

- 2 Jack and Kelly are in partnership. They share profits and losses in the ratio of 2 : 5 respectively. The partners decided to admit Liam as a partner with effect from 1 July 2018.

The partnership's statement of financial position immediately prior to Liam's admission was as follows.

Jack and Kelly Summarised statement of financial position at 30 June 2018		\$
Assets		
Non-current assets		91 400
Current assets		21 700
Total assets		<u>113 100</u>
Capital and liabilities		
Capital accounts		
Jack		33 000
Kelly		71 000
Current liabilities		9 100
Total capital and liabilities		<u>113 100</u>

The partners do not maintain separate current accounts.

The following was agreed.

- 1 Assets were revalued upwards by \$21 000.
- 2 Goodwill was valued at \$52 500. No goodwill account was to be maintained in the partnership's books of account.
- 3 In the future profits and losses would be shared in the ratio Jack : Kelly : Liam, 2 : 5 : 3 respectively.
- 4 The balances of the partners' capital accounts immediately after Liam's admission should total \$120 000 and be in the same ratio as the profit sharing ratio.

Each partner would either pay funds into, or withdraw funds from, the business bank account in order to achieve this requirement.

REQUIRED

- (a) Prepare the partners' capital accounts to record Liam's admission as a partner on the **next page**.

Partners' Capital Accounts

	Jack	Kelly	Liam		Jack	Kelly	Liam
	\$	\$	\$		\$	\$	\$

(b) State what is meant by the term 'goodwill'.

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(c) Explain why a partnership may make an adjustment for goodwill when they admit a new partner.

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(d) Explain why partners may agree **not** to maintain a goodwill account in the books of the partnership on the admission of a new partner.

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Additional information

The partners forecast that profit for the year ending 30 June 2019 will be \$60 000. This is an increase of 25% on the current year's profit. The partners believe that Liam's admission will result in an improved return on capital employed.

REQUIRED

- (e) Advise the partners whether or not they are correct in believing that Liam's admission will result in an improved return on capital employed in the year ending 30 June 2019.

Support your answer with calculations.

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