

- 3 Paul and Angela are in partnership sharing profits and losses in the ratio of 3:2 respectively. No separate current accounts are maintained.

On 1 May 2017, Rachael was admitted into the partnership.

(a) (i) State **two** advantages to existing partners of introducing a new partner.

1

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2

.....

[2]

(ii) State **two** disadvantages to existing partners of introducing a new partner.

1

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2

.....

[2]

A summarised statement of financial position at 30 April 2017 before the admission of Rachael is as follows:

	\$
Non-current assets	225 000
Cash and cash equivalents	7 450
Other current assets	<u>61 500</u>
	<u>293 950</u>
Capital accounts:	
Paul	145 000
Angela	95 000
Current liabilities	<u>53 950</u>
	<u>293 950</u>

The following information is available:

- 1 Rachael paid \$75 000 as capital into the partnership bank account.
- 2 Goodwill was valued at \$50 000. No goodwill account was to be maintained in the books of account.
- 3 Non-current assets were revalued at \$270 000.
- 4 Current assets (excluding cash and cash equivalents) were revalued at \$40 500.
- 5 Current liabilities were revalued at \$45 950.
- 6 Paul, Angela and Rachael will share profits and losses in the ratio 5:3:2 respectively.

REQUIRED

- (b) Calculate the profit or loss from revaluation on 1 May 2017 when Rachael was admitted. Show how this is divided between the partners.

Profit or loss from revaluation

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Division between partners

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[2]

- (c) Prepare, on the **next** page, the partners' capital accounts on 1 May 2017 after the admission of Rachael.

Capital Accounts

	Paul \$	Angela \$	Rachael \$		Paul \$	Angela \$	Rachael \$

[5]

(d) Explain why an adjustment for goodwill may be made when a new partner joins a business.

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.....
..... [2]

(e) State **two** factors that may result in the creation of goodwill for a business.

1
.....
2
..... [2]

[Total: 15]

Question	Answer	Marks
3(a)(i)	More capital investment (1) Losses will be shared with more partners (1) New ideas (1) Shared workload (1) Shared responsibility (1) Shared risk (1) More specialist skills (1) Max 2	2
3(a)(ii)	Profits must be shared (1) More potential disputes (1) Slower decision making (1) Loss of control (1) Max 2 Note: Allow sharing of profits / losses only once as an advantage or a disadvantage	2
3(b)	$\$45000 + 8000 - 21000 = \32000 Profit (1) Paul \$19200 } Angela \$12800 } (10F for both)	2

PUBLISHED

Question	Answer								Marks																																																								
3(c)	<p style="text-align: center;">Capital Accounts</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 10%; text-align: center;">Paul \$</th> <th style="width: 10%; text-align: center;">Angela \$</th> <th style="width: 10%; text-align: center;">Rachael \$</th> <th style="width: 15%;"></th> <th style="width: 10%; text-align: center;">Paul \$</th> <th style="width: 10%; text-align: center;">Angela \$</th> <th style="width: 10%; text-align: center;">Rachael \$</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">Goodwill (1)</td> <td style="text-align: right;">25000</td> <td style="text-align: right;">15000</td> <td style="text-align: right;">10000</td> <td style="text-align: left;">Bal b/d</td> <td style="text-align: right;">145000</td> <td style="text-align: right;">95000</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: left;">Cash / Bank (1)</td> <td></td> <td></td> <td style="text-align: right;">75000</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: left;">Goodwill (1)</td> <td style="text-align: right;">30000</td> <td style="text-align: right;">20000</td> <td></td> </tr> <tr> <td style="text-align: right;">Bal c/d</td> <td style="text-align: right;">169200</td> <td style="text-align: right;">112800</td> <td style="text-align: right;">65000</td> <td style="text-align: left;">Revaluation (1) OF</td> <td style="text-align: right;">19200</td> <td style="text-align: right;">12800</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>194200</u></td> <td style="text-align: right;"><u>127800</u></td> <td style="text-align: right;"><u>75000</u></td> <td></td> <td style="text-align: right;"><u>194200</u></td> <td style="text-align: right;"><u>127800</u></td> <td style="text-align: right;"><u>75000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: left;">Bal b/d (1) OF</td> <td style="text-align: right;">169200</td> <td style="text-align: right;">112800</td> <td style="text-align: right;">65000</td> </tr> </tbody> </table>									Paul \$	Angela \$	Rachael \$		Paul \$	Angela \$	Rachael \$	Goodwill (1)	25000	15000	10000	Bal b/d	145000	95000						Cash / Bank (1)			75000					Goodwill (1)	30000	20000		Bal c/d	169200	112800	65000	Revaluation (1) OF	19200	12800			<u>194200</u>	<u>127800</u>	<u>75000</u>		<u>194200</u>	<u>127800</u>	<u>75000</u>					Bal b/d (1) OF	169200	112800	65000	5
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3(d)	<p>To reward the existing partners (1) for having established the business and built the reputation (1)</p> <p>1 mark for stating + 1 mark for development</p>								2																																																								
3(e)	<p>A business making profits each year and these could be increasing over time</p> <p>An established reputation</p> <p>Customer loyalty and repeat business</p> <p>Brand name and image</p> <p>Value of the business as a going concern exceeds the value of the net separable assets.</p> <p>Good location</p> <p>Quality of staff / products</p> <p>Allow other suitable answers</p> <p>Max 2</p>								2																																																								