Partnership

J11/21

3 Omar and Fatima Aziz are in partnership, trading as Aziz Stores. Their financial year ends on 31 March.

On 1 April 2010 the balances on the partners' capital and current accounts were:

	Capital account	Current account
	$	$
Omar Aziz	60 000	215 debit
Fatima Aziz	40 000	1 945 credit

Aziz Stores made a profit for each of the years ended 31 March 2009 and 31 March 2010.

REQUIRED

(a) On 1 April 2009 there was a credit balance on the current account of Omar Aziz.
Explain what may have caused this balance to change to a debit balance on 1 April 2010.

……

……[2]

During the year ended 31 March 2011 the partners made the following drawings.

	$
Omar Aziz	2 900
Fatima Aziz	9 600

Omar and Fatima Aziz prepared the following profit and loss appropriation account for the year ended 31 March 2011.

		$	$
Profit for the year			13 575
Interest charged on drawings:	Omar Aziz	87	
	Fatima Aziz	288	375
			13 950
Interest allowed on capital:	Omar Aziz	2 400	
	Fatima Aziz	1 600	
Partner's salary:	Fatima Aziz	12 000	(16 000)
			(2 050)
Share of profit/loss:	Omar Aziz	(1 230)	
	Fatima Aziz	(820)	2 050

REQUIRED

(b) Prepare the partners' current accounts as they would appear in the ledger for the year ended 31 March 2011.

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……[11]

(c) Prepare an extract from the Statement of Financial Position of Aziz Stores at 31 March 2011 to show the capital and current account balances of each partner and the total funds provided by the partners. It is not necessary to show full details of the current accounts.

Aziz Stores
Extract from Statement of Financial Position at 31 March 2011

	Omar Aziz	Fatima Aziz	Total
	$	$	$

………

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……[5]

(d) State **one** advantage of maintaining both a capital account and a current account for each partner.

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……[2]

(e) Instead of operating Aziz Stores as a partnership, Omar Aziz has suggested that they should form a limited company.

Explain one reason why this may be of personal benefit to Omar and Fatima Aziz.

………

………

……[2]

[Total: 22]

J11/22

3 Wayne and Tracey Lister are in partnership. The partnership agreement states that Wayne and Tracey share profits and losses in the ratio 3:1. Their financial year ends on 28 February.

A capital account and a current account is maintained for each partner.

On 27 February 2011 the following transactions took place:

1 Wayne took goods costing $420 for his own use.
2 Tracey purchased office stationery, $32, and paid from personal funds.
3 Wayne introduced a motor vehicle, valued at $15 200, into the business.
4 Tracey transferred $5000 from the credit balance on her current account to her capital account.

REQUIRED

(a) Name the accounting principle which states that a distinction must be made between the financial transactions of a business and those of its owners.

……[1]

(b) Prepare journal entries on the following page to record each of the above transactions. Narratives **are** required. [12]

Journal

	Debit ($)	Credit ($)

Financial statements were prepared for Wayne and Tracey Lister for the year ended 28 February 2011 showing a profit for the year of $18 500.

It was later discovered that the closing inventory had been over-valued by $560.

REQUIRED

(c) State the basis on which inventory should be valued.

……[1]

(d) Explain why inventory should be valued on this basis.

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……[2]

(e) Calculate the effect on Wayne's profit share of correcting the above error. Show your workings.

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....[4]

[Total: 20]

J12/13

5 Raoul and Hassan agreed to form a partnership from 1 April 2011 to sell mobile telephones.

(a) State **two** advantages of trading in partnership.

(i) ....

....

(ii) ....

....[2]

(b) State **two** disadvantages of trading in partnership.

(i) ....

....

(ii) ....

....[2]

On 1 April 2011, Raoul introduced capital of $6 000 which was paid into the partnership bank account. Hassan introduced inventory valued at $4 000.

On the same day, the partnership paid rent on a shop of $600 and bought shop fittings for $750. Both payments were made by cheque.

REQUIRED

(c) Prepare journal entries to record the setting up of the partnership. Narratives are **not** required.

Raoul and Hassan

Journal

		Debit $	Credit $

[8]

Raoul and Hassan agreed that they would allow interest on capital at 3% per annum and that Raoul would have a partnership salary of $3 000 per annum. It was agreed that they would share profits and losses in the ratio Raoul 2/5 and Hassan 3/5.

In the year ended 31 March 2012 the partnership made a profit of $8 800.

REQUIRED

(d) Prepare the profit and loss appropriation account of the partnership for the year ended 31 March 2012.

Raoul and Hassan

Profit and Loss Appropriation Account for the year ended 31 March 2012

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……[8]

(e) Prepare Raoul's current account for the year ended 31 March 2012.

Raoul

Current account

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....[4]

(f) State one way in which the partnership agreement could be changed to recognise the fact that Raoul makes more sales than Hassan.

....

....[2]

[Total: 26]

J12/13

6 Cole Limited and Fanza Limited are both electrical wholesalers. They provided the following information at 31 March 2012.

	Cole Limited	Fanza Limited
	$	$
Inventory	18 000	36 000
Trade receivables	36 000	60 000
Trade payables	21 000	63 000
Cash at bank	4 800	-
Bank overdraft	-	17 000

REQUIRED

(a) Complete the following table to show the figures for Fanza Limited. In each case, state the formula and show your workings.

		Cole Limited	Fanza Limited
(i)	Working capital	$37 800	Formula Calculation
(ii)	Current ratio	2.8 : 1	Formula Calculation
(iii)	Quick (acid test) ratio	1.9 : 1	Formula Calculation

[9]

(b)(i) State which company has the better current ratio. Give a reason for your answer.

....

....

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....[3]

(ii) State which company has the better quick (acid test) ratio. Give a reason for your answer.

....

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....[3]

Fanza Limited wishes to expand its business and needs to raise extra finance. It is considering issuing either preference shares or debentures.

REQUIRED

(c) State **two** features of preference shares.

(i) ....

....

....

(ii) ....

....

....[4]

(d) State **two** features of debentures.

