The following terms are included in the partnership deed:

- A fixed capital account is to be maintained for each partner.
- Interest on capital is to be computed at 3% per annum based on the opening balance of the capital account of each partner.
- Profits and losses are to be shared between Joey and Sam in the ratio of 2: 1 respectively.
- Joey and Sam are entitled to an annual salary of $60 000 and $12 000 respectively.

The balance sheet of the partnership as at 31 December 2009 is shown below:

Non-current assets	$	**Financed by:**	$
Office equipment, net	563 700	Capital accounts:	
		-Joey	700 000
Current assets		-Sam	350 000
Inventories	154 590	Current accounts:	
Trade receivables	328 290	-Joey	32 000
Bank	102 420	-Sam	14 000
Cash	1 000	**Current liabilities**	
		Trade payables	44 000
		Accrued rates	10 000
	1 150 000		1 150 000

On 31 December 2010, all cash in the office of the partnership was stolen. The partnership did not keep proper accounting records. The following information for the year ended 31 December 2010 is available:

(i) Local and imported accessories were sold at a mark-up of 20% and 50% on cost respectively.

(ii) All purchases and sales were made on credit. After thorough investigation, it was confirmed that total sales were $872 000, returns inwards were $27 300, returns outwards were $14 900 and discounts received were $9 500. However, the amount of discounts allowed had not yet been ascertained.

(iii) The amount owed by customers as per existing records was $291 110 as at 31 December 2010, while the confirmed amount owed to suppliers as at the same date was $88 000.

(iv) All receipts and payments, except those for sundry expenses, were made through the partnership's bank account. A summary of receipts and payments based on the bank account in the books of the partnership for the year ended 31 December 2010 is given below:

	$
Receipts	
Receipts from customers	865 390
Sale of office equipment	137 230
4% loan from Joey	
(borrowed on 1 July 2010, repayable on 1 July 2012)	80 000
	1 082 620
Payments	$
Payments to suppliers	371 600
Rent and rates	136 000
Salaries (including the annual salary paid to Joey)	80 900
Amount drawn to cash account	9 900
Purchase of office equipment (acquired on 1 December 2010)	87 300
Drawings – Joey	78 300
Drawings – Sam	72 040
	836 040

Compared with the bank statement for the month ended 31 December 2010, it was discovered that service charges of $4 400 and a dishonoured cheque of $11,000 drawn by a customer of the partnership had been debited by the bank. No entries had been made in the books of the partnership in respect of these two items.

(v) Local accessories with a selling price of $3108 were taken by Sam for his personal use. No entries had been made in the books.

(vi) The physical inventory count took place on 5 January 2011 and the amount of inventory was $180 150. During the period from 1 January 2011 to 5 January 2011, local accessories were sold to customers for $18900, imported accessories amounting to $7200 were purchased and local accessories costing $3300 were returned to the supplier.

(vii) On 1 April 2010, office equipment with a net book value of $140 000 as at 1 January 2010 was sold. It is the company's policy to depreciate all non-current assets at 20% per annum using the reducing balance method.

(viii) Rent and rates amounting to $22 000 were paid for Joey's personal accommodation. Salaries of $1300 to employees and the annual salary to Sam remained unpaid at 31 December 2010.

(ix) Cash is kept solely for paying sundry expenses. The cash balance as at 31 December 2010 was confirmed at $1 200. It was confirmed that the insurance company would pay 80% of the cash stolen on 7 February 2011.

REQUIRED:

(a) Prepare for the partnership the trading and profit and loss and appropriation account for the year ended 31 December 2010. (15 marks)

(b) Prepare for the partnership the balance sheet as at 31 December 2010. (11 marks)

[HKALE 2010 I Q.3 Modified Difficulty: ** Time Allowed: 45 minutes]**

Kam and Tim had been in partnership for a number of years, sharing profits and losses in the ratio of 3:2 respectively. The balance sheet of the partnership as at 31 December 2008 was as follows:

	$	$
Non-current assets		
Plant and machinery, net		1 020 000
Motor vehicles, net		75 000
		1 095 000
Current assets		
Inventories	1 272 000	
Trade receivables	768 000	
Cash at bank	90 000	
	2 130 000	
Current liabilities		
Trade payables	(1 020 000)	
Net current assets		1 110 000
		2 205 000
Financed by:		
Capital accounts		
-Kam	1 175 000	
-Tim	550 000	1 725 000
Current accounts		
-Kam	(320 000)	
-Tim	800 000	480 000
		2 205 000

On 1 January 2009, Kam and Tim changed their profit and loss sharing ratio to 3:1 respectively and agreed on the following items:

(i) The plant and machinery were to be revalued at 80% of the net book value.

(ii) The motor vehicles were to be revalued to $81 000.

(iii) The inventories were to be valued at the original book value.

(iv) An allowance for doubtful debts of $3000 was to be provided for trade receivables.

(v) Goodwill was to be valued at $140 000. It was decided that no goodwill account was to be kept in the books.

(vi) All non-current assets, except goodwill, had to be recorded back to their original net book values. After that, the new partnership would maintain a total fixed capital of $1 750 000, contributed by the partners in their new profit and loss sharing ratio. Any surplus or deficit would be transferred to their respective current accounts.

REQUIRED:
(a) Prepare the revaluation account at 1 January 2009. (3 marks)
(b) Prepare the partners' capital accounts at 1 January 2009 in columnar form. (7 marks)

After the change of the profit and loss sharing ratio, interest of 8% per annum was to be allowed on partners' capital based on their respective capital balances at the beginning of each year. For the year ended 31 December 2009, the partnership made a net profit of $320 000 before appropriation. There was no acquisition or disposal of non-current assets in 2009. Depreciation of 10% per annum on net book value had been provided on all non-current assets. The following balances were extracted from the books of the partnership as at 31 December 2009:

	$
Inventories	1 100 000
Trade receivables	570 000
Allowance for doubtful debts	28 500
Trade payables	295 000
Cash at bank	190 000

On 31 December 2009, Kam and Tim agreed to dissolve the partnership. The following information was provided:

(vii) Kam took over one of the motor vehicles at an agreed value of $33 000.

(viii) Tim took over the trade payables at book value. He then settled all the debts at 5% discount.

(ix) Kam was made responsible for collecting the trade receivables due to the partnership. He was entitled to a commission of 4% on the total amount collected. Consequently, discounts allowed of $70 000 and uncollectible debts amounting to $30 000 were to be recorded by the partnership. The entire amount collected was retained by Kam.

(x) Upon dissolution, balances of the current accounts would be transferred to the capital accounts.

(xi) Remaining assets were sold for $1 800 000. Dissolution expense of $25 000 was paid by Tim on behalf of the partnership.

REQUIRED:
(c) Prepare the following accounts in the books of the partnership to record the above:
(1) realisation account (5 marks)
(2) the partners' capital accounts in columnar form (5 marks)
(3) Bank account (2 marks)

[HKALE 2008 I Q.3 Modified Difficulty: **** Time Allowed: 45 minutes]

Chan and Lee formed a partnership business a few years ago, sharing profits and losses in the ratio of 3:2 respectively. At 31 December 2006, their capital balances were as follows:

	$
Chan	155 000
Lee	109 000
	264 000

On 1 January 2007, Cheung was admitted to the partnership on the following terms:

(i) The capital contribution of each partner is agreed at: Chan $150 000, Lee $100 000 and Cheung $120 000. Fixed capital accounts for these are to be kept for the partners. Chan and Lee will transfer any surplus or deficiency in fixed capital to their respective current account to be set up.

(ii) Interest will be paid on the fixed capitals at 8% per annum. No interest is charged on drawings.

(iii) Chan is entitled to an annual salary of $100 000, but Lee and Cheung are not entitled to salary.

(iv) The profit and loss sharing ratio is: Chan 40%, Lee 30%, Cheung 30%.

(v) Except for furniture and equipment which were to be revalued upward by $2000 to $118 000, the fair values of other assets and liabilities of the partnership at 1 January 2007 were ascertained to be equal to their book values.

(vi) Goodwill is valued at $113,600; No goodwill account was maintained. Cheung paid in additional cash for his share of goodwill.

REQUIRED:

(a) Prepare the capital accounts in columnar form for the partners at 1 January 2007 to record the admission of Cheung. (3 marks)

(b) Explain two advantages of keeping both capital and current accounts for the partners in a partnership. (3 marks)

At 31 December 2007, the following balances were extracted from the books of the partnership:

	$
Furniture and equipment, at valuation	118 000
Inventory, 1 January 2007	132 000
Trade debtors	175 200
Trade creditors	134 600
Bank	85 480
Sales	1 166 400
Purchases	684 000
Staff salaries	348 000
Finance cost	34 400
Rent and rates	94 000
Drawings: Lee	50 000

Additional information:

(vii) All goods were sold at a mark-up of 80% on cost. Inventory as per physical count on 31 December 2007 amounted to $131 000 at cost.

(viii) It was discovered that goods at the list price of $45 000 had been sent to a customer on 15 December 2007 on a sale-or-return basis and were returned by the customer on 10 January 2008, In addition, Cheung had drawn goods on 30 December 2007 for personal use. No accounting entries had been made for these events.

(ix) The amount of staff salaries included the salaries paid to Chan.

(x) There were no changes in the fixed capitals since 1 January 2007. Interest on capital for the year had been paid to the partners in December 2007 and was included in the finance cost.

(xi) Furniture and equipment are to be depreciated at the rate of 15% per annum using the reducing balance method.

REQUIRED:

(c) Prepare for the partnership of Chan, Lee and Cheung the trading and profit and loss and appropriation account for the year ended 31 December 2007 and the balance sheet as at that date. (11 marks)

(Note: trading and profit and loss account means ***income statement.****)*

[HKALE 2005 I Q.4 Modified Difficulty: **** Time Allowed: 45 minutes]

Alan, Ben and Charles were partners sharing profits and losses equally and the statement of financial position of the partnership on 31 December 2004 was as follows:

	$		$
Premises, net	400 000	Capital	
Plant and Machinery, net	230 000	Alan	400 000
Furniture and Fittings, net	110 000	Ben	320 000
Motor vehicles, net	100 000	Charles	280 000
Stock	95 000	Current	
Debtors, net	88 200	Alan	28 000
Bank	17 800	Ben	(10 000)
		Charles	(13 000)
		Creditors	36 000
	1 041 000		1 041 000

On 31 December 2004, Alan, Ben and Charles agreed to change their profit and loss sharing ratio to 3:2:1 respectively with effect from 1 January 2005.

(i) Accrued expenses of $2100 had not yet been accounted for.

(ii) Provision for bad debts had been mistakenly calculated at 2% of debtors' balance. The rate should have been 3%.

(iii) Premises and plant and machinery were to be revalued at $530 000 and $120 000 respectively.

(iv) A piece of furniture with a net book value of $22 000 was to be revalued at $17 000 and taken over by Alan.

(iv) The stock valuation as at 31 December 2004 did not include goods which had cost the partnership $12 000 and had been forwarded to an agent on a sale-or-return basis. These goods had been invoiced at a mark-up of 25% on cost and had been recorded as sales for the year. However, only half of these goods were sold by the agent as at 31 December 2004.

(vi) Goodwill is valued at $198,000; No goodwill account was to be maintained in the books and the necessary adjustments were to be made in the capital accounts.

(vii) In recognition of Ben's long service to the partnership, a motor vehicle with a net book value of $59 000 was to be given to him as a gift and the amount was to be shared equally by Alan and Charles.

(viii) The new partnership would maintain a fixed capital of $900 000, contributed by the partners in their new profit and loss sharing ratio. Any surplus or deficit would be transferred to their respective current accounts.

REQUIRED:

(a) Prepare a statement to show the share of net profit adjustments for 2004 to be recorded in the partners' current accounts. (3 marks)

(b) Draw up the revaluation account. (3 marks)

(c) Write up the partners' capital accounts in columnar form. (10 marks)

(d) Explain the purpose of making revaluation adjustments upon a change in the profit and loss sharing ratio among partners. (4 marks)

[HKALE 2013 I Q.4(a)(c)(d) Modified Difficulty: **** Time Allowed: 45 minutes]

Lam, Wing and Kong had been in partnership since 2009. The following are the terms of their partnership agreement:

(1) Lai, Wing and Kong share profits and losses in the ratio 2:2:1 respectively.

