

- 1 Faraz, Javed and Leah were in partnership. Their agreement included the following terms:
  - 1 Interest on drawings to be charged at 5% on total drawings for the year.
  - 2 Interest at 12% per annum to be provided on fixed capitals.
  - 3 Javed to receive a salary of \$9000 per annum.
  - 4 Remaining profits and losses to be shared in the ratio Faraz, Javed and Leah, 4:3:3 respectively.

The following information was available for the year ended 31 December 2020.

	Faraz \$	Javed \$	Leah \$
Balances at 1 January 2020			
Capital accounts	80 000	60 000	50 000
Current accounts	3 400 credit	2 900 debit	1 700 debit
the year ended 31 December 2020			
Drawings	22 400	17 200	20 200

The profit for the year ended 31 December 2020, before appropriation, was \$31 500.

## REQUIRED

- (a) State **two** reasons why partnership agreements sometimes include a provision to charge interest on drawings.

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[2]

**(b)** Prepare the appropriation account for the year ended 31 December 2020.

Faraz, Javed and Leah  
Appropriation account for the year ended 31 December 2020

[illegible]

(c) Prepare Javed's current account for the year ended 31 December 2020.

Javed  
Current account

	\$		\$

[6]

### Additional information

On 1 January 2021, Javed retired from the partnership. It was agreed that on this date:

- 1 Javed would keep some equipment for personal use. The equipment had a net book value of \$15 400 and was to be transferred to Javed at a value of \$13 000.
- 2 Other non-current assets were to be revalued upwards by \$24 000.
- 3 Goodwill was valued at \$50 000. A goodwill account was not to be maintained in the partnership's books.

### REQUIRED

(d) Explain the meaning of goodwill.

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(e) Explain why a valuation of goodwill could be made when a partner retires.

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(f) Prepare a statement to show the amount due to Javed on his retirement from the partnership.

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### Additional information

Faraz and Leah continued in partnership sharing profits and losses equally. They discussed how best to finance the amount due to Javed on his retirement from the partnership. They are considering two options.

Option 1: Take out a bank loan to cover the amount due.

Option 2: Admit a new partner whose capital contribution would cover the amount due.

### REQUIRED

- (g) Advise the partners which option they should choose. Justify your answer by discussing **both** options.

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