(i) ....

....

....

(ii) ....

....

....[4]

[Total: 23]

N12/12

6 Conrad has a supermarket and sells food and other groceries. Congo has a smaller shop and only sells fresh fruit and vegetables.

The following information is available for the year ended 30 September 2012.

	Conrad	Congo
	$	$
Revenue	120 000	48 000
Gross profit	42 000	26 400
Profit for the year	14 400	17 600
Capital at 1 October 2011	96 000	50 000

REQUIRED

(a)(i) For **each** business, calculate the percentage of gross profit to revenue. Show your workings and give your answers to **one** decimal place.

Conrad	Congo
(42000 /120000)x 100=35.0%	(26400 / 48000) x 100=55.0%

[4]

(ii) Give **one** reason for the difference in the percentage of gross profit to revenue between the two businesses.

………

………

………

………[2]

(b)(i) For each business calculate the percentage of profit for the year to revenue. Show your workings and give your answers to one decimal place.

Conrad	Congo

[4]

(ii) State **one** reason for the difference in the percentage of profit for the year to revenue between the two businesses.

………

………

………

………[2]

(c)(i) For each business calculate the return on the opening capital employed. Show your workings and give your answers to one decimal place.

Conrad	Congo

[4]

(ii) Give **one** reason for the difference in the return on opening capital employed between the two businesses.

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....[2]

(d) Conrad believes that he will increase his profit by increasing his sales. Explain why this may not be the case.

....

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....[2]

[Total: 20]

N12/23

5 Tun and Min are in partnership. Their financial year ends on 30 September.

On 1 October 2011 the credit balances on their capital accounts were:

	$
Tun	40 000
Min	50 000

On 1 October 2011 the following transactions took place:

Tun introduced a motor vehicle, $7 000, into the business.
Min transferred the debit balance on his current account, $3 000, to his capital account.

REQUIRED

(a) Prepare journal entries to record the above transactions. Narratives **are** required.

Tun and Min
Journal

	Debit $	Credit $

[6]

After the preparation of the income statement and appropriation account for the year ended 30 September 2012 the current accounts of the partners were as follows.

Tun Current account

Date	Details	$	Date	Details	$
2012			2011		
Sept.30	Drawings	2 000	Oct.1	Balance b/d	1 500
	Interest on drawings	60	2012		
			Sept.30	Interest on capital	1 880
	Share of loss	2 500		Balance c/d	1 180
		4 560			**4 560**
2012					
Oct.1	Balance b/d	1 180			

Min Current account

Date	Details	$	Date	Details	$
2011			2011		
Oct.1	Balance b/d	3 000	Oct.1	Capital	3 000
2012			2012		
Sept.30	Drawings	5 000	Sept.30	Interest on capital	1 880
	Interest on drawings	150		Salary	6 000
	Share of loss	2 500			
	Balance c/d	230			
		10 880			**10 880**
			2012		
			Oct.1	Balance b/d	230

REQUIRED

(b) Prepare a relevant extract from the Statement of Financial Position of Tun and Min at 30 September 2011 showing the total funds provided by the partners.

It is **not** necessary to show full details of the current accounts.

Tun and Min
Statement of Financial Position extract at 30 September 2012

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....[5]

(c) Explain the significance of the balance on Tun's current account on 1 October 2012.

....

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....[2]

(d) Suggest **one** reason why Min has been credited with a salary.

....

....[2]

(e) Explain why interest is charged on partners' drawings.

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....[2]

(f) Calculate the percentage rate of interest on capital which has been allowed. Show your workings.

....

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....[2]

Tun and Min are interested in comparing their results with those of another business and have obtained the financial statements of some other businesses in the same city.

REQUIRED

(g) Explain **two** factors which Tun and Min should bear in mind when attempting to compare their results with the financial statements they have obtained relating to other businesses.

1 ………

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2 ………

………

………[4]

[Total: 23]

J13/21

5 Tom and Gill Kayumba are in partnership. Their financial year ends on 31 March. The income statement for the year ended 31 March 2013 showed a profit for the year of $22 500.

The following errors were then discovered.

1 No entry had been made for stationery, $260, purchased on credit.
2 The income statement includes $1800 for an advertising campaign covering 18 months to 30 September 2013.
3 No entry had been made for goods, $1000, taken by Gill Kayumba for her own use.
4 No adjustment had been made for motor vehicle expenses, $320, accrued on 1 April 2012.

(a) Prepare a statement of corrected profit for the year ended 31 March 2013.

Tom and Gill Kayumba
Statement of corrected profit for the year ended 31 March 2013

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………

………[9]

Tom and Gill Kayumba supplied the following information.

1 Capitals at 1 April 2012 –
Tom Kayumba $60 000 Gill Kayumba $40 000
On 1 October 2012 Tom Kayumba invested a further $20 000.
Interest on capital is allowed at the rate of 5% per annum.

2 Gill Kayumba was entitled to an annual partnership salary of $10 000. This was increased to $14 000 per annum on 1 October 2012.

3 For the year ended 31 March 2013 interest on drawings was charged –
Tom Kayumba $1 040 Gill Kayumba $1 300

4 Tom Kayumba is entitled to the first $2 000 of the profit after interest and partnership salary and the remainder of the profit is shared equally.

(b) Using the corrected profit for the year calculated in (a), prepare the profit and loss appropriation account of Tom and Gill Kayumba for the year ended 31 March 2013.

Tom and Gill Kayumba
Profit and Loss Appropriation Account for the year ended 31 March 2013

	$	$

[10]

(c)(i) State **one** reason why the partners receive interest on capital.

……

……[1]

(ii) State **one** reason why the partners are charged interest on drawings.

……

……[1]

Tom and Gill Kayumba calculated the following ratios.

	For the year ended 31 March	
	2012	2013
Gross profit margin	20.20%	23.45%
Net profit margin	8.30%	9.15%

(d) Suggest **two** reasons for the change in the gross profit margin.

1………

………

2………

………[2]

(e) State the year in which the partners had better control of the expenses. Give a reason for your answer.