(2) No interest is allowed on capital but interest would be charged on drawings at 4% per annum.

(3) Wing and Kong are entitled to an annual salary of $100 000 and $120 000 respectively.

The statement of financial position of the partnership as at 31 December 2012 was as follows:

Statement of financial position as at 31 December 2012

		$	$
Non-current assets			
Plant and machinery, net			480 000
Office equipment, net			294 000
			774 000
Current assets			
Inventory		380 000	
Trade receivables		102 000	
Prepaid expenses		89 000	
Cash at bank		490 000	1 061 000
			1 835 000
Financed by:			
Capital accounts:	Lai	200 000	
	Wing	300 000	
	Kong	400 000	900 000
Current accounts:	Lai	29 000	
	Wing	53 000	
	Kong	232 000	314 000
Long-term liabilities			
Loan from Lai		10 000	
Bank Loan		200 000	210 000
Current liabilities			
Trade payables		282 000	
Accrued expenses		129 000	411 000
			1 835 000

On 1 January 2013, Lai drew goods costing $68 500 for his personal use. During the three months ended 31 March 2013, the partnership made a net profit (before appropriation) of $16 000.

On 1 April 2013, Lai decided to retire from the partnership. All partners agreed with the following:

(i) On 1 April 2013, the net book value of plant and machinery and office equipment were $468 000 and $257 250 respectively. Upon the retirement of Lai, plant and machinery was to be revalued at 70% of its net book value at that date whereas office equipment was to be revalued to $230 000. A laptop computer revalued at $12 000 was then taken from the office equipment and given to Lai as a gift from Wing and Kong, who shared the amount equally.

(ii) Goodwill is valued at $225 000. It was decided that no account would be kept for goodwill.

(iii) Loan from Lai was to be transferred to Lai's capital account and repaid immediately together with the amount due to him upon his retirement.

(iv) Lai collected $38 000 from trade receivables on behalf of the partnership during the three months ended 31 March 2013. No entries had been made in the books for those receipts from trade receivables.

(v) Profits and losses are to be shared equally between Wing and Kong in the new partnership, and the partners' salaries to them remain unchanged.

(vi) The new partnership is to maintain a total fixed capital of $500 000, to be contributed by the partners equally. Any surplus or deficit is to be transferred to or from their respective current accounts

REQUIRED:

(a) Prepare the profit and loss appropriation account for the three months ended 31 March 2013. (3 marks)

(c) Prepare the partners' capital accounts and current accounts in columnar form to record the above. (12 marks)

(d) Give one reason to explain why the partnership preferred not to maintain a goodwill account. (2 marks)

(Total: 17 marks)

Notes to instructors:

- *Part (b) of the question was related to computation of goodwill which is not required in the latest HKDSE syllabus.*
- *Item (ii) was modified.*

[HKALE 2012 Modified]

Joanna, Cherry and Sam
Profit and loss and appropriation account for the year ended 31 December 2015

	Jan – Sep $	Oct – Dec $
Gross profit		
($1800000-24000 x 100/75) x 12/16 x 40%)	530 400	
[($1800000-32000) x 4/16 x 40% + 32000 x 25%]		184 800
Less Expenses:		
Rent and rates (9:3)	121 500	40 500
Salaries ($60 000 x 9/12 + $108 000)	153 000	
($60 000 x 3/12)		15 000
Operating expenses (9:3)	115 350	38 450
Sales commission ($1 326 000: $474 000)	33 150	11 850
Loan interest ($48 000 x 8% x 4/12; 3/12)	1 280	960
Depreciation – Plant and machinery (W1)	21 000	4 025
Depreciation – Motor van (W2)	7 410	2 670
Motor van repainting cost	4 000	---
Net profit	73 710	71 345
Interest on capital		
- Joanna ($300 000 x 4% x 9/12); ($284000 x 10% x 3/12)	9 000	7 100
- Cherry ($20 000 x 4% x 9/12)	6 000	---
Partner's salary – Sam ($108 000/9 x 120% x 3)	---	43 200
	58 710	21 045
Share of profit		
- Joanna	29 355	8 418
- Cherry	29 355	8 418
- Sam	---	4 209
	58 710	21 045

Workings:

W1: Depreciation of plant and machinery

- Jan – Sep = ($280 000 x 10%) x 9/12 = $21 000
  Oct – Dec = ($280 000 – 58 000 – 21 000 – 40 000) x 10% x 3/12 = $4 025

W2: Depreciation of motor van

- Jan – Sep = [($93 000 – 12 000 – 4 000) x 12% x 5/12] + [($93 000 – 4 000) x 12% x 4/12] = $7 410
  Oct – Dec = ($93 000 – 4 000) x 12% x 3/12 = $2 670

Capital

	Joanna	Cherry	Sam		Joanna	Cherry	Sam
	$	$	$		$	$	$
Loss on revaluation	20 000	20 000	---	Balance b/d	300 000	200 000	---
Goodwill adj.	16 000	16 000	8 000	Goodwill adj.	20 000	20 000	---
Balance c/d	284 000	184 000	35 200	Partner's salary	---	---	43 200
	304 000	204 000	43 200		304 000	204 000	43 200

Current

	Joanna	Cherry	Sam		Joanna	Cherry	Sam
	$	$	$		$	$	$
Balance b/d	23 000	--	--	Balance b/d	--	12 300	--
Trade receivables	--	--	5 000	Interest on capital	16 100	6 000	--
Current – Sam	4 791	--	--	Share profits	37 773	37 773	4 209
Balance c/d	26 082	56 073	4 000	Current – Joanna	--	--	4 791
	53 873	56 073	9 000		53 873	56 073	9 000

[HKALE 2011 Modified]

(a) Receivables collection period
- The collection period of the partnership is longer than that of the industry aerage by 0.7 month.
- It may be the result of a more lenient credit policy with a longer credit period granted to its customers in order to promote sales.

Payables repayment period
- The repayment period of the partnership is shorter than the industry average by 0.6 month.
- The business has to repay the supplier faster than its competitors, which hampered the liquidity of the business

Inventory turnover rate
- The inventory turnover rate is higher than the industrial average by 0.7 times
- The higher the rate, the faster the flow of stock, the faster the inventory replenishment and there is less obsolescence and outdated inventories.

Overall comment
- The higher inventory turnover rate implied the partnership was more able to sell inventories at a faster rate in 2009 and thus in a better liquidity position in this regard.
- Yet, the longer collection period and the shorter repayment period indicated that the overall liquidity of the business was worse than its competitors in 2009.
- The partnership can give cash discount to encourage early settlement from trade receivables, or try to find other suppliers with a longer credit period so as to maintain its liquidity.

(b)

Joey and Sam
Trading and profit and loss and appropriation account
for the year ended 31 December 2010

	$	$
Sales		872 000
Less Returns inwards		(27 300)
		844 700
Less Cost of goods sold:		
Opening inventories	154 590	
Purchases [(W1) - $3 108/1.2]	437 410	
Less Returns outwards	(14 900)	
	577 100	
Less Closing inventory [$180150 + 18900/1.2 – 7200 + 3300]	(192 000)	(385 100)
Gross profit		459 600
Add Other revenues:		
Gain on disposal [$137 230 – ($140 000 - $140000 x 20% x 3/12)]		4 230
Discounts received		9 500
		473 330
Less Expenses:		
Rent and rates ($136 000 – 10000 – 22000)	104 000	
Loss on petty cash stolen ($1 200 x 20%)	240	
Salaries ($80 900 – 60000 + 1300)	22 200	
Depreciation on office equipment [($563 700 – 140 000) x 20% + 140 000 x 20% x 3/12 + 87 300 x 20% x 1/12]	93 195	
Sundry expenses ($1000 + 9900 – 1200)	9 700	
Discounts allowed (W2)	16 490	
Interest on loan from Joey ($80 000 x 4% x 1/12)	1 600	
Bank charges	4 400	(251 825)
Net profit		221 505
Less Appropriations:		
Partner's salaries – Joey	60 000	
- Sam	12 000	72 000
Interest on capital – Joey	21 000	
- Sam	10 500	31 500
		118 005
Share of profit		
- Joey	78 670	
- Sam	39 335	118 005

Workings:

W1 Trade payables

	$		$
Bank	371 600	Balance b/d	44 000
Returns outwards	14 900	Purchases (Bal fig)	440 000
Discounts received	9 500		
Balance c/d	88 000		
	484 000		484 000

W2:

Trade receivables

	$		$
Balance b/d	328 290	Bank	865 390
Bank: Dishonored cheque	11 000	Discounts allowed (Bal fig)	16 490
Sakes	872 000	Returns inwards	27 300
		Bal. c/d (291 110 + 11 000)	302 110
	1 211 290		1 211 290

Joey and Sam
Balance sheet as at 31 December 2010

	$	$	$
Non-current Assets			
Office equipment, net [($563700+87300-93195-(140000-7000))			424 805
Current Assets			
Inventories		192 000	
Trade receivables ($291 110 + 11 000)		302 110	
Insurance receivables ($1200 x 80%)		960	
Bank ($102 420 + 246 580 – 4400 – 11000)		333 600	
		828 670	
Current liabilities			
Trade payables	88 000		
Accrued loan interest	1 600		
Accrued wages and salaries	1 300	(90 900)	
Net current assets			737 770
			1 162 575
Non-current liabilities			
4% Loan			(80 000)
			1 082 575
	Joey	Sam	
Financed by:			
Capital accounts	700 000	350 000	1 050 000
Current accounts (W3)	31 370	1 205	32 575
			1 082 575

W3:

Current

	Joey	Sam		Joey	Sam
	$	$		$	$
Drawings			Bal. b/d	32 000	14 000
-Joey (78300+22k)	100 300	--	Appropriations		
- Sam (72040+2590)	--	74 630	-Partners' salaries	--	12 000
Balance c/d	31 370	1 205	-Interest on capital	21 000	10 500
			-Share of profit	78 670	39 335
	131 670	75 835		131 670	75 835

[HKALE 2010 Modified]

Revaluation

	$		$	$
Plant and machinery	204 000	Motor vehicles		6 000
Allowance for doubtful debts	3 000	Loss on revaluation		
		Capital – Kam (3/5)	120 600	
		Capital – Tim (2/5)	80 400	201 000
	207 000			207 000

Capital

	Kam	Tim		Kam	Tim
	$	$		$	$
Goodwill adj.	105 000	35 000	Balance b/f	1 175 000	550 000
Revaluation	120 600	80 400	Goodwill adj.	84 000	56 000
Current (diff)	--	102 600	Revaluation – written back	148 500	49 500
Balance c/f	1 312 500	437 500	Current (diff)	130 600	--
	1 538 100	655 500		1 538 100	655 500

Realization

	$		$	$
Plant and machinery	918 000	Capital – Kam: Motor vehicles		33 000
Motor vehicles	67 500	Capital – Kam: Trade receivables (570k-70k-30k)		470 000
Trade Receivables (570,000 – 28,500)	541 500	Bank – Remaining assets		1 800 000
Inventory	1 100 000	Loss on realization:		
Capital – Tim: Realization expenses	25 000	Capital – Kam (3/4)		275 850
Capital – Kam: Commission	18 800	Capital – Tim (1/4)	91 950	367 800
	2 670 800			2 670 800

Capital

	Kam	Tim		Kam	Tim
	$	$		$	$
Current (W1)	210 600	--	Balance b/f	1 312 500	437 500
Realization – motor vehicles	33 000	--	Current (W1)	--	982 600
Realization – Trade receivables	470 000	--	Trade payables	--	295 000
Realization – Loss	275 850	91 950	Realization – Realization expense		25 000
Bank – Final settlement	341 850	1 648 150	Realization – Commission	18 800	
	1 331 300	1 740 100		1 331 300	1 740 100

Bank

	$		$
Balance b/d	190 000	Capital – Kam	341 850
Realization – Remaining assets	1 800 000	Capital – Tim	1 648 150
	1 990 000		1 990 000

