

2 Karis and Lara are in partnership.

(a) State **two** reasons why partners may each have a separate capital account and current account.

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Additional information

Karis and Lara share profits and losses in the ratio 3:2 respectively.

They decided to admit Megan as a partner on 1 February 2021.

On that date the statement of financial position was as follows.

Assets	\$	\$
Non-current assets at net book value		
Motor vehicles	43 500	
Furniture and equipment	<u>16 200</u>	59 700
Current assets		
Trade receivables		<u>18 410</u>
Total assets		<u>78 110</u>
Capital and liabilities		
Capital accounts		
Karis	35 700	
Lara	<u>24 500</u>	60 200
Current accounts		
Karis	3 110	
Lara	<u>(540)</u>	2 570
Current liabilities		
Trade payables	11 230	
Bank overdraft	<u>4 110</u>	15 340
Total capital and liabilities		<u>78 110</u>

The partners agreed the following on Megan's admission.

- 1 Current accounts would no longer be used.
- 2 Karis took over a motor vehicle for private use with a net book value of \$18 400 at an agreed value of \$15 000.
- 3 Goodwill was valued at \$48 000. No goodwill account was to be maintained in the partnership's books of account.
- 4 Profits and losses are to be shared in the ratio Karis : Lara : Megan 7 : 5 : 3 respectively.
- 5 Megan introduced a motor vehicle valued at \$23 000 as part of her capital contribution.

After making the adjustments, it was agreed that Megan should pay sufficient cash into the business bank account to make her total capital equal to that of Lara.

REQUIRED

- (b) Prepare, on the **next page**, the capital accounts of the partners to record the admission of Megan as a partner.

Capital accounts

	Karis	Lara	Megan		Karis	Lara	Megan
	\$	\$	\$		\$	\$	\$

Additional information

In the new partnership agreement Lara is to receive a salary of \$12 000 per annum.

Megan is hoping to achieve a 25% return on her capital employed (ROCE).

REQUIRED

- (c) Calculate the minimum profit the partnership must make in order for Megan to achieve this ROCE.

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- (d) State **two** possible disadvantages to existing partners of admitting a new partner.

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