2 Maurice and Ravel had been in partnership for a number of years, sharing profits and losses equally.

On 1 July 2011, they decided to admit Bach as a partner. Bach paid $39 000 capital into the partnership and also provided a motor van, valued at $8000, for partnership use.

A new partnership agreement was drawn up, effective from 1 July 2011 which stated:

1. Profits and losses will be shared by Maurice, Ravel, and Bach in the ratio 2:2:1.
2. Interest on capital is payable at 10% per annum.
3. Interest on drawings is charged at 5% on annual drawings.
4. Ravel would receive an annual salary of $10 000 per annum.

Goodwill in the business was valued at $40 000 and the partners agreed that this would not remain in the books.

Capital accounts before goodwill – 1 July 2011	Maurice	$120 000
	Ravel	$ 80 000

REQUIRED

(a) Prepare the capital accounts for all **three** partners at 1 July 2011.

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The following additional information relates to the year ended 30 June 2012

		$	
Revenue		2 600 000	
Revenue (sales) returns		200 000	
Purchases		1 625 000	
Inventory: 1 July 2011		120 000	
Inventory: 30 June 2012		145 000	
General expenses		480 000	
Current accounts – 1 July 2011	Maurice	17 000	Cr
	Ravel	12 000	Dr
Drawings	Maurice	96 000	
	Ravel	120 000	
	Bach	35 000	

REQUIRED

(b) **(i)** Prepare the income statement for the year ended 30 June 2012

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(ii) Prepare the appropriation account for the year ended 30 June 2012.

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(c) Prepare the current accounts for all **three** partners at 30 June 2012.

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(d) The partners are now considering changing their business from a partnership to a limited company. Explain to the partners the meaning of the term 'limited liability'.

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