Working:

Current

	Kam	Tim		Kam	Tim
	$	$		$	$
Balance b/f	320 000	--	Balance b/f	--	800 000
Capital (from b)	130 600	--	Capital (from b)	--	102 600
Capital (diff)	--	982 600	Appropriation		
			-Interest on capital	105 000	35 000
			-Share profit	135 000	45 000
			Capital (diff)	210 600	--
	450 600	982 600		450 600	982 600

[HKALE 2005.P1.Q4 Modified]

(a)

Statement to calculate the adjusted profit

	$	$	
Accrued expenses omitted (i)		(2 100)	½
Provision for bad debts under-provided (ii)		(675)	1
[(88 200 ÷ 98% – 7500)× 3% – (88 200 ÷ 98% × 2%)]			
Sales overstated (iii) (12 000 × 125% × 50%)		(7 500)	½
Stock understated (iii) (12 000 × 50%)		6 000	½
Adjustment to 2004 profit		(4 275)	
Share of profit adjustments:			
Alan	(1 425)		}
Ben	(1 425)		} ½
Charles	(1 425)	(4 275)	}
			(3)

(b)

Revaluation

		$	$		$	
½	Plant and machinery		110 000	Premises	130 000	½
½	Furniture and Fittings		5 000			
	Share of profit:					
½	Alan	5 000				
½	Ben	5 000				
½	Charles	5 000	15 000			
			130 000		130 000	
						(3)

(c)

Capital

		Alan	Ben	Charles		Alan	Ben	Charles	
		$	$	$		$	$	$	
1½	Goodwill (3:2:1)	99 000	66 000	33 000	Balance b/f	400 000	320 000	280 000	½
½	Furniture and fittings	17 000	-	-	Goodwill (1:1:1)	66 000	66 000	66 000	1½
1	Motor vehicle: Ben	29 500	-	29 500	Revaluation profit	5 000	5 000	5 000	½
2	Current *(bal. fig.)*	-	25 000	138 500	Current *(bal. fig.)*	124 500	-	-	1
1½	Balance c/f	450 000	300 000	150 000					
		595 500	391 000	351 000		595 500	391 000	351 000	
									(10)

(d)

- Upon a change in profit or loss sharing ratio among partners, the assets will have to be revalued to reflect their values.
- There may be unrealized holding gains or losses which have not been accounted for in the books as at the date of the change in profit or loss sharing ratio.
- Through revaluation, partners' capital accounts are credited with their respective share of gains (or debited with the share of losses) using the old profit or loss sharing ratio.
- If revaluation is not done, the partners would be entitled to a share of these gains (or losses) using the new profit or loss sharing ratio when the assets are eventually realized, despite the fact that they arose prior to the change in ratio.

(max. 4)

[HKALE 2008.P1.Q3 Modified]

(a)

Capital

		Chan	Lee	Cheung		Chan	Lee	Cheung	
		$	$	$		$	$	$	
1½	Goodwill (4:3:3)	45 440	34 080	34 080	Balance b/d	155 000	109 000	–	
1	Current	28 920	21 160	–	Revaluation	1 200	800	–	1
1	Balance c/d	150 000	100 000	120 000	Goodwill (W1) (3:2)	68 160	45 440	–	1
					Bank – capital	–	–	120 000]	½
					– goodwill	–	–	34 080]	
		224 360	155 240	154 080		224 360	155 240	154 080	
									(6)

(b)

Advantages:

- Maintaining fixed capital accounts helps to distinguish the fund contributed by the partners from that generated from recurrent operations.
- Fixed capitals help to ensure the capital base is not eroded by excessive drawings, which will be revealed by a negative balance in the current account.

Max. 3

(c)

Chan, Lee and Cheung

Trading and profit and loss and appropriation account for the year ended 31 December 2007

		$	$	
Sales			1 166 400	
Cost of goods sold				
	Opening stock	132 000		
	Purchases	684 000		
	Less: Drawings by Cheung *(balancing figure)*	(12 000)		½
		804 000		
	Less: Closing stock ($131 000 + $45 000 / 1.8)	(156 000)		½
	($1 166 400 / 1.8)		(648 000)	½
Gross profit			518 400	
Less:	Staff salaries ($348 000 – $100 000)		(248 000)	½
	Finance cost [$34 400 – ($150 000 + $100 000 + $120 000) × 8%]		(4 800)	½
	Depreciation ($118 000 × 15%)		(17 700)	½
	Rent and rates		(94 000)	½
Net profit for the year			153 900	

Partner's salary –	Chan		(100 000)	½
Interest on capital –	Chan	12 000		
	Lee	8 000		
	Cheung	9 600	(29 600)	½
			24 300	
Share of profit –	Chan ($24 300 × 40%)	9 720		
	Lee ($24 300 × 30%)	7 290		
	Cheung ($24 300 × 30%)	7 290	(24 300)	½
				(5)

(c)

Chan, Lee and Cheung
Balance sheet as at 31 December 2007

		$	$	
Noncurrent assets				
Furniture and equipment		118 000		
Less: Accumulated depreciation		17 700	100 300	½
Current assets				
Inventory		156 000		½
Trade debtors		175 200		½
Cash at bank		85 480		½
		416 680		
Less: **Current liabilities**				
Trade creditors		134 600		½
			282 080	
			382 380	
Capital accounts –	Chan	150 000		
	Lee	100 000		
	Cheung	120 000	370 000	½
Current accounts (W2) –	Chan	38 640		1
	Lee	(21 550)		1
	Cheung	(4 710)	12 380	1
			382 380	(6)

W2

Current

	Chan	Lee	Cheung		Chan	Lee	Cheung
	$	$	$		$	$	$
Drawings	–	50 000	12 000	Capital	28 920	21 160	–
Balance c/d	38 640	–	–	Share of profit	9 720	7 290	7 290
				Balance c/d	–	21 550	4 710
	38 640	50 000	12 000		38 640	50 000	12 000

[HKALE 2013.P1.Q4(a)(c)(d) Modified]

(a)

Lai, Wing and Kong
Appropriation account for the three months ended 31 March 2013

		$	$	
Net Profit			16 000	½
Add: Interest on drawings ($68500 × 4% × 3/12)			685	1
			16 685	
Less: Partners' salaries				
	Wing	25 000		½
	Kong	30 000	(55 000)	½
			(38 315)	
Share of loss				
	Lai		(15 326)	½
	Wing		(15 326)	
	Kong		(7 663)	
			(38 315)	
				(3)

(c)

Capital

		Lai	Wing	Kong		Lai	Wing	Kong	
		$	$	$		$	$	$	
1	Loss on revaluation	67 060	67 060	33 530	Balance b/d	200 000	300 000	400 000	½
1	Goodwill		22 500	67 500	Goodwill	90 000			½
1	Office equipment: Lai		6 000	6 000	Loan from Lai	10 000			½
1	Current	93 511		42 970	Current		45 560		½
½	Bank	139 429							
½	Balance c/d		250 000	250 000					
		300 000	345 560	400 000		300 000	345 560	400 000	

Current

		Lai	Wing	Kong		Lai	Wing	Kong	
		$	$	$		$	$	$	
½	Drawings	68 500			Balance b/d	29 000	53 000	232 000	½
½	Interest on drawings	685			Partners' salary		25 000	30 000	½
½	Share of loss	15 326	15 326	7 663	Capital	93 511		42 970	½
1	Trade receivables	38 000							
½	Capital		45 560						
½	Balance c/d		17 114	297 307					
		122 511	78 000	304 970		122 511	78 000	304 970	

(12)

(d)

Reasons: 2

- Valuation could be subjective even when it is based on mutual agreement
- Intangible nature of the asset; relationship with future economic benefit not easily identifiable or measurable

(2 marks for each relevant reason, max. 2 marks)

Reference for instructors: Part (b)

Goodwill

Proposal 1:

	$	
Partnership average profit [($180 000 + $220 000 + $190 000 + $250 000)/4]	210 000	
Industry average profit	150 000	
Super profit	60 000	

Goodwill: $60 000 × 4 = $240 000 1

Proposal 2:

	Profits	Weight	
	$		$
2012	250 000	3	750 000
2011	190 000	2	380 000
2010	220 000	1	220 000
			1 350 000

Goodwill: $1 350 000/6 = $225 000 1

The partnership will adopt $225 000 as goodwill upon the retirement of Lai. 1
(3)

1991 Q.8
Chan and Wong were partners in a retail business, sharing profits and losses in the ratio of 3:2.

The partnership agreement provided that interest should be allowed on capital at the rate of 6% per annum. No interest should be allowed on credit balances of the current accounts but interest of 12% per annum should be charged on any debit balances during the year.

The balances on the partners' capital and current accounts as at 31 December 1989 were:

	Capital accounts	Current accounts
	$	$
Chan	50,000	33,100
Wong	30,000	12,500 (Dr)

The partners decided to admit their marketing manager, Cheung, as a new partner, beginning from 1 January 1990. In addition to those set out in the original partnership agreement, the following terms were agreed:

(1) Goodwill of the partnership was $30,000 and a goodwill account would not be maintained in the books.

(2) The new profit and loss sharing ratio for Chan, Wong and Cheung was 5:3:2.

(3) Cheung was to be credited to his current account a month salary of $7,000 for managing the business.

Additional information:

(i) In the year 1989, Cheung had been awarded a cash bonus of $37,800 for undertaking a successful marketing project. This amount had not been paid at the close of the year. On Cheung's admission, it was agreed to transfer $30,000 to his capital account and the balance to his current account.

(ii) The net profit before appropriation for the year ended 31 December 1990 was $121,280.

(iii) Drawings of the partners for the year were as follows:

	Chan	Wong	Cheung
	$	$	$
1 May	20,000	-	-
30 June	20,000	-	2,000
31 August	10,000	-	1,000
Total	50,000	-	3,000

(iv) The balances in the partners' capital accounts were to remain fixed. All the entries relating to the partners should be made through the current accounts.

Required:

(a) Prepare journal entries to record the admission of Cheung. (3 marks)

(b) Prepare a profit and loss appropriation account for the year ended 31 December 1990. (10 marks)

(c) Prepare the partners' current accounts for the year ended 31 December 1990.
(Calculations to the nearest dollar) (7 marks)

1992S Q.7

Lau, Kwan and Cheung were in partnership sharing profits and losses in the ratio 5:3:2. Given below is the trial balance of the partnership as at 31 March 1992:

		$	$
Capital accounts:	Lau		300,000
	Kwan		200,000
	Cheung		100,000
Current accounts:	Lau		50,000
	Kwan		48,000
	Cheung		15,000
Drawings:	Lau	15,000	
	Kwan	20,000	
	Cheung	20,000	
Buildings		1,200,000	
Motor vehicles		230,000	
Provision for depreciation	- buildings		24,000
	- motor vehicles		138,000
Debtors		180,000	
Creditors			70,000
Provision for bad debts			5,000
Cash at bank		10,000	
Sales			1,670,000
Purchases		820,000	
Stock, 1 April 1991		90,000	
Office expenses		5,000	
Rent		12,000	
Selling expenses		18,000	
		2,620,000	2,620,000

The following additional information is provided:

(i) Stock at 31 March 1992 was valued at $100,000.

(ii) Fixed assets were to be depreciated at the following rates:

Buildings	2% per annum on cost
Motor vehicles	20% per annum on cost

(iii) The provision for bad debts was to be maintained at 5% of the outstanding debtors.

(iv) Rent was prepared by $1,000 as at 31 March 1992.

(v) The partnership agreement covered the following appropriations:
1. Cheung was allowed a salary of $36,000 per annum.
2. Interest of 10% per annum was allowed on the partners' capital accounts balances.
3. Interest of 15% per annum was allowed on the partners' current accounts balances.
4. Interest of 10% per annum was charged on the partners' average drawings.

(vi) The average drawings on the partners for the year ended 31 March 1992 were:

	$
Lau	12,000
Kwan	16,000
Cheung	20,000

(vii) There were no changes in the partners' capital and current accounts throughout the year.

