1 John, Georgina and Paul are in partnership but have no written partnership agreement. The partners wish to expand the partnership, and require additional funds.

Their capital accounts at 1 May 2005 were as follows.

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John	60 000
Georgina	45 000
Paul	45 000

Under the existing circumstances, profit of $67 500 is anticipated for the year ended 30 April 2006. There are two options for expanding the business, either of which is acceptable to all three partners. The selected option would take effect from 1 May 2005.

The two options are:

(i) Borrow $75 000 from the bank at 12% interest per annum. The bank would require repayment of $6750 at the end of each financial year, in addition to interest.
A manager would have to be employed at a wage of $15 000 per annum and profits should increase by $27 000 before taking into account bank interest and the manager's salary.

(ii) Bring Ringo in as a partner. He would take on the role of manager and would provide $75 000 of capital. Ringo would join the partnership, provided an agreement was drawn up requiring interest on capital to be paid at 7.5% per annum.
Remaining profits would be split in the ratio 3:3:2:2, with John and Ringo receiving the larger shares. Goodwill would be ignored and net profit would increase by $27 000.

REQUIRED

(a) the year ended 30 April 2006, calculate the profit to be received by each partner under option (i).

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(b) the year ending 30 April 2006, calculate the amount to be received by each partner under option (ii).

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(c) Make a brief comparison of options (i) and (ii).

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