1 Alan and Jack have been in partnership for several years, sharing profits and losses equally. They prepare their financial statements annually to 30 September.

On 30 September 2014 the balances on their capital accounts were Alan \$139800 and Jack \$128000.

On 1 October 2014 the following took place:

- 1 Max joined the partnership. He paid \$27 000 into the partnership bank account and introduced inventory valued at \$5000.
- Alan transferred \$15 000 from his capital account into a loan account. Interest on the loan is to be paid at 10% per annum. The loan is repayable by 30 September 2020.
- 3 The partners agreed a value for goodwill of \$40000. No goodwill is to be recorded in the books.
- 4 Alan, Jack and Max are to share profits and losses in the ratio 2:2:1 respectively.

## **REQUIRED**

(a) Prepare the capital accounts of the partners at 1 October 2014 taking the above into account.

Alan, Jack and Max

Capital accounts at 1 October 2014
19

(b) (i)	State what is m	eant by goodwill.				
	***************************************					
					[1]	
(ii)	State three fac	tors which affect the value o	of goodwill.			
	1					
	2					
	3					
	·					
					[3]	
Additi	onal information	ı				
The te	rms of the new pa	artnership agreement includ	ed the following:			
Interest on capital		7.5% per annum on capital account balances at the end of each financial year				
Interest on drawings		3% on total drawings for the year				
Salary to Max		\$10 000 per annum				
The fo	llowing information	n is also available for the ye	ear ended 30 Sept	ember 2015:		
			Alan \$	Jack \$	Max \$	
Current account balances at 1 October 2014 Drawings for the year ended 30 September 2015			9500 Credit 16000	7 500 Credit 24 000	Nil 8 000	

The residual profit to be shared by the partners in the profit sharing ratio is \$90000.

## **REQUIRED**

(c) Prepare the partners' current accounts for the year ended 30 September 2015.

Alan, Jack and Max

	Current accounts					
	[7]					
(d)	Calculate the profit for the year ended 30 September 2015 transferred from the income statement to the appropriation account.					
	[5]					

## **Additional information**

The partners have calculated the following ratios for the business:

30 September 2014 30 September 2015
Liquid (acid test) ratio 1.1:1 0.85:1
Trade receivables turnover 34 days 42 days

## **REQUIRED**

(e)	(i)	Comment on the changes in liquidity of the partnership from 30 September 2014 to 30 September 2015.
		[4]
	(ii)	Suggest ways in which the partnership liquidity may be improved.