Required:

(a) Prepare the partners' trading, profit and loss and appropriation account for the year ended 31 March 1992; and (12 marks)

(b) a balance sheet as at 31 March 1992. (8 marks)

1993 Q.6

So and Tam were equal partners of a trading company. The trial balance as at 30 April 1993 was extracted from their books of accounts as follows:

	$	$
Capital : So		22,560
Tam		13,140
Fixed assets at cost	16,800	
Provision for depreciation		3,200
Cash at bank	5,000	
Current assets other than cash	19,250	
Creditors		2,150
	41,050	41,050

On 1 May 1993, Yau was admitted as a partner bringing in $10,000 cash of which $2 000 was paid for his share of goodwill.

In setting up the new partnership, it was decided that:

(i) The profit and loss sharing ratio for So, Tam and Yau was 4:3:2 respectively.

(ii) Except the fixed assets which were revalued at $18,000, all other assets and liabilities were to be maintained at their book values.

(iii) No goodwill account was to be kept in the books.

(iv) Fixed capital accounts were to be opened for the partners whose capital contributions would be made according to the profit and loss sharing ratio. So and Tam would transfer any surplus amounts to their current accounts.

Required :

Prepare journal entries to record the above in the books of the new partnership. (10 marks)

1994 Q.9

Alex and Bob have been partners sharing profits and losses in the ratio of 5:3 respectively. Interest of 6% p.a. was allowed on the credit balances in the capital accounts. The financial year ends on 31 December each year.

On 1 January 1993, the balance of their account were as follows:

	Capital account	Current account
	$	$
Alex	50,000	2,200 (Cr)
Bob	30,000	1,900 (Cr)

On 1 May 1993, their sales manager, Calvin, was admitted as a partner, bringing in $20 000 cash as capital. It was agreed Calvin's salary would be maintained at $24,000 p.a. (i.e. his pay when he was still the sales manager.) The new profit and loss sharing ratio for Alex, Bob and Calvin was 5:3:2. Interest on the credit balance in the capital accounts was to be maintained at 6% p.a.

On Calvin's admission as a partner, it was decided that the value of land and buildings was to be increased by $80,000 and stock of $12,000 was to be written off as obsolete. The revaluation of assets was to be recorded in the partners' capital accounts. Goodwill was valued at $15,000 but would not be shown in the books, adjustments being made through the current accounts of the partners.

The net profit before the deduction of Calvin's salary for the year was $71,300. Profits are assumed to accrue evenly throughout the year.

Required:

(a) Show the journal entries to record the admission of Calvin. (8 marks)

(b) Prepare the profit and loss appropriation account for the partnership for the year ended 31 D(10 marks)1993. (12 marks)

(Calculations to the nearest dollar.)

------------------ 31 December 1993.

1996 Q.9
Lau and Chun were in partnership sharing profits and losses in the ratio 1:2 respectively. The balance sheet as at 31 December 1995 was as follows:

Balance sheet as at 31 December 1995

	$	$		$	$
Fixed Assets			Capital Accounts		
Buildings, net book value		306,000	Lau		162,000
Equipment, net book value		59,400	Chun		288,000
		365,400			450,000
Current Assets			Current Accounts		
Stock	16,200		Lau	2,520	
Debtors	36,360		Chun	1,800	4,320
Bank	51,120	103,680			454,320
			Current Liabilities		
			Creditors		14,760
		469,080			469,080

Lau retried on 30 April 1996 on the following terms:

(i) He was to be paid the amount of his capital and current account balances at 31 December 1995, together with his share of profit and loss for the 4 months ending 30 April 1996 and his share of goodwill.

(ii) Goodwill was calculated to have a value of $135,000. No goodwill account was to remain in the partnership books.

(iii) No assets or liabilities were to be revalued on retirement.

(iv) It was agreed that Lau should be repaid in four equal instalments, the first payment being made on 1 May 1996. The balance was to be left temporarily in the partnership as a loan.

After all the nominal accounts had been balanced off, the following position was arrived at on 30 April 1996:

	$
Assets	
Building, net book value	299,880
Equipment, net book value (including additions of $7,200)	62,640
Bank	60,660
Stock	21,600
Debtors	44,460
	489,240
Liabilities	
Creditors	17,640

There were no entries to the capital accounts during the four months. However, the following drawings had been made:

	$
Lau	36,000
Chun	61,200

Kwok was admitted as a new partner on 1 May 1996. He brought in $92,000 as his capital, and additional cash for his share of goodwill. The new profit-sharing ratio was: Chun, four-fifth; and Kwok, one-fifth.

Required:

(a) Calculate the profit of the partnership for the period from 1 January 1996 to 30 April 1996. (3 marks)

(b) Prepare the partners' capital and current accounts to reflect the above arrangements. (11 marks)

(c) Draw up the balance sheet of the new partnership as a 1 May 1996. (6 marks)

1997 Q.10
Cheung and Wong were partners sharing profits and losses in the ratio of 1:3 respectively.

The following trail balance as at 31 March 1997 was extracted from the books of the partnership:

	$	$
Net profit for the year		40,000
Capital accounts:		
Cheung		870,000
Wong		800,000
Current accounts:		
Cheung	8,500	
Wong		18,500
Premises	1,080,000	
Vehicles	504,000	
Furniture	144,000	
Stock	272,379	
Debtors	320,000	
Bank	8,880	
Loan - Cheung		360,000
Creditors		249,259
	2,337,759	2,337,759

After preparing the above trial balance, the following adjustments to net profit needed to be made:

(i) A provision for doubtful debts was to be made at 5% of debtors.

(ii) Salaries included $6,000 cash drawings by Wong in March 1997.

At the date of the trial balance, Cheung retired and Go was admitted to the partnership with Wong. The following details were agreed on:

(i) The following assets were to be revalued at:

	$
Premises	1,480,000
Vehicles	380,000
Stock	212,379

(ii) Wong and Ho were to share profits and losses equally.

(iii) The goodwill of the old partnership was estimated to be worth $200,000, but no goodwill account was to be maintained.

(iv) Cheung was to take over a vehicle valued at $128,000. The balance owing to him was to be retained as a loan to the new partnership, except for $445,000 which was to be settled in cash.

(v) Wong was to withdraw cash so that his fixed capital balance would be maintained at $800,000.

(vi) Ho was to introduce $650,000 cash as capital, but no extra cash was to be paid in for his share of goodwill.

Required:

(a) the partnership profit and loss appropriation account of Cheung and Wong for the year ended 31 March 1997; (2 marks)

(b) revaluation account of the partnership; (3 marks)

(c) the partners' capital and current accounts in columnar form; and (8 marks)

(d) a balance sheet for the new partnership of Wong and Ho as at 31 March 1997. (7 marks)

1998 Q.2

Allen and Davis have been partners sharing profits and losses in the ratio of 3:2 respectively. Their balance sheet as at 31 December 1997 was as follows:

	$		$	$
Goodwill	98,000	Capital account		
Plant and machinery (net)	50,400	Allen	95,000	
Stock	20,000	Davis	85,000	180,000
Debtors	26,000	Creditors		16,680
Cash at bank	2,280			
	196,680			196,680

They decided to admit Charles as a partner on 1 January 1998. Charles was to contribute $60,000 cash as capital and the new profit and loss sharing ratio for Allen, Davis and Charles was 5:3:2 respectively. Plant and machinery was to be revalued at $76,300 and stock of $2,000 was to be written off as obsolete. Provision was to be made for doubtful debts at 5% of the debts. Goodwill was revalued at $120,000, but would not be shown in the books of the new partnership.

Required:

Draw up the revaluation account and the partners' capital accounts (in columnar form) to reflect the admission of Charles. (Show the workings for goodwill adjustments.) (10 marks)

2001 Q.9

Bill and Dick were in partnership sharing profits and losses in the ratio of 2:1 respectively. The balance sheet as at 31 March 2001 was as follows:

Balance Sheet as at 31 March 2001

Fixed Assets	$	$	**Capital Accounts**	$	$
Motor vehicles	800,000		Bill		343,000
Less: Provision for			Dick		432,000
depreciation	341,000	459,000			775,000
Equipment	160,000		**Current Accounts**		
Less: Provision for			Bill	3,780	
depreciation	70,900	89,100	Dick	2,700	6,480
		548,100			781,480
Current Assets	$	$	**Current Liabilities**		$
Stock	24,300		Creditors		22,140
Debtors	54,540				
Bank	176,680	255,520			
		803,620			803,620

On 31 March 2001, Bill retired and his son, Tim was admitted to the partnership on the following terms:

(i) Goodwill was estimated to have a value of $202,500. No goodwill account was to remain in the partnership books.

(ii) The equipment was to be revalued at $80,000 and motor vehicles were to be revalued at 5% above the net book value.

(iii) An item of stock costing $500 was considered as worthless.

(iv) Dick and Tim were to share profits and losses equally.

(v) Tim's capital was agreed at $300,000. This amount was to be transferred from the amount owing to Bill. A similar transfer was to be made to pay for Tim's share of goodwill.

(vi) Dick was to withdraw cash so that the capital account balances of Dick and Tim are in the ratio of 1:1.

(vii) The balance owing to Bill was to be retained as a loan to the new partnership.

Required to prepare:

(a) the revaluation account of the partnership of Bill and Dick; (4 marks)

(b) the capital accounts of Bill, Dick and Tim in columnar form; and (11 marks)

(c) a balance sheet for the new partnership of Dick and Tim as at 31 March 2001. (5 marks)

1998 Q.9 (amended)

Lee and Wong have been partners sharing profits and losses in the ratio of 3:2 respectively. Interest of 6% per annum was allowed on the credit balances in the capital accounts.

The trial balance at 31 March 1998 was as follows:

	$	$
Capital accounts - Lee		550,000
- Wong		380,000
Drawing - Lee	49,850	
- Wong	38,370	
Current accounts - Lee	9,275	
- Wong		1,350
Equipment - at cost	470,800	
- accumulated depreciation		164,270
furniture and fittings - at cost	267,500	
- accumulated depreciation		129,500
Motor vehicles - at cost	280,000	
Purchases	469,276	
Sales		1 261,550
Salaries	240,070	
Rent and rates	110,285	
Provision for doubtful debts		1,160
Trade debtors	57,250	
Trade creditors		218,720
Cash at bank	516,895	
Sundry expenses	7,241	
Discounts	2,220	1,384
Salary to Lee	84,000	
Electricity	26,444	
Stock	78,458	
	2,707,934	2,707,934

The following information was also given:

(i) Depreciation is to be charged as follows:

Equipment	- 10% per annum on a straight-line basis
Furniture and fitting	- 10% per annum on a reducing balance basis
Motor vehicles	- 25% per annum on a straight-line basis

(ii) Stock as at 31 March 1998 amounted to $92,621.

(iii) The following adjustments were to be made on 31 March 1998:

	$
Accrued salaries	2,330
Prepaid electricity	444

Provision for doubtful debts was to be maintained at 2% of trade debtors.

(iv) The sale of furniture for $3,000 had been recorded as cash sales. No other entry has yet been made. The furniture had cost $4,200 and $1,800 had been provided for depreciation.

Required to prepare:

(a) the trading, profit and loss and appropriation account for the partnership for the year ended 31 March 1998, and (10 marks)

(b) the balance sheet as at 31 March 1998. (10 marks)

2003 Q.6

Ted and Sam were in partnership providing employment agency service to clients. They shared profits and losses in the ratio of 4:5. The trial balance as at 31 March 2002 was as follows:

	$	$
Capital accounts: Ted		194,400
Sam		345,600
Current accounts: Ted		664
Sam	10,510	
Office equipment, net	340,160	
Accrued commission revenue	12,360	
Bank	194,634	
Accrued rent		17,000
	557,664	557,664

Commission revenue of $3,600 had not yet been accrued in the books at 31 March 2002.

On 1 April 2002, Ted retired and Susan was admitted to the partnership on the following terms:

(i) Goodwill was estimated to have a value of $180,000. No goodwill account was to remain in the partnership books.

(ii) No other assets or liabilities were to be revalued.

(ii) Susan was to bring in furniture and fittings of $200,000 and $100,000 cash as her capital and share of goodwill.

