

1 Ramadhin, Statham and Trueman formed a partnership on 1 January 2016.

The draft profit for the year ended 31 December 2016 before appropriation was \$232 000, but did not account for the following:

- 1 A non-current asset costing \$20 000 was purchased on 1 July 2016. No depreciation has been charged on this asset.

The partnership’s policy is to charge depreciation at 20% using the reducing balance method on all assets.

A full year’s depreciation is charged in the year of purchase and none in the year of disposal.

- 2 Some inventory which had been valued at a cost of \$15 000 had been damaged. The mark-up on inventory is 100%. The damaged inventory could only be sold for 20% of the normal selling price.

REQUIRED

(a) Calculate the **adjusted** profit for the year ended 31 December 2016 before appropriation.

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Additional information

On 1 January 2016 Ramadhin, Statham and Trueman had introduced capital of \$600 000 in their agreed profit and loss sharing ratio of 3 : 2 : 1 respectively.

The other terms of the partnership agreement were as follows:

- 1 Interest of 6% per annum is to be paid on the opening capital account balances.
- 2 Each partner is to take drawings of \$10 000 per annum. Interest is to be charged on total annual drawings at 4% per annum.
- 3 Trueman is to receive a salary of \$1000 per month.

REQUIRED

(b) Prepare the partnership appropriation account for the year ended 31 December 2016.

[illegible]

(c) Explain why partners may value goodwill and revalue the assets when one partner retires.

[3]

Additional information

Trueman received an offer of employment which would provide him with a gross annual income of \$50 000. He decided to accept the offer and leave the partnership on 31 December 2016.

At that date goodwill was valued at \$12 000.

It was also agreed that the partnership assets should be revalued at \$7500 less than their net book values.

Trueman agreed to leave 40% of the balance due to him as a loan to the partnership at an interest rate of 10% per annum. The remainder was paid to him from the business bank account.

REQUIRED

(d) Prepare a statement showing the amount that Trueman received on leaving the partnership.

[8]

- [5]

Trueman asks Ramadhin and Statham for an early repayment of his loan to the partnership.

[4]