended 30 April 2010 was $89 000.

REQUIRED

(a) Calculate the interest on capital paid to **each** partner for the year ended 30 April 2010.

Show **all** your workings.

(i) Arthur

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(ii) Nancy

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.... [2]

(b) Calculate the interest on drawings charged to **each** partner for the year ended 30 April 2010.

Show **all** your workings.

(i) Arthur

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(ii) Nancy

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(c) Show how the balance of the net profit for the year ended 30 April 2010 was divided between Arthur and Nancy. Show **all** your workings.

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(d) Write up Arthur's current account for the year ended 30 April 2010.

Arthur
Current account

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(e) Arthur thinks that the partners should reduce the rate of interest charged on their drawings.

Show, by placing a tick (✓) in the table below, the effect this would have on his total earnings from the partnership:

Increase	
Reduce	
Unchanged	

[2]

[Total: 23]

3 Arthur and Nancy formed a partnership on 1 May 2009 to start a business selling furniture. Their partnership agreement states:

1 Interest on capital is to be allowed at 3% per annum.

2 Salary of $15 000 per annum is to be paid to Arthur.

3 Interest is to be charged on drawings at 4% per annum on total drawings.

4 Arthur and Nancy are to share the balance of profits or losses in the ratio 2:3.

The initial capital introduced on 1 May 2009 was:

Arthur	$30 000
Nancy	$40 000

The partners' drawings for the year ended 30 April 2010 were:

Arthur	$35 000
Nancy	$15 000

The net profit of the partnership for the year ended 30 April 2010 was $89 000.

REQUIRED

(a) Calculate the interest on capital paid to **each** partner for the year ended 30 April 2010.

Show **all** your workings.

(i) Arthur

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(ii) Nancy

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.... [2]

(b) Calculate the interest on drawings charged to **each** partner for the year ended 30 April 2010.

Show **all** your workings.

(i) Arthur

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(ii) Nancy

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(c) Show how the balance of the net profit for the year ended 30 April 2010 was divided between Arthur and Nancy. Show **all** your workings.

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(d) Write up Arthur's current account for the year ended 30 April 2010.

Arthur
Current account

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.... [6]

(e) Arthur thinks that the partners should reduce the rate of interest charged on their drawings.

Show, by placing a tick (✓) in the table below, the effect this would have on his total earnings from the partnership:

Increase	
Reduce	
Unchanged	

[2]

[Total: 23]

6 Ben and Jane Mwanga are in partnership.

They have agreed the following:

Interest is to be allowed on capital at 6% per annum
Interest is to be charged on drawings at 4% per annum
Jane is to receive an annual salary of $10 000
Profits and losses are to be shared in proportion to their capitals
Ben would invest $50 000 and Jane would invest $30 000 as capital

REQUIRED

(a) Explain why an agreement should be drawn up when a partnership is formed.

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.... [2]

(b) Explain why the partnership agreement of Ben and Jane Mwanga included clauses on **each** of the following:

(i) interest on drawings

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.... [2]

(ii) partner's salary for Jane

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.... [2]

For the year ended 31 March 2010, the partnership earned a profit for the year (net profit) of $12 000.

Drawings during the year ended 31 March 2010 were:

	$
Ben Mwanga	8 000
Jane Mwanga	15 000

REQUIRED

(c) Prepare the profit and loss appropriation account of Ben and Jane Mwanga for the year ended 31 March 2010.

Ben and Jane Mwanga
Profit and Loss Appropriation Account for the year ended 31 March 2010

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After the preparation of the financial statements (final accounts) for the year ended 31 March 2010 the following errors were discovered.

1 The sales account had been undercast by $1000.

2 No entry had been made for bank charges, $30.

3 New equipment, $5000, had been debited to the motor vehicles account.

4 Repairs to premises, $50, had been debited to the premises account.

REQUIRED

(d) Prepare a statement to show the effect of correcting errors 1–4 on the original profit for the year (net profit) and calculate the corrected net profit.

If the error does not affect the profit for the year (net profit) write "No effect".

The first correction has been completed as an example.

Ben and Jane Mwanga

Statement of corrected profit for the year ended 31 March 2010

			$
Profit for the year (net profit) before corrections			12 000
	Increase in profit $	Decrease in profit $	
Error 1	1000		
2			
3			
4			
	______	______	
	______	______	______
Corrected profit for the year			______

[7]

[Total: 21]

5 Samuel and Martha Mavuso are in partnership. Their financial year ends on 31 October.

Their partnership agreement provides for interest on capital and interest on drawings. Profits and losses are to be shared in proportion to capital invested.

Martha has suggested that the partnership agreement should be amended so that she can receive an annual partnership salary.

REQUIRED

(a) Suggest **one** reason why Martha Mavuso wishes to amend the partnership agreement.

....

....

.... [2]

On 1 November 2009 the balances on the partners' capital and current accounts were:

	Capital account $	Current account $
Samuel Mavuso	60 000	1 091 debit
Martha Mavuso	40 000	223 credit

During the year ended 31 October 2010 the partners made the following drawings:

	$
Samuel Mavuso	3 100
Martha Mavuso	4 900

The following information was extracted from the profit and loss appropriation account for the year ended 31 October 2010.

		$	$
Profit for the year (net profit)			10 630
Interest charged on drawings	Samuel Mavuso	93	
	Martha Mavuso	147	240
			10 870
Interest allowed on capital	Samuel Mavuso	2 400	
	Martha Mavuso	1 600	4 000
Profit available for distribution			6 870

On 31 October 2010 the following information was available.

	$
Non-current (fixed) assets at cost	105 950
Provision for depreciation of non-current (fixed) assets	9 350
Current assets	23 562
Current liabilities	18 400

REQUIRED

(b) Prepare the balance sheet of Samuel and Martha Mavuso at 31 October 2010. The capital and current account of each partner should be shown.