(iv) Sam and Susan were to share profits and losses in the ratio of 3:2.

(v) The amount due to Ted was to be repaid in full immediately.

(vi) Interest of 5% per annum was to be allowed on the credit balances in capital accounts of the new partnership.

(vii) Susan was entitled to an annual salary of $96,000.

During the year ended 31 March 2003, the partnership had the following receipts and payments:

		$
Receipts:	Commission revenue	709,360
Payments:	Rent	96,000
	Staff salaries	276,960
	Sundry expenses	7,200
	Drawings - Susan	9,000

The balance at bank amounted to $338,170 at 31 March 2003.

On 31 March 2003, commission revenue of $4,800 and rent of $10,000 were to be accrued. Depreciation is to be provided on the book value of the fixed assets at 25% per annum.

You are required to prepare:

(a) the profit and loss and appropriation account of the partnership for the year ended 31 March 2003; (10 marks)

(b) the partners' capital accounts and current accounts in columnar form for the year ended 31 March 2003; and (13 marks)

(c) the balance sheet of the partnership as at 31 March 2003. (6 marks)

1992 Q.8

Aron, Bob and Carmen were partners, sharing profits and losses in the ratio 3:1:1. The balance sheet as at 31 December 1991 was as follows:

Balance sheets as at 31 December 1991

Fixed assets	$	$
Premises	360,000	
Less : Accumulated depreciation	20,000	340,000
Motor car	55,000	
Less : Accumulated depreciation	11,000	44,000
Current assets		
Stock		136,500
Debtors	345,000	
Less: Provision for doubtful debts	2,530	342,470
Cash		52,130
		915,100
Less: **Current liabilities**		
Trade creditors	253,500	
Bank overdraft	120,000	373,500
Net assets		541,600
Represented by:		
Capital - Aron	200,000	
- Bob	85,000	
- Carmen	115,000	400,000
Current account - Aron	53,240	
- Bob	(120,000)	
- Carmen	75,600	8,840
Loan from Aron		132,760
		541,600

Bob was declared insolvent on 31 December 1991 and the partners decided to dissolve the partnership. Bob's deficiency was to be borne by Aron and Carmen in the ratio 3:1.

Assets and liabilities were disposed of as follows:

(i) The premises was sold at $253,000 and legal charges amounted to $26,000.

(ii) Aron took over the stock in trade to set off his loan to the partnership.

(iii) It was agreed to give Carmen the motor car as a gift.

(iv) The partnership appointed a debt-collecting company to collect the debts on the books. Except for $56 200, all debts were collected. A commission of 30% on the amount collected was charged by the debt-collecting company.

(v) Carmen settled all the trade creditor accounts at $250,000 out of her own savings. It was agreed that interest was to be charged at 1% of the amount loaned.

(vi) Realisation expenses of $25,000 were paid.

(vii) A sum of $23,400 was recovered from bad debts written off in previous years.

(viii) All monies received were banked.

Required:

Prepare the following accounts in respect of the above dissolution:

(a) the realization account; (10 marks)

(b) the bank account; and (4 marks)

(c) the partners' capital accounts. (6 marks)

(Calculations to the nearest dollar)

1995 Q.8 (amended)

Chan, Lee and Wong, having carried on business as toys and stationery retailer for a number of years, decided to dissolve their partnership on 30 April 1995. They had been sharing profits and losses equally.

At the date of dissolution, their draft balance sheet was as follows:

Balance sheet as at 30 April 1995

	$	$		$
Goodwill		6,000	Capital accounts:	
Leasehold premises		21,000	Chan	30,000
Equipment:			Lee	25,000
Toys department	7,250		Wong	2,900
Stationery department	4,400	11,650		57,900
Stock:				
Toys department	4,800		Creditors	16,400
Stationery department	5,600	10,400		
Debtors		6 250		
Bank		19,000		
		74,300		74,300

It was further agreed that the partnership be dissolved on the following terms:

(i) Goodwill was to be written off.

(ii) Dissolution expenses amounted to $2,200.

(iii) Chan was to take over the leasehold premises at $18,000, toys stock at $5,200 and toys equipment at $5,700.

(iv) Lee was to take over the stationery stock at $6,100 and the equipment of that department at $3,890.

(v) The debtors realised $5,550; the proceeds being retained by chan. The loss on debtors was to be shared by Chan, Lee and Wong in the ratio of 3:2:2.

(vi) The creditors were to be paid by Chan.

(vii) Since Wong was insolvent, he was only required to contribute $500 towards his share of partnership loss.

Required to prepare:

(a) the realisation account; (6 marks)

(b) the bank account; and (3 marks)

(c) the partners' capital account, including the final settlement among them. (11 marks)

1999 Q.8

Edmond and Fred were in partnership sharing profits and losses in the ratio of 2:1. They made up their accounts annually to 31 March.

The following trial balance was extracted on 31 March 1999:

	$	$
Partners' capital accounts:		
Edmond		68,200
Fred	22,000	
Loose tools, valued as at 31 March 1998	48,400	
Leasehold premises	110,000	
Motor vehicle - at cost	79,800	
- provision for depreciation		37,920
Stock as at 31 March 1999	13,640	
Debtors	3,960	
Loan - Edmond at 8% p.a.		74,000
Bank overdraft		57,640
Creditors		14,080
Gross profit		120,120
Operating expenses	114,400	
Partners' drawings		
Edmond	13,200	
Fred	10,560	
	393,960	393,960

On 31 March 1999, loose tools were valued at $39,600. Provision of $15,960 was to be made for depreciation of the motor vehicle and $2,640 was to be accrued for operating expenses.

The partnership was dissolved on 1 April 1999 on the following terms:

(i) Edmond took over the stock for $11,000.

(ii) Fred took over the motor vehicle for $24,000 and part of the loose tools for $16,500.

(iii) The leasehold premises were sold for $143,000.

(iv) The remaining loose tools were sold for $18,700.

(v) $3,800 was collected from debtors, the balance being taken over by Edmond.

(vi) Edmond's loan and interest for the year were repaid.

(vii) Other liabilities were paid in full.

(viii) Realisation expenses amounted to $4,201.

Required to prepare:

(a) a profit and loss account for the year ended 31 March 1999; (3 marks)

(b) a realisation account; (8 marks)

(c) the bank account; and (5 marks)

(d) the partners' capital accounts (in columnar form) showing the final settlement on dissolution. (4 marks)

2000 Q.9

Chau, Lok and Yeung were partners sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve their partnership on 30 April 2000.

At the date of dissolution, their draft balance sheet was as follows:

	$	$
Fixed Assets		
Office premises	542,250	
Motor vehicles	198,225	740,475
Goodwill		146,000
Current Assets		
Stock	61,575	
Debtors	67,800	
Bank	9,525	
	138,900	
Less: **Current Liabilities**		
Creditors	137,600	1,300
		887,775
Capital Accounts: Lok		157,105
Chau --- Chau		700,670
Yeung --- Lok		30,000
		887,775

It was agreed that the partnership be dissolved on the following terms:

(i) Goodwill was to be written off.

(ii) The motor vehicles were taken over by the partners at agreed values as Chau $60,000 and Lok $72,000.

(iii) The office premises were sold at a profit of $60,600.

(iv) Paying by personal cheque, Chau took over at book value stock amounting to $20,000. The remaining stock was sold for 80% of the book value.

(v) The debtors were realised at $54,240.

(vi) Realisation expenses amounted to $36,500.

(vii) Lok was to take over the creditors at book value. A discount of 5% was allowed to him by the creditors on settlement.

(viii) Since Yeung was insolvent, he was only required to contribute $1,000 towards the partnership. His deficiency was to be borne by the other partners in their profit and loss sharing ratio.

Required to prepare:

(a) the realisation account; (8 marks)

(b) the bank account; and (5 marks)

(c) the partners' capital accounts in columnar form, including the final settlement among them. (7 marks)

2002 Q.7
Au, Fok and Mak were partners sharing profits and losses in the ratios of 2:1:2 respectively. The balance sheet of their business as at 30 April 2002 was as follows:

	$	$	$
Fixed assets			
Plant and machinery			272,250
Furniture			60,750
Motor vehicles			96,750
			429,750
Current assets			
Stock		108,000	
Debtors		31,500	
Bank		78,975	
		218,475	
Less: **Current liabilities**			
Loan - Fok	90,000		
Creditors	72,000	162,000	56,475
			486,225
Capital accounts: Au			195,750
Fok			117,000
Mak			144,000
			456,750
Current accounts: Au		16,325	
Fok		12,600	
Mak		550	29,475
			486,225

On 1 May 2002, the partners decided to dissolve the partnership on the following terms:

(i) Au was made responsible for collecting the debts due to the firm. He was entitled to commission of 2% on all sums received. Consequently, a cash discount of $1,000 was allowed and debts amounting to $3,500 proved to be uncollectible.

(ii) Plant and machinery were sold at a price of 20% below book value.

(ii) The furniture was taken over by Au and Fok at agreed values of $29,000 and $20,000 respectively.

(iv) Mak took over the motor vehicles at only $10,000, but he was also personally responsible for paying off 60% of the creditors.

(v) The remaining creditors were settled by the firm and a discount of 5% was received.

(vi) A customer bought the stock at a price of 75% of the book value.

(vii) Fok's loan was repaid.

(viii) Realization expenses amounted to $29,600.

Required to prepare:

(a) the realization account; (14 marks)

(b) the bank account; and (7 marks)

(c) the partners' capital accounts in columnar form, showing the final settlement among them. (8 marks)

2004 Q.7

(A) What is goodwill? Under what circumstances will it be recorded in a partnership? How should it be classified in a balance sheet? (6 marks)

(B) Charles and Don were in partnership sharing profits and losses in the ration of 2:3 respectively. Their balance sheet as at 31 March 2004 was as follows:

	$	$	$
Fixed Assets			
Equipment		208,000	
Less: Provision for depreciation		92,170	115,830
Motor vehicles		920,000	
Less: Provision for depreciation		592,150	327,850
			443,680
Current Assets			
Stock		22,980	
Debtors	62,800		
Less: Provision for doubtful debts	4,396	58,404	
Prepaid insurance		505	
Bank		239,245	
		321,134	
Current Liabilities			
Loan - Charles	250,000		
Creditors	40,380	290,380	
Net current assets			30,754
			474,434
Financed by:			
Capital Accounts			
Charles		172,000	
Don		280,000	452,000
Current Accounts			
Charles		(43,434)	
Don		65,868	22,434
			474,434

On 31 March 2004, Charles retired and his friend, Eric, was admitted to the partnership on the following terms:

(i) Goodwill was estimated to have a value of $126,000. No goodwill account was to remain in the partnership books.

(ii) Stock was to be written down by $650 whereas provisions for doubtful debts was to be reduced to $3,196.

(iii) The prepaid insurance of $505 related to a policy which was not applicable to the new partnership.

(iv) The equipment was to be revalued at $80,000 and motor vehicles were to be revalued to 40% of the original cost.

(v) Don and Eric were to share profits and losses in the ration of 2:1 respectively.

(vi) Eric was to repay directly the loan owed to Charles and to bring in cash for his own share of goodwill.

(vii) The balance of Charles' capital account was to be settled immediately after his retirement.

You are required to prepare:

(a) the revaluation account for the partnership of Charles and Don; (5 marks)

(b) the capital accounts of Charles, Don and Eric in columnar form; and (11 marks)

(c) the balance sheet of the new partnership of Don and Eric as at 31 March 2004. (7 marks)

2005 Q.6

Ann, Bill and Carl are in partnership sharing profits and losses in the ratio of 3:2:1 respectively. The balance sheet as at 31 March 2004 was as follows:

	$	$	$
Fixed Assets			
Motor vehicles (net)			206,080
Equipment (net)			110,700
			316,780
Current Assets			
Stock		45,780	
Debtors		39,016	
		84,796	
Current Liabilities			
Bank overdraft	76,500		
Creditors	29,376	105,876	
			(21,080)
			295,700
Financed by:			
Capital Accounts			
Ann			128,000
Bill			126,000
Carl			54,000
			308,000
Current Accounts			
Ann		(16,400)	
Bill		7,200	
Carl		(3,100)	(12,300)
			295,700

On 1 April 2004, Carl retires on the following terms:

(i) Goodwill was estimated to have a value of $24,000 and a goodwill account was to be opened in the new partnership.

