2 James and Lewis have been in partnership for some years sharing profits and losses equally. They had no partnership agreement. Their statement of financial position at 30 September 2015 showed the following information.

			$
Non-current assets			230 000
Net current assets			60 000
			290 000
Capital accounts			
James			200 000
Lewis			70 000
			270 000
Current accounts			
	James	Lewis	
	$	$	
Opening balance	31 000	17 000	
Share of profit	15 000	15 000	
Drawings	(21 000)	(37 000)	
Closing balance	25 000	(5 000)	20 000
			290 000

Additional information

On 1 October 2015 Ahmed joined the partnership. A partnership agreement was drawn up. The terms set out in the agreement were:

1 Profits and losses are to be shared equally.

2 Interest is to be charged at 5% on drawings.

3 Interest is to be allowed at 10% on capital.

The following also took place:

1 Ahmed introduced capital of $80 000, which he paid into the business bank account.

2 Goodwill was valued at $60 000 but no goodwill account is to be maintained in the books of account.

3 Non-current assets were revalued at $270 000.

4 The inventory value was to be reduced by $4000.

REQUIRED

(a) Prepare the revaluation account.

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(b) Prepare the capital accounts of the partners to record the admission of Ahmed.

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(c) **S**tate the advantages of interest on capital and interest on drawings.

(i) Advantage of interest on capital

to the partners

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to the partnership

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[2]

(ii) Advantage of interest on drawings

to the partners

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to the partnership

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[2]

(d) Explain how the terms of the partnership agreement will affect James and Lewis.

(i) James

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(ii) Lewis

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