

- 2 Abbie, Ben and Cain have been in partnership for many years sharing profits and losses in the ratio 3:2:1.

The partnership's draft statement of financial position at 30 June 2021 is shown below.

Abbie, Ben and Cain  
Statement of financial position at 30 June 2021

	\$
Non-current assets	
Property	65 000
Motor vehicles	52 000
	<u>117 000</u>
Current assets	
Inventory	18 200
Trade receivables	13 700
Bank	800
	<u>32 700</u>
Total assets	<u>149 700</u>
Capital and liabilities	
Capital accounts	
Abbie	60 000
Ben	40 000
Cain	20 000
	<u>120 000</u>
Current accounts	
Abbie	18 520
Ben	(3 250)
Cain	6 230
	<u>21 500</u>
Current liabilities	
Trade payables	8 200
Total capital and liabilities	<u>149 700</u>

Ben retired from the partnership on 30 June 2021 and the following was agreed.

- 1 Ben should retain one of the motor vehicles at the net book value \$14 500.
- 2 The remaining motor vehicles should be revalued at \$33 000.
- 3 Property should be revalued at \$77 000.
- 4 Inventory should be revalued at \$17 000.
- 5 The value of goodwill was \$39 000 and it was not to be retained in the books of account.

Any amounts due to Ben were to be transferred to a short-term loan to be repaid from the partnership bank account within one month.

Abbie and Cain decided to continue in partnership sharing profits and losses in the ratio 3:2.

Cain agreed to pay sufficient funds into the partnership bank account so that the partners' capital account balances reflected the new profit-sharing ratio.

## REQUIRED

(a) State **one** reason why a partnership may revalue assets on the retirement of a partner.

.....  
..... [1]

(b) Prepare the revaluation account at 30 June 2021.

Revaluation Account

	\$		\$

[3]

(c) Prepare the partners' capital accounts at 30 June 2021 on the **next page**.

Capital Accounts

	Abbie \$	Ben \$	Cain \$		Abbie \$	Ben \$	Cain \$

### Additional information

Ben has indicated that he may be willing to leave \$10 000 as an interest-free loan, but he requires any other amount due to be paid within one month.

In order to maintain sufficient working capital, Abbie and Cain are considering two options to finance the settlement due to Ben.

Option 1: Request an overdraft facility from the bank.

Option 2: Ask Ben to consider leaving the whole amount due as a 5% loan repayable over ten years in equal annual instalments.

## REQUIRED

**(d)** Advise Abbie and Cain which option they should choose to finance the amount due to Ben.

..... [5]