Year ended 31 March ……………………………

Reason ……………………………………………………………………………………………

………

………[3]

[Total: 26]

N13/13

4(d) Solomon is considering going into partnership. State two advantages and two disadvantages of forming a partnership.

Advantages

1………

………

2………

………

Disadvantages

1………

………

2………

………[4]

N13/22

5(a) (i) State one advantage of being a partner rather than a sole trader.

....

....

....[1]

(ii) State one disadvantage of being a partner rather than a sole trader.

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....[1]

(b) State why an agreement should be drawn up when a partnership is formed.

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....[1]

Tony and Carol Chen are in partnership, sharing profits and losses in the ratio 2:1. Their financial year ends on 31 October.

On 1 November 2012 the balances on their current accounts were:

	$
Tony Chen	14 200 credit
Carol Chen	5 100 debit

During the year ended 31 October 2013 the partners made the following drawings:

	$
Tony Chen	10 600
Carol Chen	20 400

The following is an extract from their profit and loss appropriation account for the year ended 31 October 2013.

Tony and Carol Chen
Profit and Loss Appropriation Account for the year ended 31 October 2013

	$	$
Profit for the year		43 000
Interest on drawings – T Chen	318	
C Chen	612	930
		43 930
Interest on capital – T Chen	4 250	
C Chen	2 000	
	6 250	
Partner's salary – C Chen	15 000	21 250
Profit available for distribution		22 680

(c) Prepare the current account of Carol Chen as it would appear in the ledger for the year ended 31 October 2013.

Carol Chen
Current account

Date	Details	$	Date	Details	$

[5]

(d) Explain the significance of the closing balance on Carol Chen's current account.

....

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....[2]

(e) On 31 October 2013 it was agreed that Tony Chen would transfer $20 000 from his current account to his capital account.

Complete the table below to name the account to be debited and the account to be credited.

account to be debited	account to be credited

[2]

(f) Tony and Carol Chen know that relevance is one of the objectives which should be considered when selecting accounting policies. Explain what is meant by the term relevance.

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....

....

....

....[2]

[Total: 14]

J14/11

6 Anton and Belle have been in partnership for some years. From the start of trading their fixed capital has been $100 000 and $80 000 respectively.

Their partnership agreement allows for interest on capital of 10% a year, a salary to Anton of $12 000 a year and a profit sharing ratio of 2:1 respectively.

Other information is as follows.

		$
At 1 January 2013		
	Current account – Anton	10 400 Dr
	Current account – Belle	1 500 Cr
For the year ended 31 December 2013		
	Drawings - Anton	32 000
	Drawings - Belle	14 000
	Interest on drawings – Anton	1 600
	Interest on drawings – Belle	500
	Profit for the year	72 900

REQUIRED

(a) Prepare the partnership appropriation account for the year ended 31 December 2013.

Anton and Belle
Appropriation Account for the year ended 31 December 2013

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....[8]

(b) Prepare Anton's current account for the year ended 31 December 2013. Bring down the balance on 1 January 2014. [8]

Anton's current account

Details		Details	

Additional information

	$
At 31 December 2013	
Non-current assets	146 000
Inventory	51 000
Other net current assets	13 000
Long-term loan (taken out in 2009 and to be repaid in 2019)	12 000

REQUIRED

(c) Calculate the capital employed at 31 December 2013.

....

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....[3]

(d) Using your answer from (c), calculate to two decimal places the return on capital employed for the year ended 31 December 2013.

....

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....[3]

Anton and Belle had a return on capital employed of 20% in the year ended 31 December 2012 and are surprised by the change.

Investigation showed that the inventory at 31 December 2013 should have been recorded at a value of $15 000, not $51 000.

REQUIRED

(e) Calculate the correct profit for the year ended 31 December 2013.

....

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....

....[4]

[Total: 26]

J14/22

3 Ian and Flora McMillan are in partnership sharing profits and losses equally. Their financial year ends on 31 January.

The following information was extracted from the profit and loss appropriation account for the year ended 31 January 2014.

		$	$
Profit for the year			10 050
Interest on drawings:	Ian	200	
	Flora	<u>300</u>	500
Interest on capital:	Ian	3 000	
	Flora	<u>3 600</u>	
Partnership Salary:	Flora		5 000

REQUIRED

(a) Calculate Ian McMillan's share of the profit or loss for the year ended 31 January 2014.

....

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....[2]

The following information is available.

	Ian	Flora
On 1 February 2013	$	$
Capital account balance	50 000	60 000
Current account balance	3 000 (Dr)	2 000 (Cr)
On 31 January 2014		
Transfer from capital account to current account	5 000	
Loan interest credited to current account	450	
For the year ended 31 January 2014		
Drawings	4 000	6 000

REQUIRED

(b) Prepare the current account of Ian McMillan for the year ended 31 January 2014. Balance the account and bring down the balance on 1 February 2014.

Ian McMillan
Current account

Date	Details	$	Date	Details	$

[7]

(c) Suggest one reason for the debit balance on Ian McMillan's current account on 1 February 2013.

………

………[2]

(d) State one advantage of maintaining both a capital account and a current account for each partner.

………

………

………[2]

The partners are concerned about the change in the collection period for trade receivables. They provided the following information.

Period of credit allowed to credit customers		30 days
Collection period for trade receivables	31 January 2013	24 days
	31 January 2014	29 days

REQUIRED

(e) Comment on the above information.

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………

………

………

………[2]

(f) Suggest two ways in which the collection period for trade receivables could be improved.

1 ……

………

2 ……

………[2]

[Total: 17]

N14/12

6 Dina and Lee have been in partnership for some years. Lee receives a partnership salary of $15 000 per annum and both partners receive interest on capital of 10% per annum. They share profits and losses equally.

They provided the following information.