The calculation of the current account balances may either be shown within the balance sheet or as separate ledger accounts.

Use the space below for your workings.

Samuel and Martha Mavuso
Balance Sheet at 31 October 2010

[10]

For Examiner's Use

(c) Using the above information, calculate the current ratio of Samuel and Martha Mavuso. The calculation should be correct to **two** decimal places.

Show your workings.

....

....

.... [2]

(d) Explain **two** ways in which their working capital could be improved.

(i) ....

....

(ii) ....

.... [2]

(e) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio.

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.... [2]

[Total: 18]

3 Omar and Fatima Aziz are in partnership, trading as Aziz Stores. Their financial year ends on 31 March.

On 1 April 2010 the balances on the partners' capital and current accounts were:

	Capital account	Current account
	$	$
Omar Aziz	60 000	215 debit
Fatima Aziz	40 000	1945 credit

Aziz Stores made a profit for each of the years ended 31 March 2009 and 31 March 2010.

REQUIRED

(a) On 1 April 2009 there was a credit balance on the current account of Omar Aziz.

Explain what may have caused this balance to change to a debit balance on 1 April 2010.

....

.... [2]

During the year ended 31 March 2011 the partners made the following drawings.

	$
Omar Aziz	2900
Fatima Aziz	9600

Omar and Fatima Aziz prepared the following profit and loss appropriation account for the year ended 31 March 2011.

		$	$
Profit for the year			13 575
Interest charged on drawings	Omar Aziz	87	
	Fatima Aziz	288	375
			13 950
Interest allowed on capital	Omar Aziz	2 400	
	Fatima Aziz	1 600	
		4 000	
Partner's salary	Fatima Aziz	12 000	16 000
			(2 050)
Share of profit/loss	Omar Aziz	(1 230)	
	Fatima Aziz	(820)	(2 050)

REQUIRED

(b) Prepare the partners' current accounts as they would appear in the ledger for the year ended 31 March 2011.

Where traditional "T" accounts are used they should be balanced and the balances brought down on 1 April 2011.

Where three column running balance accounts are used the balance column should be up-dated after each entry.

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.... [11]

(c) Prepare an extract from the balance sheet of Aziz Stores at 31 March 2011 to show the capital and current account balances of each partner and the total funds provided by the partners. It is **not** necessary to show full details of the current accounts.

Aziz Stores

Extract from Balance Sheet at 31 March 2011

	Omar Aziz	Fatima Aziz	Total
	$	$	$

....

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....

.... [5]

(d) State **one** advantage of maintaining both a capital account and a current account for each partner.

....

....

.... [2]

(e) Instead of operating Aziz Stores as a partnership, Omar Aziz has suggested that they should form a limited company.

Explain **one** reason why this may be of personal benefit to Omar and Fatima Aziz.

....

....

.... [2]

[Total: 22]

3 Wayne and Tracey Lister are in partnership. The partnership agreement states that Wayne and Tracey share profits and losses in the ratio 3:1. Their financial year ends on 28 February.

A capital account and a current account is maintained for each partner.

On 27 February 2011 the following transactions took place:

1 Wayne took goods costing $420 for his own use.

2 Tracey purchased office stationery, $32, and paid from personal funds.

3 Wayne introduced a motor vehicle, valued at $15 200, into the business.

4 Tracey transferred $5000 from the credit balance on her current account to her capital account.

REQUIRED

(a) Name the accounting principle which states that a distinction must be made between the financial transactions of a business and those of its owners.

.... [1]

(b) Prepare journal entries on the following page to record **each** of the above transactions. Narratives **are** required. [12]

For Examiner's Use

Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
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....	....	....
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....	....	....
....	....	....

Financial statements were prepared for Wayne and Tracey Lister for the year ended 28 February 2011 showing a profit for the year of $18 500.

It was later discovered that the closing inventory had been over-valued by $560.

REQUIRED

(c) State the basis on which inventory should be valued.

....

.... [1]

(d) Explain why inventory should be valued on this basis.

....

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....

.... [2]

(e) Calculate the effect on Wayne's profit share of **correcting** the above error.
Show your workings.

....

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....

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....

.... [4]

[Total: 20]

For Examiner's Use

5 Raoul and Hassan agreed to form a partnership from 1 April 2011 to sell mobile telephones.

(a) State **two** advantages of trading in partnership.

(i) ....

....

(ii) ....

.... [2]

(b) State **two** disadvantages of trading in partnership.

(i) ....

....

(ii) ....

.... [2]

On 1 April 2011, Raoul introduced capital of $6000 which was paid into the partnership bank account. Hassan introduced inventory valued at $4000.

On the same day, the partnership paid rent on a shop of $600 and bought shop fittings for $750. Both payments were made by cheque.

REQUIRED

(c) Prepare journal entries to record the setting up of the partnership.
Narratives are **not** required.

Raoul and Hassan
Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[8]

Raoul and Hassan agreed that they would allow interest on capital at 3% per annum and that Raoul would have a partnership salary of $3000 per annum. It was agreed that they would share profits and losses in the ratio Raoul 2/5 and Hassan 3/5.

For Examiner's Use

In the year ended 31 March 2012 the partnership made a profit of $8800.

REQUIRED

(d) Prepare the profit and loss appropriation account of the partnership for the year ended 31 March 2012.

Raoul and Hassan
Profit and Loss Appropriation Account for the year ended 31 March 2012

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.... [8]

(e) Prepare Raoul's current account for the year ended 31 March 2012.

Raoul
Current account

....

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.... [4]

(f) State **one** way in which the partnership agreement could be changed to recognise the fact that Raoul makes more sales than Hassan.

....

.... [2]

[Total: 26]