(ii) In order to improve the liquidity of the business, each remaining partner was to contribute cash amounting to 25% of the total liabilities of the partnership at 31 March 2004.

(iii) Ann and Bill were to share profits and losses equally.

(iv) The equipment was to be revalued at $124,000 and motor vehicles were to be revalued downwards by $31,080.

(v) An item of stock costing $800 was estimated to have a net realisable vale of $580.

(vi) The balance of Carl's capital account was to be settled immediately after his retirement.

You are required to prepare:

(a) the revaluation account of the partnership; and (5 marks)

(b) the capital accounts of Ann, Bill and Carl in columnar form to record Carl's retirement. (6 marks)

During the year ended 31 March 2005, the partnership made a net profit of $30,864 and depreciation had been provided on the net book value of the fixed assets at 20% per annum. The following balances were extracted from the books as at 31 March 2005:

	$
Bank	11,992
Stock	64,000
Debtors	40,810
Creditors	46,400

On 31 March 2005, the partners decided to dissolve the partnership on the following terms:

(i) One of the motor vehicles was taken over by Ann at an agreed value of $79,000 and the remaining one was sold at 90% of its net book value of $60,900.

(ii) Bill took over the stock at an agreed value of $58,000 and so he was personally responsible for the partnership's realisation expense of $4,200.

(iii) The creditors were settled by cash and a 4% discount was received from half of the creditors.

(iv) The equipment was sold for $100,000.

(v) A cash discount of $500 was allowed on debtors and debts amounting to $2750 proved to be uncollectible.

You are required to prepare:

(a) the realisation account; and (12 marks)

(b) the capital accounts of Ann and Bill in columnar form for the year ended 31 March 2005. (6 marks)

2006 Q.6

Ann, Ben and Joe were partners sharing profits and losses in the ratio of 2:2:3. The balance sheet as at 30 April 2006 was as follows:

	$	$	$
Fixed Assets			
Office equipment			325,000
Furniture			72,900
Motor vehicle			116,800
			514,700
Current Assets			
Stock		126,000	
Debtors		37,000	
		163,000	
Current Liabilities			
Loan – Ann	100,000		
Creditors	86,000		
Bank overdraft	120,400	306,400	
Net current assets			(143,400)
			371,300
Financed by:			
Capital Accounts			
Ann			160,000
Ben			95,000
Joe			80,000
			335,000
Current Accounts			
Ann		32,800	
Ben		19,500	
Joe		(16,000)	36,300
			371,300

The liquidity of the partnership worsened during the past two years and so the partners decided to dissolve the partnership on 1 May 2006. The following information was provided:

(i) The office equipment was sold at a price of 30% below book value.

(ii) Ann took over the motor vehicle to set off her loan to the partnership.

(iii) Most of the furniture was sold at an agreed value of $35,000. The remaining furniture was denoted to a charitable organisation and Ben paid $200 on behalf of the partnership for transporting the furniture.

(iv) Part of the stock was sold at 90% of its net realisable value of $100,000. The remaining stock was taken over by Ben at an agreed value of $9,750.

(v) A debt of $2,000 was to be written off and a cash discount of 2% was allowed on the remaining debtors.

(vi) The creditors were settled and a discount of 5% was received on 50% of the creditors.

(vii) Realisation expenses amounted to $2,100.

(viii) Joe was unable to meet his liability to the partnership. His deficiency was to be borne by Ann and Ben in their profit and loss sharing ratio.

You are required to prepare:

(a) the realisation account; (13 marks)

(b) the bank account; and (5 marks)

(c) the partners' capital accounts in columnar form, showing the final settlement among them. (11 marks)

2007 Q.6

Ernest and Fred are in partnership sharing profits and losses in the ratio of 3:2 respectively. The following balances were extracted from the books as at 31 March 2007:

	$	
Machinery, at cost	751,500	
Office equipment, at cost	502,800	
Accumulated depreciation, 1 April 2006		
Machinery	333,160	
Office equipment	254,800	
Stock, 1 April 2006		
Raw materials	81,100	
Work in progress	46,610	
Finished goods	163,750	
Sales	2,741,200	
Trade debtors	136,400	
Trade creditors	196,670	
Carriage inwards	19,020	
Returns inwards	26,120	
Wages and salaries	675,240	
Purchases of raw materials	1,005,600	
Administrative expenses	120,930	
Selling expenses	92,690	
Provision for doubtful debts, 1 April 2006	3,760	
Cash at bank	72,540	
Capital accounts, 1 April 2006		
Ernest	180,000	
Fred	150,000	
Current accounts, 1 April 2006		
Ernest	20,000	(Dr)
Fred	30,000	
Drawings, 1 April 2006		
Ernest	15,000	
Fred	12,000	
8% - Fred (borrowed on 1 October 2006)	150,000	
Interest on 8% loan	3,330	
Repairs to machinery	5,320	
Rent and rates (factory 1/4; office 3/4)	275,800	
Carriage outwards	13,840	

Additional information:

(i) Stock as at 31 March 2007:

	$
Raw materials	67,490
Work in progress	52,140
Finished goods	170,300

A damaged and worthless item with a cost of $280 was included in the finished goods.

(ii) Depreciation is to be charged as follows:

Machinery – 20% per annum on a straight-line basis
Office equipment – 10% per annum on a reducing-balance basis

(iii) Interest on partners' capital is to be calculated at 5% per annum.

(iv) Cash purchases of raw materials for the partnership at a cost of $5,200 had been recorded as Ernest's drawings.

(v) No entries had been made in respect of a cash sale of $1,000, of which the proceeds were retained by Fred.

(vi) The following adjustments were to be made on 31 March 2007:

	$
Accrued rent and rates	4,200
Prepaid wages to direct labour	2,500
Bonus to Fred	50,000

Provision for doubtful debts was to be maintained at 5% of trade debtors.

(vii) Analysis of the wages and salaries revealed:

	$
Direct labour	200,000
Indirect labour	80,040
Factory supervisor	72,000
Office staff	143,200
Salaries to Ernest	80,000
Salaries to Fred	100,000
	675,240

(viii) A sale of office equipment on credit for $30,000 on 31 March 2007 had not yet been recorded. The office equipment had a cost of $84,000 and an accumulated depreciation of $56,000 at 1 April 2006.

You are required to:

Prepare the following accounts of the partnership for the year ended 31 March 2007:

(a) the manufacturing account, showing clearly the cost of raw materials consumed, the prime cost and the production cost of finished goods; (8 marks)

(b) the trading, profit and loss and appropriation account; and (14 marks)

(c) the partners' current accounts in columnar form. (7 marks)

2008 – Q.6

Dave and Eva were in partnership sharing profits and losses in the ratio of 2:1 respectively. Their balance sheet as at 31 December 2006 was as follows:

	$	$		$	$
Fixed Assets			**Capital Accounts**		
Office equipment (net)		202 000	Dave	300 000	
Motor vehicles (net)		156 000	Eva	63 000	363 000
		358 000			
Current Assets			**Current Accounts**		
Stock	41 600		Dave	26 600	
Debtors	40 000	81 600	Eva	(48 000)	(21 400)
			Current Liabilities		
			Bank Overdraft	36 000	
			Creditors	62 000	98 000
		439 600			439 600

On 1 January 2007, Dave invited Fred, the manager, to join the partnership on the following terms:

(i) Fred's initial capital was agreed at $100 000, although he would only bring in $25 000 cash as capital. The difference was settled by a personal loan from Dave to Fred, through a transfer between the capital accounts.

(ii) Goodwill was estimated at $60 000. No goodwill account was to remain in the books of the partnership. Fred would bring in additional cash for his share of goodwill.

(iii) Dave, Eva and Fred were to share profits and losses in the ratio of 2:1:1 respectively

(iv) Fred was to receive a salary of $5000 per month

No current accounts were to be maintained for the partners in the new partnership. The existing balances were to be transferred to the partners' respective capital accounts.

REQUIRED:

(a) Prepare the capital accounts of Dave, Eva and Fred in columnar form to record t Fred's admission. (8 marks)

During the year ended 31 December 2007, the partnership made a net loss of $88 000 before appropriations. Depreciation of $20 200 and $21 000 had been provided on office equipment and motor vehicles respectively. At 31 December 2007, Fred's salaries had not been paid for 8 months. The following balances were extracted from the books as at 31 December 2007:

	$
Stock	42 000
Debtors	57 000
Bank overdraft	124 200
Creditors	18 000

On 31 December 2007, Eva was declared bankrupt and the partnership was dissolved as follows:

(i) The office equipment was sold for $200 000.

(ii) Dave took over the motor vehicles at 90% of the net book value.

(iii) Fred was to take over the stock as a settlement of the salaries owed to him by the partnership.

(iv) All debtors settled their accounts and a cash discount of $200 was allowed.

(v) The creditors were settled by cash and a 5% discount was received.

(vi) Dave paid the realisation expense of $2600 on behalf of the partnership.

(vii) The deficiency in Eva's account was to be shared by Dave and Fred in their profit and loss sharing ratio.

REQUIRED:

Prepare

(b) the realisation account; and (10 marks)

(c) the capital accounts of Dave, Eva and Fred in columnar form for the year ended 31 December 2007, including the final distribution to partners upon dissolution. (11 marks)

Partnership

2009 – Q.4

Ivan and Joe were in partnership sharing profits and losses in the ratio of 2:3 respectively. The balance sheet as at 31 December 2008 was as follows-

	$	$		$	$
Fixed Assets			**Capital Accounts**		
Motor vehicles (net)		430 000	Ivan		300 000
Equipment (net)		270 000	Joe		240 000
		700 000			540 000
Current Assets			**Current Liabilities**		
Stock	40 000		Creditors	64 500	
Debtors	38 500		Bank loan	200 000	264 500
Bank	26 000	104 500			
		804 500			804 500

Owing to shortage of cash, Ivan and Joe agreed to admit Kerry as a partner on the following terms:

(i) Ivan, Joe and Kerry were to share profits and losses in the ratio of 3:2:1 respectively.

(ii) The motor vehicles were to be revalued to 80% of the book value and the equipment was to be revalued upwards by $20 000.

(iii) Stock was to be revalued to $35 000.

(iv) Only 98% of the debtors were expected to be collectible.

(v) Kerry was to introduce $200 000 as capital and his share of goodwill was to be $50 000.

(vi) No goodwill account was to be opened in the books of the partnership.

REQUIRED:

(a) Prepare the revaluation account of the partnership. (4 marks)

(b) For each of the following independent situations, prepare the journal entries related to the partners capital accounts to record the admission of Kerry:

(1) Kerry paid cash into the partnership for his capital contribution, plus the amount for his share of goodwill.

(2) Kerry paid cash into the partnership for his capital contribution.

(3) Kerry brought in motor vehicles of $120 000 and stock of $80 000 to the partnership as his capital contribution and paid Ivan and Joe privately for his share of goodwill.

(Note: Narrations are not required.)

(10 marks)

2010 – Q.4

Ron and Sue were in partnership sharing profits and losses in the ratio of 3:2 respectively. Their trial balance as at the financial year ended 31 December 2009 was as follows:

	Debit $	Credit $
Capital accounts:		
Ron		200 000
Sun		150 000
10% loan from Ron, repayable on 31 December 2012		90 000
Debtors and creditors	27 000	60 000
Bank		59 300
Motor vehicles (net)	160 800	
Office equipment (net)	346 500	
Stock	25 000	
	559 300	559 300

The 10% loan was borrowed on 1 June 2009 for the purchase of a new office equipment on 1 July 2009. Depreciation on office equipment was to be provided at 20% per annum on cost. No depreciation had yet been provided on the new office equipment and interest on the loan had not yet been accrued in the books as at 31 December 2009-

On 1 January 2010, Ron and Sue agreed to admit Tim, their former supplier, into the partnership on the following terms:

(i) Ron, Sue and Tim were to share profits and losses in the ratio of 3:3:2 respectively.