At 1 January 2013		$
Capital account balances	- Dina	100 000
	- Lee	60 000
Current account balances	- Dina	5 200 Dr
	- Lee	4 800 Dr

During the year ended 31 December 2013

Drawings	- Dina	18 000
	- Lee	17 000

At 31 December 2013

Fixtures and fittings at cost	100 000
Provision for depreciation on fixtures and fittings	10 000
Delivery van at cost	40 000
Provision for depreciation on delivery van	12 000
Inventory	56 400
Trade receivables	19 000
Bank	6 600 Cr
Trade payables	25 400

REQUIRED

(a) Suggest one reason how the debit balances on the current accounts on 1 January 2013 could have arisen.

....

....[2]

(b) Calculate the value of the net assets of the partnership on 31 December 2013.

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....[6]

(c) Calculate the profit for the year made by the partnership in the year ended 31 December 2013.

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....[4]

(d) Prepare the appropriation account for the partnership for the year ended 31 December 2013.

Dina and Lee
Appropriation Account for the year ended 31 December 2013

	$	$

[6]

(e) Prepare the current accounts for Dina and Lee for the year ended 31 December 2013 in columnar format. Balance the accounts and bring down the balances on 1 January 2014.

Current accounts

		Dina	Lee			Dina	Lee

[7]

(f) Calculate the following, to two decimal places, at 31 December 2013.

1 Current ratio

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....

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2 Quick ratio (acid test ratio)

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....[6]

In the previous year the quick ratio (acid test ratio) was 1.45 : 1.

REQUIRED

(g) (i) Suggest two reasons for the change.

1 ....

....

2 ....

....[2]

(ii) Suggest a consequence of the change in quick ratio (acid test ratio).

....

....[2]

[Total: 35]

N14/23

3(a) State two advantages of being a partner rather than a sole trader.

1 ....

....

2 ....

....[2]

Shahid and Hamza Hussain are in partnership as gardeners. Their financial year ends on 31 July. They provided the following information on 31 July 2014.

	$
Equipment at valuation 1 August 2013	2 900
Equipment purchased during year	1 150
Motor vehicles at cost	25 000
Provision for depreciation of motor vehicles 31 July 2013	9 000
Receipts from customers	76 400
Wages	41 600
Insurance	1 232
General expenses	3 090

Additional information

1 The wages include $1 500 for work done in Shahid's private garden.
2 On 31 July 2014 general expenses accrued amounted to $94.
3 The insurance represents cover for 14 months to 30 September 2014.
4 The motor vehicles are being depreciated at 20% per annum on the reducing (diminishing) balance method.
5 The equipment was valued at $3 150 on 31 July 2014.

REQUIRED

(b) Prepare the income statement of Shahid and Hamza Hussain for the year ended 31 July 2014.

Shahid and Hamza Hussain
Income Statement for the year ended 31 July 2014

	$	$

[11]

Additional Information

The partnership agreement of Shahid and Hamza Hussain provides for:

Interest on capital at 5% per annum
Interest on drawings at 3% per annum
An annual salary of $9000 per annum for Shahid Hussain
Sharing of residual profits and losses equally

On 1 August 2013 the balances on the partners' capital and current accounts were as follows.

	Shahid Hussain	Hamza Hussain
	$	$
Capital account	80 000	60 000
Current account	2 340 Cr	1 960 Dr

On 1 February 2014 Shahid Hussain withdrew $20 000 of his capital from the business.

Drawings and interest on drawings for the year ended 31 July 2014 were as follows.

	Shahid Hussain	Hamza Hussain
	$	$
Drawings	10 000	8 000
Interest on drawings	300	240

REQUIRED

(c) Prepare the profit and loss appropriation account of Shahid and Hamza Hussain for the year ended 31 July 2014.

Start with the profit for the year calculated in (b)

Shahid and Hamza Hussain
Profit and Loss Appropriation Account for the year ended 31 July 2014

	$	$

[7]

(d) Prepare the current account of Hamza Hussain for the year ended 31 July 2014. Balance the account and bring down the balance on 1 August 2014.

Hamza Hussain
Current account

Date	Details	$	Date	Details	$

[5]
[Total: 25]

N15/22

4 Moses and Tobias Iyambo are in partnership. Their financial year ends on 31 October. They share profits and losses equally. A capital and a current account are maintained for each partner.

Despite having little accounting knowledge, Tobias prepared the following statement of financial position on 31 October 2015.

Statement of Financial Position 31 October 2015

		$	$
Premises at cost			80 000
Fixtures and equipment at book value 1 September 2014			24 800
Inventory			6 950
Trade receivables			5 200
Bank			1 500
Drawings – M Iyambo		8 000	
T Iyambo		5 500	13 500
			131 950
Trade payables			8 520
Provision for doubtful debts			130
Capital account 1 September 2014 – M Iyambo		65 000	
T Iyambo		35 000	100 000
Current account 1 September 2014 – M Iyambo	Debit	2 000	
T Iyambo	Credit	3 500	5 500
			114 150
Balance			17 800
			131 950

The following matters were then discovered.

1 The income statement included adjustments for the following which should have been included in the statement of financial position:

	$
Depreciation for the year on fixtures and equipment	3 100
Expenses accrued	1 130

2 Bank charges, $70, had been correctly recorded in the income statement but had not been entered in the cash book.

3 Cash in hand, $500, had not been included in the statement of financial position.

4 Profit for the year was $18 000.

REQUIRED

(a) Prepare a corrected statement of financial position at 31 October 2015 showing the different types of assets and liabilities, and the capital and current accounts of each partner.

The calculation of the current account balances may be shown within the statement of financial position or as separate calculations in the space provided.

Moses and Tobias
Corrected Statement of Financial Position at 31 October 2015

	$	$	$

You may use the space below for your workings.

[16]

(b) State two items which Moses and Tobias Iyambo could have included in their partnership agreement in addition to profit-sharing ratios.

1 ....

2 ....[2]

(c) State two ways in which Moses and Tobias Iyambo could obtain long-term funds to finance expansion of the business.

1 ....

2 ....[2]

J16/11

6 David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of $12 000 and that profits and losses are to be shared in the ratio 2:1. The following balances were extracted from the partnership books on 31 March 2016.

