1 Frank and Ernest have been in partnership for some years, sharing profits and losses in the ratio 2 : 1. The partnership Balance Sheet at 31 January 2006 was as follows:

Balance Sheet at 31 January 2006

		$	$	$
Fixed Assets at Net Book Value				
Motor vehicles			58 200	
Equipment			35 400	
Fixtures and fittings			39 000	132 600
Goodwill				10 000
				142 600
Current Assets				
Stock		64 000		
Trade debtors		45 600		
Bank		19 200	128 800	
Amounts due within 1 year				
Trade creditors			22 400	
Net current assets				106 400
				249 000
Capital accounts	Frank	80 000		
	Ernest	120 000		200 000
Current accounts	Frank	35 400		
	Ernest	13 600		49 000
				249 000

Frank and Ernest, who had been renting business premises, accepted an offer by Devious to move to his premises on 1 February 2006 on condition that he would be accepted into the partnership on that date.

Additional information:

1 The new partnership commenced on 1 February 2006 with Frank, Ernest and Devious sharing profits and losses in the ratio 2 : 1 : 1.

2 The new partnership took ownership of Devious's premises on 1 February 2006 at a valuation of $196 000.

3 Goodwill was revalued at 1 February 2006 at $30 000 but would not be shown in the balance sheet in the future.

4 Equipment was revalued at $34 100 on 1 February 2006.

5 Stock at 1 February 2006 was valued at $63 000.

6 Current Accounts will remain separate.

REQUIRED

(a) (i) Prepare the partnership Goodwill account at 1 February 2006 following the amendments.

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(ii) Prepare the partnership Revaluation account at 1 February 2006 following the amendments.

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(iii) Prepare Capital accounts for Frank, Ernest and Devious, in columnar format.

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(iv) Prepare the Balance Sheet of Frank, Ernest and Devious at 1 February 2006.

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(b) Discuss the treatment of Goodwill in partnership accounts, with particular reference to retiring and incoming partners.

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