(ii) Goodwill was estimated to have a value of $180 000. No goodwill account was to be kept in the books of the partnership.

(iii) Tim was required to repay 80% of the amount owed to the creditors and to bring in trading goods with an agreed value of $33 000. He made a payment by cheque for his share of goodwill.

(iv) Stock was to be written down to $24 500 whereas bad debts were estimated to be $1350.

REQUIRED:

(a) Prepare the capita] accounts of Ron, Sue and Tim in columnar form. (9 marks)

(b) Prepare a statement showing the calculation of the working capital of the new partnership as at 1 January 2010. (5 marks)

1. SP.Q5(b), (c), (d)

Leung had run a trading company as a sole trader for many years. The company made huge sales revenue amounting to $1 260 000 for the 3 months ended 31 March 20X6. He found that more than 80% of the revenue was contributed by the sales team headed by Chan, the sales manager. As the sales team was a valuable asset to the company, Leung suggested recording this at $420 000, which equals 1 month's sales revenue, in the company's statement of financial position as at 31 March 20X6.

On 1 April 20X6, Leung invited Chan to form a partnership. Their partnership agreement contains the following clauses:

(i) An interest of 10% per annum is paid on capital.
(ii) Leung and Chan share profits and losses in the ratio of 2:1.
(iii) Chan is entitled to a partner's salary of $300 000 per annum.

Goodwill was agreed at $60 000 on 1 April 20X6 and it was decided that no goodwill account would be kept in the books. The fixed capital of the partnership was $360 000, to be divided between Leung and Chan in their profit and loss sharing ratio. Chan would not inject any cash as capital. The excess or deficiency in fixed capital would be transferred to or from the respective partner's current account.

The partnership continued to use the books of accounts of Leung's business. The following is the trial balance at 31 December 20X6 before making any adjustment for goodwill on Chan's admission as a partner:

	$'000	$'000
Sales		4 200
Cost of goods sold	2 460	
Operating expenses	660	
Chan's salary payments during the year	318	
Drawings: Leung	160	
Chan	14	
Capital: Leung		280
Current assets	750	
Non-current assets	811	
Current liabilities		693
	5 173	5 173

All sales were made on a fixed mark up and operating expenses were accrued evenly over the year.

(b) Prepare the trading and profit and loss account of Leung's sole trader business for the three months ended 31 March 20X6. (3 marks)
(c) Prepare the partnership's trading, profit and loss and appropriation account for the nine months ended 31 December 20X6. (5 marks)
(d) Draw up Leung and Chan's capital accounts for the year 20X6. (4 marks)

2. PP.Q6 (Modified wordings of question (a)(3))

Alice, Brian and Clara had been in partnership for 10 years, sharing profits and losses in the ratio of 3:2:1 respectively. The balance sheet as at 31 December 2011 of the partnership was as follows:

	$		$
Premises, net	850 000	Capital accounts	
Plant and equipment, net	64 000	- Alice	276 000
Motor vehicles, net	82 100	- Brian	468 000
Inventory	33 600	- Clara	395 000
Trade receivables, net	23 800	Accrued expenses	21 400
Bank	135 500	Trade payables	28 600
	1 189 000		1 189 000

Alice retired from the partnership on 31 December 2011. Brian and Clara were to share profits and losses equally after Alice's retirement. Additional information was provided as follows:

(i) In recognition of Alice's long service to the partnership, a motor vehicle with a net book value of $22 000 was to be given to her free of charge and the amount was to be borne equally by Brian and Clara.
(ii) The premises and the plant and equipment were to be revalued to $1 400 000 and $107 000 respectively.
(iii) The allowance for doubtful debts was to be increased by $2600 and inventory costing $2400 was to be written off due to obsolescence.
(iv) Goodwill was to be valued at $420 000. No goodwill account was to be maintained in the books.
(v) It was agreed that $100 000 of the amount due to Alice upon her retirement was to be paid by cheque immediately while the remaining balance was to be left as a three-year loan to the new partnership.

REQUIRED:

(a) Prepare
(1) The revaluation account; (3 marks)
(2) the partners' capital accounts, in columnar form, as at 31 December 2011, showing all the adjustments regarding the retirement of Alice; and (5 marks)
(3) the statement of financial position of Brian and Clara as at 1 January 2012. (5 marks)

After her retirement from the partnership, Alice joined Dali Ltd as the sales director. She believed that her professional knowledge in the industry would bring benefits to the company. Therefore, she suggested valuing her expertise at $6 000 000 and recognising it in the financial statements as an intangible asset.

REQUIRED:

(b) With reference to one relevant accounting principles / concepts, briefly explain to Alice whether the amount of $6 000 000 should be recognised in the financial statements as an intangible asset. (3 marks)

3. 2012.Q7

Andy, Bob and Carol were in partnership sharing profits and losses in the ratio of 2:3:5. The summarised balance sheet as at 31 December 2011 was as follows:

Andy, Bob and Carol
Balance Sheet as at 31 December 2011

	$	$
Assets		
Plant and machinery, net		129 000
Office equipment, net		134 500
Inventories		92 000
Trade receivables		40 500
Cash at bank		2 200
		398 200
Liabilities		
Loan from Andy	60 000	
Loan from Bob	50 000	
Trade payables	50 200	
Accrued expenses	11 500	171 700
		226 500
Financed by		
Capital accounts:		
- Andy	178 000	
- Bob	22 000	
- Carol	12 000	212 000
Current accounts:		
- Andy	14 300	
- Bob	6 500	
- Carol	(6 300)	14 500
		226 500

As profits of the partnership had been declining, the partners decided to dissolve the partnership on 1 January 2012.

On the date of dissolution,

(i) Andy took over all the office equipment as full settlement of his loan to the partnership.

(ii) Carol took over half of the inventories at $11 500.

(iii) Bob had collected from the customers a total of $36 100 after deducting bad debts of $4400. He agreed that the amount collected would be used as part of the settlement of his loan to the partnership.

In the course of dissolution, all the remaining assets were sold for $285 700 and all the liabilities were settled by cheque. Cash discounts amounting to $720 were allowed by suppliers and realisation expenses of $4920 were paid.

For the purpose of dissolution, all the balances of the partners' current accounts were to be transferred to their respective capital accounts before any adjustment was to be made.

REQUIRED:

(a) Prepare the following accounts of the partnership to record the above:
 (1) Realisation account (7 marks)
 (2) Cash at bank account (5 marks)
 (3) The partners' capital accounts in columnar form (4 marks)

(b) Explain one advantage of maintaining both current accounts and capital accounts in a partnership. (2 marks)

4. 2013.Q4

Carrie and Daisy have been in partnership sharing profits and losses in the ratio of 3:2. On 1 January 2012, Carrie retired from the partnership and Ellen was admitted as a new partner. The balances of the partnership before the retirement and admission were as follows:

	Dr $	Cr $
Capital accounts as at 1 January 2012 – Carrie		700 000
– Daisy		650 000
Current accounts as at 1 January 2012 – Carrie	72 000	
- Daisy		247 000
Property, net	1 250 000	
Equipment, net	600 000	
Trade receivables	550 000	
Trade payables		275 000
Cash at bank	100 000	
Bank loan (repayable on 31 March 2016)		700 000

Upon the retirement of Carrie and the admission of Ellen, the partners agreed on the following:

(i) Ellen brought in $850 000 cash into the partnership.

(ii) The balance of Carrie's current account was to be transferred to her capital account on her retirement date.

(iii) Property was to be revalued at $2 320 000 and the net book value of equipment was to be decreased by 20%.

(iv) An allowance for doubtful debts of 4% was to be made.

(v) A cheque for $230 000 would be paid to Carrie immediately after her retirement and the remaining balance owed would be left as a long-term interest-free loan to the partnership.

(vi) Goodwill has to be valued at $350 000. No goodwill account was to be maintained in the books.

(vii) Interest on capital at 4% per annum was to be allowed and Daisy was entitled to a salary of $5000 per month.

(viii) Daisy and Ellen were to share profits and losses equally.

REQUIRED:

(a) Prepare the partners' capital accounts in columnar form from as at 1 January 2012, showing the retirement of Carrie and admission of Ellen. (6 marks)

(b) Prepare a statement of financial position as at 1 January 2012 after the retirement of Carrie and admission of Ellen. (6 marks)

(c) If the net profit for the year 2012 was $300 000, prepare the partners' current accounts in columnar form for the year ended 31 December 2012. (4 marks)

(d) Give one reason why asset revaluation is necessary upon the retirement of a partner. (2 marks)

5. 2014.Q5

Abby and Bobby are partners sharing profits and losses in the ratio of 2:3 respectively. The following terms are included in the partnership agreement:

- Interest on partners' capital is 8% per annum.
- Interest on partners' drawings is charged at 10% per annum.
- Abby is entitled to an annual salary of $60 000.

The following balances was extracted from the books of the partnership as at 31 December 2013:

	Dr	Cr
	$	$
Capital accounts - Abby		150 000
- Bobby		300 000
Current accounts - Abby	43 000	
- Bobby		27 000
Partners' salary – Abby	20 000	
9% bank loan		280 000
Inventory	84 000	
Accounts receivable	250 000	
Accounts payable		126 000
Net profit for the year		165 000
Drawings – Abby (withdrawn on 1 March 2013)	18 000	
Drawings – Bobby (withdrawn on 1 September 2013)	12 000	

Additional information:

(i) Interest on the 9% bank loan for the quarter ended 31 December 2013 had not been paid or provided for.

(ii) During the year, goods invoiced at $20 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 25% on cost and recorded as sales for the year. As at 31 December, only 80% of these goods were accepted by the customer.

REQUIRED:

(a) Prepare a statement to calculate the partnership's adjusted net profit for the year ended 31 December 2013. (2 marks)

(b) Prepare the partnership's appropriation account for the year ended 31 December 2013. (4 marks)

(c) Update the partners' current accounts in columnar form as at 31 December 2013. (5 marks)

6. 2015.Q5

Ron, Sam and Tim were partnership sharing profits and losses in the ratio of 1:2:3 respectively. An extract of the account balances as at 31 December 2014 is given below:

	$
Capital accounts:	
- Ron	112 300
- Sam	30 000
- Tim	190 700
Office equipment, net	465 000
Inventory	83 000
Trade receivables	62 000
Cash at bank	4 000
Loan from Tim	80 000
Trade payables	201 000

On 1 January 2015, Sam was declared bankrupt and the partnership was dissolved. The relevant information is as follows:

(i) Ron took over the office equipment at 50% of its net book value.

(ii) Tim took over all the inventory to settle 60% of his loan to the partnership. The partnership paid the outstanding loan balance by cheque.

(iii) Ron was responsible for collecting all the trade receivables for the partnership. Finally he collected $60 000 and deposited the amount into the partnership's cash at bank account. The partnership agreed to pay him a handling fee of 2% on the amount collected.

(iv) The partnership received a 2.4% discount on the trade payables, which were settled by Tim on behalf of the partnership.

(v) Realization expenses of $3800 were paid by cheque.

(vi) Sam was unable to settle his account and it was agreed that his deficiency was to be borne by the remaining partners according to their profit and loss sharing ratio.

REQUIRED:

Prepare the following accounts:

(a) realization account (5 marks)

(b) the partners' capital accounts in columnar form (5 marks)

7. 2016.Q5

Chu and Yan have been in partnership for many years, sharing profits and losses in the ratio of 3:2. The statement of financial position as at 31 December 2015 was drafted as follows:

	$
Property, net	782 000
Inventory	266 600
Trade receivables	230 000
Cash	41 400
	1 320 000
Capital – Chu	705 000
– Yam	45 000
Bank loan	15 000
Trade payables	555 000
	1 320 000

On 1 January 2016, Mak was admitted as a new partner on the following terms:

(i) Chu, Yam and Mak would share profits and losses in the ratio of 3:2:1.

(ii) Goodwill was to be valued at $150 000. No goodwill account was to be maintained in the books.

(iii) Property and inventory were to be revalued at $2 020 000 and $133 200 respectively.

(iv) An allowance for doubtful debts of 1% was to be made.

(v) Professional fees of $26 200 were paid in cash for the revaluation of assets.