		$
Capital accounts	– David	80 000
	– Harold	25 000
Current accounts	– David	8 100 debit
	– Harold	6 200 credit
Fixtures and fittings at cost		37 200
Provision for depreciation of fixtures and fittings		11 160
Inventory at 1 April 2015		36 000
Trade receivables		7 000
Trade payables		6 140
Bank		12 100 debit
Sales (Revenue)		142 000
Purchases		83 100
Rent		12 000
Other operating expenses		11 800
Wages		16 500
Drawings	– David	32 000
	– Harold	14 700

Additional information

1 Other operating expenses included $500 for insurance which was paid in advance at 31 March 2016.
2 Inventory on 31 March 2016 amounted to $26 800.
3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

(a) Calculate how many years' depreciation had been charged.

....

....

....

....[3]

(b) Prepare the income statement for the year ended 31 March 2016.

David and Harold
Income Statement for the year ended 31 March 2016

	$	$

[8]

(c) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

	$	$

[3]

(d) Calculate David's total income entitlement from the business for the year.

....

....

....

....[3]

(e) State why it might be useful if the partnership agreement contained a provision for interest on drawings.

....

....[1]

(f) Calculate the percentage of gross profit to revenue for the year ended 31 March 2016.

....

....[2]

David and Harold were surprised to see that inventory had fallen during the year. In previous years the percentage of gross profit to revenue had been 45% and they believed that this had been maintained.

REQUIRED

(g) Calculate the value of inventory at 31 March 2016 with which the percentage of gross profit to revenue would have been constant.

....

....

....

....

....

....

....

....[5]

(h) Suggest **one** reason for the lower inventory value.

....

....[1]

[Total: 26]

N15/23

4 Sanchi and Syed Mirza are in partnership, sharing profits and losses equally.

Their summarised income statement for the year ended 31 July 2015 was as follows.

	$	$
Revenue		45 000
Cost of sales		
Opening inventory	5 500	
Purchases	33 500	
	39 000	
Closing inventory	6 500	32 500
Gross profit		12 500
Expenses		3 500
Profit for the year		9 000

REQUIRED

(a) (i) State the formula for the calculation of the rate of inventory turnover.

....

....[1]

(ii) Calculate the rate of inventory turnover. The calculation should be correct to **two** decimal places.

....

....

....[2]

(iii) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

1 ....

....

1 ....

....[2]

(b) (i) State the basis on which inventory should be valued.

1 ....

....[1]

(ii) Name the accounting principle which is being applied when inventory is valued on this basis.

....[1]

After the preparation of the appropriation account for the year ended 31 July 2015, Sanchi and Syed Mirza updated their capital and current accounts.

At 31 July 2015 the partners' accounts were as follows.

Capital accounts

Date	Details	Sanchi	Syed	Date	Details	Sanchi	Syed
		$	$	2014		$	$
				Aug.1	Balance b/d	20 000	60 000
				2015			
				Feb.1	Current account	10 000	

Current accounts

Date	Details	Sanchi	Syed	Date	Details	Sanchi	Syed
2015		$	$	2014		$	$
Feb. 1	Capital a/c	10 000		Aug. 1	Balance b/d	16 000	4 000
July 31	Drawings	14 000	6 000	2015			
				July 31	Profit share	4 500	4 500

REQUIRED

(c) Prepare an extract from the statement of financial position at 31 July 2015 to show the total funds provided by the partners.

Extract from Statement of Financial Position at 31 July 2015

	Sanchi	Syed Mirza	Total
	$	$	$
Capital account			
Current account			

[5]

(d) **(i)** State the formula for the calculation of the return on capital employed (ROCE).

....

....[1]

(ii) Calculate the return on capital employed (ROCE), using your answer to **(c)** and the profit for the year. The calculation should be correct to **two** decimal places.

....

....

....[2]

(iii) Suggest **one** reason why the return on capital employed (ROCE) is lower than it was in the previous year.

....

....[1]

(e) (i) Suggest **two** reasons why Syed Mirza would like to have interest on capital included in the partnership agreement.

1 ....

....

2 ....

....[2]

(ii) Suggest **one** reason why Syed Mirza would like to have interest on drawings included in the partnership agreement.

....

....[1]

(iii) Suggest **one** reason why Sanchi would like to have partner's salary included in the partnership agreement.

....

....[1]

On 31 July 2015 the trade payables amounted to $4100. The period of credit allowed is 30 days.

The purchases for the year ended 31 July 2015 were:

	$
Cash purchases	2 500
Credit purchases	31 000

REQUIRED

(f) (i) State the formula for the calculation of the payment period for trade payables.

....

....

....[1]

(ii) Calculate the payment period for trade payables. Round up your answer to the next whole day.

....

....

....[2]

(iii) Comment on the payment period for trade payables.

....

....

....

....[2]

The period of credit allowed to trade receivables is 30 days. The collection period was 55 days.

REQUIRED

(g) Suggest **two** ways how this may affect the liquidity of Sanchi and Syed Mirza.

1 ....

....

2 ....

....[2]

[Total: 27]

J16/22

3 Abid and Faiz are partners. They operate a secretarial agency. Their financial year ends on 31 March.

In addition to the capital invested, Abid made a 10-year loan to the business on 31 March 2016.

REQUIRED

(a) State **one** advantage of being a partner rather than a sole trader.

....

....[1]

(b) State **one** disadvantage of being a partner rather than a sole trader.

....

....[1]

(c) State **one** reason why a partner may make a loan to the business rather than investing additional capital.

....

....[1]

(d) State **two** reasons why it is important for the partnership to have an adequate amount of working capital.

1 ....

....

2 ....

....[2]

Abid and Faiz share profits and losses in the ratio of 2 : 1.

The balances on their accounts on 1 April 2015 were:

	Abid	Faiz
	$	$
Capital account	80 000	55 000
Current account	110 debit	800 credit

During the year ended 31 March 2016 the partners made the following drawings:

Abid	Faiz
$	$
6 000	7 000

The following is an extract from the profit and loss appropriation account for the year ended 31 March 2016.

