

- 3 Paul and Ann are in partnership. Their financial year ends on 30 September.

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

Interest on capital at 4% per annum
 Interest on drawings at 5%
 An annual salary of \$7000 for Paul
 Interest on any loans from partners at 6% per annum
 Sharing of profits and losses equally

On 1 October 2017 the balances on the partners' accounts were as follows:

	Paul	Ann
	\$	\$
Capital account	50 000	85 000
Current account	1 150 credit	3 125 debit
Loan account	10 000	

The interest on loan is credited to Paul's current account at the end of each financial year.

On 1 April 2018 Paul introduced a motor vehicle, \$14 500, into the business. He also deposited an amount into the business bank account so that his total capital was \$80 000.

The partners agreed that Paul's salary should be increased by \$1000 per annum starting on 1 April 2018.

Drawings during the year ended 30 September 2018 were as follows:

	\$
Paul	9 000
Ann	11 000

On 30 September 2018 Ann transferred \$5000 from her capital account to her current account.

The profit for the year ended 30 September 2018 after loan interest was \$11 350.

REQUIRED

(a) Prepare journal entries to record the following:

- 1 The introduction of additional capital by Paul on 1 April 2018.
- 2 The transfer of \$5000 from Ann's capital account to her current account on 30 September 2018.

Narratives are **not** required.

Paul and Ann
Journal

Date	Details	Debit \$	Credit \$
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[5]

Profit and Loss Appropriation Account for the year ended 30 September 2018

[illegible]

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- (c) Prepare the current account of Paul for the year ended 30 September 2018. Balance the account and bring down the balance on 1 October 2018.

Paul
Current account

Date	Details	\$	Date	Details	\$
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[8]

[Total: 21]

Question	Answer	Marks																														
3(a)	<div>Paul and Ann Journal</div> <table><tr><th>Date</th><th>Details</th><th>Debit \$</th><th>Credit \$</th><th></th></tr><tr><td>2018 April 1</td><td>Motor vehicle</td><td>14 500</td><td></td><td>(1)</td></tr><tr><td></td><td>Bank</td><td>15 500</td><td></td><td>(1)</td></tr><tr><td></td><td>Paul Capital</td><td></td><td>30 000</td><td>(1)</td></tr><tr><td>Sept 30</td><td>Ann Capital</td><td>5 000</td><td></td><td>(1)</td></tr><tr><td></td><td>Ann Current</td><td></td><td>5 000</td><td>(1)</td></tr></table>	Date	Details	Debit \$	Credit \$		2018 April 1	Motor vehicle	14 500		(1)		Bank	15 500		(1)		Paul Capital		30 000	(1)	Sept 30	Ann Capital	5 000		(1)		Ann Current		5 000	(1)	5
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3(b)	<div>Paul and Ann</div> <div>Profit and Loss Appropriation Account for the year ended 30 September 2018</div> <table><tr><td>Profit for the year:</td><td></td><td>\$</td><td></td><td>\$</td><td>11 350</td></tr><tr><td>Interest on drawings:</td><td>Paul</td><td>450</td><td>}</td><td></td><td></td></tr><tr><td></td><td>Ann</td><td>550</td><td>}</td><td>(1)</td><td>1 000</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td><u>12 350</u></td></tr><tr><td>Interest on capital:</td><td>Paul</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$4\% \times 50\,000 \times 6 / 12 = 1000(1)$</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$4\% \times 80\,000 \times 6 / 12 = 1600(1)$</td><td>2 600</td><td>*</td><td></td><td></td></tr><tr><td></td><td>Ann</td><td>3 400</td><td>(1)</td><td></td><td></td></tr><tr><td></td><td></td><td><u>6 000</u></td><td></td><td></td><td></td></tr><tr><td>Partner's salary:</td><td>Paul</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$7000 \times 6 / 12 = 3500(1)$</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$8000 \times 6 / 12 = 4000(1)$</td><td>7 500</td><td>**</td><td></td><td>13 500</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td><u>(1 150)</u></td></tr><tr><td>Share of loss</td><td>Paul</td><td>575</td><td>(1)OF</td><td></td><td></td></tr><tr><td></td><td>Ann</td><td>575</td><td>(1)OF</td><td></td><td><u>(1 150)</u></td></tr><tr><td colspan="6">*Alternative calculation</td></tr><tr><td></td><td>$4\% \times 50\,000 \times 12 / 12 = 2000(1)$</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$4\% \times 30\,000 \times 6 / 12 = 600(1)$</td><td></td><td></td><td></td><td></td></tr><tr><td colspan="6">**Alternative calculation</td></tr><tr><td></td><td>$7000 \times 12 / 12 = 7000(1)$</td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>$1000 \times 6 / 12 = 500(1)$</td><td></td><td></td><td></td><td></td></tr></table>	Profit for the year:		\$		\$	11 350	Interest on drawings:	Paul	450	}				Ann	550	}	(1)	1 000						<u>12 350</u>	Interest on capital:	Paul						$4\% \times 50\,000 \times 6 / 12 = 1000(1)$						$4\% \times 80\,000 \times 6 / 12 = 1600(1)$	2 600	*				Ann	3 400	(1)					<u>6 000</u>				Partner's salary:	Paul						$7000 \times 6 / 12 = 3500(1)$						$8000 \times 6 / 12 = 4000(1)$	7 500	**		13 500						<u>(1 150)</u>	Share of loss	Paul	575	(1)OF				Ann	575	(1)OF		<u>(1 150)</u>	*Alternative calculation							$4\% \times 50\,000 \times 12 / 12 = 2000(1)$						$4\% \times 30\,000 \times 6 / 12 = 600(1)$					**Alternative calculation							$7000 \times 12 / 12 = 7000(1)$						$1000 \times 6 / 12 = 500(1)$					8
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