Abid and Faiz
Profit and Loss Appropriation Account for the year ended 31 March 2016

		$	$
Profit for the year			13 170
Interest on drawings:	Abid	120	
	Faiz	140	260
			13 430
Interest on capital:	Abid	2 400	
	Faiz	1 650	
		4 050	
Salary:	Faiz	5 000	9 050
Profit available for distribution			4 380

The following additional information is available on 31 March 2016.

	$
Fixtures and equipment at book value	104 000
Motor vehicles at book value	28 520
Trade payables	11 900
Other payables	160
Trade receivables	19 320
Bank	16 080 debit
Loan from Abid	20 000

REQUIRED

(e) Prepare the statement of financial position at 31 March 2016. The details of the partners' current accounts may be shown within the statement or as a separate calculation in the space provided.

You may use this space for the partners' current accounts

Abid and Faiz
Statement of Financial Position at 31 March 2016

	$	$	$

[13]

(f) Calculate the return on capital employed (ROCE). Use the capital employed from the statement of financial position and the profit for the year of $13 170.

The calculation should be correct to **two** decimal places. Show your workings.

....

....

....[2]

(g) Explain the importance of return on capital employed (ROCE).

....

....

....

....[2]

[Total: 22]

N16/12

6 Amina and Doreen formed a partnership on 1 January 2016, buying and selling calculators. On that date they each paid $5 000 into the business bank account.

Amina also brought in a delivery vehicle valued at $8 100 to the partnership and Doreen brought in fixtures and fittings valued at $4 800.

The partnership agreement stated that profits and losses would be shared in the ratio 2:1.

Depreciation was to be provided on a monthly basis, at the rate of 20% per annum for the delivery vehicle and 10% per annum for the fixtures and fittings.

In the first month of trading they had the following transactions.

Jan	1	Paid 3 months' rent totalling $2 700, by cheque
	2	Bought 1000 calculators for $4 each from Bertie on credit
	6	Sold 800 calculators for cash for $10 each, keeping $100 in hand and banking the remaining cash
	13	Sold 50 calculators for $10 each to Charlie on credit
	20	Paid Bertie by cheque, deducting 3% discount for prompt payment
	31	Paid wages for the month, $800, by credit transfer

REQUIRED

(a) Prepare the cash book (bank columns only) for the month of January 2016. Bring down the balance on 1 February 2016.

Amina and Doreen
Cash book (bank columns)

Date	Details	$	Date	Details	$

[6]

(a) **(i)** Calculate the gross profit for the month ended 31 January 2016.

....

....

....

....

....[4]

(ii) Calculate the profit for the month of January 2016.

....

....

....

....

....

....

....

....

....[7]

(c) Prepare the statement of financial position of the partnership at 31 January 2016. Show the partners' capital and current accounts.

Amina and Doreen
Statement of Financial Position at 31 January 2016

	$	$	$

[13]

[Total: 30]

N16/13

4 Arun, a trader, admitted Rajiv as a partner on 1 July 2015.

REQUIRED

(a) State **one** advantage to Arun of admitting a partner.

....

.... [1]

(b) State **one** reason why it was useful for Arun and Rajiv to have a partnership agreement.

....

.... [1]

(c) State **two** items which might be included in a partnership agreement.

1 ....

2 .... [2]

On 1 August 2015 Rajiv withdrew $1000 from the business bank account for his own use.

REQUIRED

(d) State the double entry needed to record the withdrawal.

debit entry	credit entry

[2]

Rajiv made further drawings during the year and at the year end the balance on his drawings account was $7 500.

REQUIRED

(e) State the double entry needed at the year end to account for Rajiv's drawings.

debit entry	credit entry

[2]

Friedrich and Graham were also in partnership as accountants with a year end of 31 July. On 31 July 2016 the balances in their books of account were as follows.

			$
Bank			4 800 debit
Cash			200
Fees received			81 000
Rent paid			12 000
Wages			6 800
Administration costs			19 500
Drawings	–	Friedrich	25 000
	–	Graham	16 100
Equipment			24 200
Provision for depreciation			6 500
Trade receivables			17 400
Other payables			1 100
Capital account	–	Friedrich	20 000
	–	Graham	15 000
Current account	–	Friedrich	?
	–	Graham	3 300 credit

REQUIRED

(f) Prepare the partnership's trial balance at 31 July 2016.

Friedrich and Graham
Trial Balance at 31 July 2016

	$	$
Bank		
Cash		
Fee received		
Rent paid		
Wages		
Administration costs		
Drawings – Friedrich		
– Graham		
Equipment		
Provision for depreciation		
Trade receivables		
Other payables		
Capital account – Friedrich		
– Graham		
Current account – Friedrich		
– Graham		

[8]

[Total: 16]

J17/12

5 Ann and Bindu have been in partnership for some years. Previously they had both been sole traders.

REQUIRED

(a) State **two** advantages to Ann and Bindu of being in partnership.

1 ....

....

2 ....

.... [2]

On 1 March 2016 the balances on their current accounts were as follows.

	$
Ann	5 000 debit
Bindu	3 000 credit

REQUIRED

(b) (i) State **one** reason why a current account is maintained for each partner.

....

.... [1]

(ii) State what the current account balance of each partner represents.

Ann ....

....

Bindu ....

.... [2]

The partnership agreement provides for:

interest on capital of 10% per annum
a partnership salary for Ann of $4 000 per annum
profits and losses to be shared between Ann and Bindu in a ratio of 3 : 2

The following additional information is available.

			$
Capital accounts at 1 March 2016	–	Ann	30 000
	–	Bindu	25 000

For the year ended 28 February 2017

Profit for the year			24 500
Drawings	–	Ann	12 500
	–	Bindu	10 000

REQUIRED

(c) Prepare the partnership appropriation account for the year ended 28 February 2017.

Ann and Bindu
Appropriation Account for the year ended 28 February 2017

[5]

(d) Prepare the partners' current accounts for the year ended 28 February 2017. Balance the accounts and bring down the balances on 1 March 2017.

Ann and Bindu
Current accounts

	Ann $	Bindu $		Ann $	Bindu $

[6]

It was later discovered that some items in inventory at the year end had been damaged during the year. This would have reduced the actual value of inventory at the year end by $750 if it had been recorded.

REQUIRED

(e) Complete the table to show the **effect** of this error on **each** of the following.

	effect (understated or overstated)	$
gross profit		
profit for the year		
share of profit – Ann – Bindu		

[4]

(f) State how reducing the value of inventory would be an application of the accounting principle of prudence.

....

.... [1]

(g) State how reducing the value of inventory would be an application of the accounting principle of accruals (matching).

....

.... [1]

[Total: 22]

J17/21

3 Meena and Rafah are in partnership. Their financial year ends on 30 April.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 3% per annum
Interest on drawings at 4% per annum
An annual salary of $6 000 for Meena
Sharing of residual profits and losses in the ratio 2 : 1

On 1 May 2016 the balances on the partners' capital accounts were as follows:

	Meena	Rafah
	$	$
Capital account	40 000	20 000

On 1 November 2016 Rafah introduced a further $10 000 into the business as capital.

The partners agreed that Meena's salary should be increased by $1000 per annum starting on 1 November 2016.

Drawings and interest on drawings during the year ended 30 April 2017 were as follows:

	Meena	Rafah
	$	$
Drawings	7 300	5 100
Interest on drawings	292	204

The profit for the year ended 30 April 2017 was $7 534.

REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 30 April 2017.

Meena and Rafah
Profit and Loss Appropriation Account for the year ended 30 April 2017

	$	$

[8]

(b) Prepare the current account of Meena for the year ended 30 April 2017. Balance the account and bring down the balance on 1 May 2017.

Meena
Current account

Date	Details	$	Date	Details	$
2016					
May 1	*Balance b/d*	*1 490*			

[5]

The partners provided the following information.

	At 30 April 2016	At 30 April 2017
Current ratio	1.85 : 1	1.68 : 1
Quick (acid test) ratio	1.01 : 1	0.78 : 1

	$
Inventory	19 400
Trade receivables	16 900
Trade payables	17 450
Bank overdraft	4 100

REQUIRED

(c) Explain why the partners calculated the quick (acid test) ratio as well as the current ratio.

....

....

....

....[2]

(d) Suggest **two** reasons for the change in the current ratio.

1 ....

....

2 ....

....[2]

The partners later discovered that no entry had been made for a cheque received from a credit customer for $1 800.

REQUIRED

(e) Calculate the current ratio after this transaction had been recorded in the accounting records. The calculation should be correct to **two** decimal places.

....

....

....

....

....[2]

(f) Suggest **two** possible problems the partners may encounter if the working capital is inadequate**.**

1 ....

....

2 ....

....[2]

(g) Suggest **two** ways in which the partners could increase the working capital.

1 ....

....

2 ....

....[2]

[Total: 23]

N17/11

6 Amina and Samara are in partnership. Their partnership agreement states that interest on capital is paid at the rate of 10% per annum and that profits and losses are shared in the ratio of 3:2 respectively.

The following information is available.

	$
At 1 July 2016	
Capital accounts	
Amina	50 000
Samara	20 000
Current accounts	
Amina	4 000 credit
Samara	3 000 credit

For the year ended 30 June 2017

Profit for the year	17 500
Drawings	
Amina	8 000
Samara	12 000

On 1 January 2017 Amina introduced additional capital of $10 000 into the partnership in the form of cash.

REQUIRED

(a) State what is meant by a 'partnership'.

....

....[1]

(b) Prepare the appropriation account for the year ended 30 June 2017.

Amina and Samara
Appropriation Account for the year ended 30 June 2017

	$	$

[4]

(c) Prepare the following ledger accounts for the year ended 30 June 2017. Balance the accounts and bring down the balances on 1 July 2017.

Amina and Samara
Capital accounts

Date	Details	Amina	Samra	Date	Details	Amina	Samra
		$	$			$	$

[3]

Current accounts

Date	Details	Amina	Samra	Date	Details	Amina	Samra
		$	$			$	$

[5]

(d) Explain how the financial statements would have been affected if Amina had made a loan to the partnership instead of introducing additional capital.

....

....

....

....[2]

Amina is not happy that Samara's drawings are greater than hers. Samara says she is entitled to take out of the business more drawings than Amina because she does a greater share of the work.

REQUIRED

(e) Explain **two** reasons why Amina is not happy that Samara's drawings are greater than hers.

1 ....

....

....

2 ....

....

....[4]

[Total: 19]

N18/21

5 Mark and Ella are in partnership. Their financial year ends on 31 August.

The partnership agreement provides for interest on capital, interest on drawings and an annual salary for Ella. Profits and losses are shared equally.

A separate capital and current account is maintained for each partner.

The following is an extract from the profit and loss appropriation account of Mark and Ella for the year ended 31 August 2018.

Mark and Ella
Extract from Profit and Loss Appropriation Account for the year ended 31 August 2018

		$	$
Profit for the year			38 600
Interest on drawings:	Mark	960	
	Ella	1 280	2 240
			40 840
Interest on capital:	Mark	6 000	
	Ella	4 000	
		10 000	
Salary:	Ella	15 000	25 000

The following additional information was available at 31 August 2018.

		$	
Capital accounts 1 September 2017:	Mark	120 000	
	Ella	80 000	
Current accounts 1 September 2017:	Mark	1 800	Debit
	Ella	2 000	Credit
Drawings: Mark		12 000	
Ella		16 000	
Premises at cost		165 000	
Fixtures and equipment at book value		24 400	
Motor vehicles at book value		14 750	
Trade receivables		16 800	
Trade payables		19 240	
Inventory		14 950	
Bank		5 590	Credit
Petty cash		150	
Provision for doubtful debts		420	

REQUIRED

(a) Suggest **two** advantages of maintaining both a capital account and a current account for each partner.

1 ....

....

2 ....

.... [2]

(b) Complete the current accounts of the partners for the year ended 31 August 2018. Balance the accounts and bring down the balances on 1 September 2018.

Mark and Ella
Current accounts

Date	Details	Mark	Ella	Date	Details	Mark	Ella
2017		$	$	2017		$	$
Sep.1	*Balance b/d*	*1 800*		*Sep.1*	*Balance b/d*		*2 000*

[7]

(c) Prepare the statement of financial position at 31 August 2018. You may insert the balances on the current accounts prepared in **(b)** as full details of the current accounts are **not** required.

Mark and Ella
Statement of Financial Position at 31 August 2018

	$	$	$

[6]

Ella has proposed that the partnership agreement should be amended so that interest will no longer be charged on drawings.

REQUIRED

(d) Explain why Mark is **not** in agreement with this proposal.

....

....

....

....

.... [2]

Mark and Ella are considering inviting their manager, Paul, to join the partnership.

REQUIRED

(e) Suggest **two** factors Paul should consider before accepting the invitation.

1 ....

....

2 ....

.... [2]

[Total: 19]

N18/22

3 Paul and Ann are in partnership. Their financial year ends on 30 September.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 4% per annum
Interest on drawings at 5%
An annual salary of $7 000 for Paul
Interest on any loans from partners at 6% per annum
Sharing of profits and losses equally

On 1 October 2017 the balances on the partners' accounts were as follows:

	Paul	Ann
	$	$
Capital account	50 000	85 000
Current account	1 150 credit	3 125 debit
Loan account	10 000	

The interest on loan is credited to Paul's current account at the end of each financial year.

On 1 April 2018 Paul introduced a motor vehicle, $14 500, into the business. He also deposited an amount into the business bank account so that his total capital was $80 000.

The partners agreed that Paul's salary should be increased by $1 000 per annum starting on 1 April 2018.

Drawings during the year ended 30 September 2018 were as follows:

	$
Paul	9 000
Ann	11 000

On 30 September 2018 Ann transferred $5 000 from her capital account to her current account.

The profit for the year ended 30 September 2018 after loan interest was $11 350.

REQUIRED

(a) Prepare journal entries to record the following:

1 The introduction of additional capital by Paul on 1 April 2018.
2 The transfer of $5 000 from Ann's capital account to her current account on 30 September 2018.

Narratives are **not** required.

Paul and Ann
Journal

Date	Details	Debit $	Credit $

[5]

(b) Prepare the profit and loss appropriation account for the year ended 30 September 2018.

Paul and Ann
Profit and Loss Appropriation Account for the year ended 30 September 2018

	$	$

[8]

(c) Prepare the current account of Paul for the year ended 30 September 2018. Balance the account and bring down the balance on 1 October 2018.

Paul
Current account

Date	Details	$	Date	Details	$

[8]
[Total: 21]

J19/12

5 Mostafa and Salma are partners in a wholesale business. Their financial year ends on 30 April. When they started the business they drew up a partnership agreement. The terms of the agreement included the following.

interest to be allowed on capital at 5% per annum
interest to be charged on drawings at 6%
Mostafa to be entitled to an annual salary of $12 000
residual profits and losses to be shared in the ratio of 3 : 2.

The partners provided the following information.

At 1 May 2018

	Mostafa	Salma
	$	$
Capital account	45 000	25 000
Current account	3 250 credit	1 920 debit

On 1 February 2019 the partners agreed that Mostafa's salary should be increased to $15 000 per annum.

For the year ended 30 April 2019

	Mostafa	Salma
	$	$
Drawings	10 000	8 000

The profit for the year ended 30 April 2019 was $14 820.

REQUIRED

(a) Suggest **one** reason why interest on capital was included in the partnership agreement.

....

.... [1]

(b) Suggest **one** reason why interest on drawings was included in the partnership agreement.

....

.... [1]

(c) Suggest **one** reason why a salary for Mostafa was included in the partnership agreement.

....

.... [1]

(d) Prepare the profit and loss appropriation account for the year ended 30 April 2019.

Mostafa and Salma
Profit and Loss Appropriation Account for the year ended 30 April 2019

	$	$

[8]

(e) Complete the current account of Mostafa for the year ended 30 April 2019. Balance the account and bring down the balance on 1 May 2019.

Mostafa and Salma
Mostafa Current account

Date	Details	$	Date	Details	$
2018			2018		
			May 1	*Balance b/d*	*3 250*

[5]
[Total: 16]

J19/21

4 Liam and Mia are in partnership. Their financial year ends on 31 January. They share profits and losses in the ratio 2 : 1.

The following information is available.

	Liam $	Mia $
Capital accounts at 1 February 2018	160 000	60 000
Current accounts at 1 February 2018	44 500 credit	2 140 debit
Drawings during the year ended 31 January 2019	19 100	8 500

On 1 August 2018 Liam transferred $14 000 from his current account to his capital account. On the same date he transferred his personal motor vehicle, valued at $6000, to the business.

The following is an extract from the profit and loss appropriation account of Liam and Mia for the year ended 31 January 2019.

Liam and Mia
Extract from Profit and Loss Appropriation Account
for the year ended 31 January 2019

		$	$
Profit for the year			24 240
Interest on drawings	Liam	955	
	Mia	425	1 380
			25 620
Interest on capital	Liam	10 200	
	Mia	3 600	
		13 800	
Salary Mia		15 000	(28 800)
			(3 180)

REQUIRED

(a) **(i)** Calculate the percentage rate of interest charged on drawings.

....

.... [1]

(ii) Calculate the percentage rate of interest allowed on capital.

....

.... [1]

(b) Complete the current accounts of the partners for the year ended 31 January 2019. Balance the accounts and bring down the balances on 1 February 2019.

Liam and Mia
Current accounts

Date	Details	Liam	Mia	Date	Details	Liam	Mia
2018		$	$	2018		$	$
Feb.1	*Balance b/d*		*2 140*	*Feb.1*	*Balance b/d*	*44 500*	

[9]