(vi) The initial capital of the new partnership would be $1 500 000, to be contributed by Chu, Yam and Mak in the ratio of 40%, 35%, and 25% respectively. Any surplus or deficit would be adjusted through partners' injection or withdrawal of cash.

REQUIRED:

(a) Prepare the following accounts:

(i) Revaluation account for the admission of Mak

(ii) Capital accounts of the partners as at 1 January 2016 in columnar form, showing the admission of Mak (8 marks)

(b) Give two factors that affect the value of goodwill of a company. (2 marks)

(Total: 10 marks)

8. 2017.Q8

Bill and Ben have been in partnership sharing profits and losses in the ratio of 1:3. On 1 January 2016, Bill retired from the partnership and Tom was admitted as a new partner. Profits and losses were to be shared equally in the new partnership.

Upon the retirement of Bill and admission of Tom, the partners agreed on the following terms:

(i) Tom had to bring in $240 000 cash as capital and was entitled to a monthly salary of $2000.

(ii) Equipment was to be revalued at $248 000.

(iii) Goodwill was to be valued at $96 000 and no goodwill account was to be maintained in the books. The adjustments for goodwill were to be made in the capital accounts directly.

(iv) The amount due to Bill by the partnership was to be left in a loan account, bearing an interest of 2% per annum.

The new partnership continued to use the books without making any entries in respect of the retirement of Bill and admission of Tom. The trial balance as at 31 December 2016 was prepared as follows:

	Dr $	Cr $
Capital accounts at 1 January 2016 – Bill		162 000
- Ben		466 000
Current accounts at 1 January 2016 – Bill		42 000
– Ben	20 000	
Equipment, net	120 000	
Trade receivables	70 000	
Inventory	98 000	
Cash at bank	21 000	
Trade payables		30 000
Net loss before interest	371 000	
	700 000	700 000

Depreciation had been provided on equipment till 31 December 2016 at 20% on its net book value.

REQUIRED:

(a) Prepare the partners' capital accounts in columnar form, showing the necessary adjustments for the retirement of Bill and admission of Tom. (6 marks)

(b)(i) Prepare the appropriation account of the partnership for the year ended 31 December 2016. (3 marks)

(ii) Update the partners' current account of Ben and Tom in columnar form. (2 marks)

(c) State any two items, other than those appearing in (b)(ii) above, that would be recorded in a partner's current account. (2 marks)

The partnership was not operated well and heavy loss resulted. The partnership was dissolved on 1 January 2017. The following arrangements were made:

(i) Equipment was taken over by Ben at $174 000.

(ii) Total amounts received from trade receivables and sales of inventory were $96 000.

(iii) Trade payables were settled in full at $29 000.

(iv) Expenses for realisation of assets $6000 were paid.

(v) After negotiation, the loan interest due to Bill was waived and the loan from Bill was settled in full.

REQUIRED:

(d) Prepare the realisation account. (4 marks)

(e) Prepare the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution. (3 marks)

(Total: 20 marks)

9. 2018.Q4

Jay and Joe were in partnership sharing profits and losses in the ratio 3:2, the balances of their capital accountants as at 1 January 2017 were $229 000 and $144 000 respectively. On the same date, Tom was admitted to the partnership with the following arrangements:

(i) Jay, Joe and Tom would share profits and losses in the ratio of 3:3:4 and Tom would be paid a monthly salary of $22 000 by cheque at the end of each month.

(ii) Goodwill was to be valued at $80 000. All other assets were to be revalued upwards by $120 000.The new partnership would not keep a goodwill account.

(iii) Interest on drawings of 5% per annum would be charged while interest on capital of 4% per annum would be calculated on the beginning balances of the capital accounts.

(iv) Tom had to bring in sufficient funds so shat his capital account balances would amount to 40% of the total capital of the new partnership.

(v) The new partnership would maintain fixed capital accounts.

REQUIRED:

(a) Prepare the partners' capital accounts in columnar form, showing the admission of Tom. (4 marks)

After a year of operation, the following information was extracted from the books of the new partnership for the year ended 31 December 2017:

	$
Sales	4 002 600
Cost of goods sold	1 085 400
Operating expenses (including annual salary paid to Tom)	2 412 000
Interest expenses (including the interest on capital)	75 600
Drawings: Jay (withdrawn on 1 May 2017)	180 000
Joe (withdrawn on 1 July 2017)	120 000

REQUIRED:

(b) Prepare the appropriation account of the partnership for the year ended 31 December 2017. (6 marks)

(c) Briefly explain whether the balance of Tom's current account as at 31 December 2017 would include the annual salary he was entitled to for 2017. (1 mark)

(Total: 11 marks)

10. 2019.Q7

Ron, Ann and Ben had been in partnership for many years sharing profits and losses in the ratio of 2:2:1. The account balances of the partnership as at 31 December 2018 are as follows:

	$
Property, net	1 000 000
Equipment, net	360 000
Motor vans, net	574 000
Inventory	283 000
Trade receivables	240 000
Trade payables	88 000
Capital - Ron	1 160 000
- Ann	798 000
- Ben	698 000
Cash at bank	287 000

On 1 January 2019, Ron retired and Carol was admitted into the partnership with the following arrangements:

(i) The property was to be revalued upwards by $346 000 while the motor vans were to be revalued at $390 000.

(ii) An allowance for doubtful debts of $42 000 was to be made. A bad debt recovery of $2 000 would be collected in early 2019.

(iii) Goodwill was valued at $180 000 but it was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.

(iv) $900 000 of the amount due to Ron would be left as a half-year loan to the partnership, with an annual interest of 10%. The balance was to be paid on his retirement date.

(v) Carol brought in a piece of equipment valued at $50 000 together with additional funds so that her capital account would have a balance of $700 000.

(vi) The profit-sharing ratio of Ann, Ben and Carol is 3:2:1. Ben is entitled to an annual salary of $30 000 and Carol is guaranteed a share of profits of not less than $50 000 per quarter.

REQUIRED:

(a) Prepare the following to record the retirement of Ron and the admission of Carol:

(i) The revaluation account (3 marks)

(ii) The partners' capital accounts in columnar form (6 marks)

(iii) The statement of financial position for the new partnership as at 1 January 2019 (6 marks)

(b) Suppose the new partnership's net profit before interest for the quarter ended 31 March 2019 was $270 000. Prepare the appropriation account for the partnership for the quarter ended 31 March 2019. (3 marks)

(c) Give two reasons why a goodwill account is not maintained in the books of a partnership. (2 marks)

(Total: 20 marks)

11. 2020.Q6

Yip, Tim and Sum have been in partnership sharing profits and losses in the ratio of 1:2:3. The statement of financial position as at 31 December 2019 is drafted as follows:

Yip, Tim and Sum
Statement of financial position as at 31 December 2019

	$	$
Assets		
Furniture, net		468 000
Office equipment, net		180 000
Inventory		53 500
Trade receivables		36 500
		738 000
Liabilities		
Trade payables	53 000	
Loan from Tim	31 000	
Bank overdraft	42 000	126 000
		612 000
Financed by		
Capital accounts - Yip	80 000	
- Tim	190 000	
- Sum	280 000	550 000
Current accounts - Yip	(34 300)	
- Tim	47 700	
- Sum	48 600	62 000
		612 000

Due to increasing conflicts, the partners decided to dissolve the partnership on 1 January 2020. The relevant in information is as follows:

(i) The furniture was sold at 30% below its net book value.
(ii) All office equipment was scrapped with a charge of $23 400.
(iii) One third of the inventory was sold for $10 000. The remaining inventory was taken over by Tim to set off his loan to the partnership.
(iv) Sum took over all trade receivables at $30 500 and he collected $32 900 in the end.
(v) Trade payables were fully settled, of which 40% was settled at a 5% discount.
(vi) Realisation expenses of $6 800 were paid.
(vii) Yip was insolvent and it was agreed that his deficiency was to be borne by the remaining partners equally.

REQUIRED:

Prepare the following accounts:

(a) Realisation account (6 marks)

(b) The partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution (5 marks)

(Total: 11 marks)

12. 2021.Q8

Wong and Yu were in partnership, sharing profits and losses equally. The trial balance of the partnership as at 31 December 2019 is as follows:

	$	$
Capital - Wong		800 000
Capital - Wu		300 000
Current - Wong		132 000
Current - Wu	147 000	
Net profit before appropriations		90 000
Office equipment, net	890 000	
Inventory, 31 December 2019	260 000	
Trade receivables	315 000	
Trade payables		225 000
10% loan from Wu (borrowed on 1 July 2019)		40 000
Bank		25 000
	1 612 000	1 612 000

Subsequent to the preparation of the trial balance above, the partners discovered that the following items had not yet been recorded:

(i) Interest on drawings, 5% per annum:

Wong - withdrew $150 000 on 1 May 2019

Wu - withdrew $96 000 on 1 November 2019

(ii) Interest on partners' capital for 2019, 6% per annum.

(iii) Interest on the loan borrowed from Wu.

REQUIRED:

(a) Prepare the current accounts of Wong and Wu in columnar form for the year ended 31 December 2019. (4 marks)

On 1 January 2020, Chau was admitted to the partnership with the following arrangements:

(iv) The office equipment was to be revalued at $1 005 000.

(v) An allowance for doubtful accounts of 2% was to be made.

(vi) Goodwill was valued at $160 000 but the goodwill account was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.

(vii) Chau brought in a piece of office equipment valued at $150 000, together with additional funds by cheque so that his capital account would have a balance of $400 000.

(viii) The profit and loss sharing ratio of Wong, Wu and Chau is 3:3:2. Chau is entitled to an annual salary of $50 000.

(ix) Neither interest on drawings nor interest on capital is allowed for the new partnership.

REQUIRED:

(b) Prepare the capital accounts of Wong, Wu and Chau in columnar form, to record the admission of Chau. (4 marks)

(c) Give one reason why asset revaluation is necessary upon the admission of a new partner. (2 marks)

During 2020, the partnership did not operate well and made a net loss of $284 000 before appropriation. The following account balances were extracted from the books as at 31 December 2020:

	$
Office equipment, net	800 000
Inventory	168 000
Trade receivables, net	340 000
Trade payables	250 000
Bank	379 700

On 31 December 2020, the partners decided to dissolve the partnership. The relevant information is as follows:

(x) The office equipment was sold at 16% below its netbook value and a transportation charge of $32 000 was deducted from the proceeds.

(xi) Two thirds of the inventory was sold for $100 000. Chau took over the remaining inventory at $54 000 and paid the realisation expense of $3 600 on behalf of the partnership.

(xii) Total amount received from trade receivables was $331 600.

(xiii) Trade payables were fully settled, of which 40% was settled with a 5% discount.

REQUIRED:

Prepare:

(d) The realisation account. (5 marks)

(e) The partners' capital account in columnar form, showing the necessary adjustments for the dissolution. (5 marks)

2022

5. On 1 April 2021, Amy, Ben and Bill formed a partnership to operate a retail shop. Its financial year ends on 31 December.

The partnership agreement includes the following terms:

- Amy, Ben and Bill will share profits and losses in the ratio of 2:3:5. Regardless of the performance of the partnership, Bill is guaranteed a minimum share of profit of $70 000 for the first nine months of operations.
- Neither interest on capital nor interest on drawings is calculated.
- The initial total capital of the partnership is $600 000, to be contributed by the partners equally by bringing in either cash or non-current assets to the business.
- Amy is entitled to a monthly salary of $30 000, payable on the last day of each month.

To start the business, Amy brought in new office furniture for $120 000 and Ben brought in a computer which was acquired for $15 000 two years ago. The fair value of the computer on 1 April 2021 was $9 000.

After operating for nine months, the information about the partnership for the period ended 31 December 2021 is as follows:

(i) All transactions were made in cash.

(ii) Goods were normally sold at a gross profit margin of 60%. During the nine months, total sales amounted to $960 000, of which $4 800 were made to a charitable organisation at cost.

(iii) Total purchases from suppliers amounted to $490 830.

(iv) A credit note $2 400 was issued for goods returned. The refund was to be made in cash in January 2022.

(v) Ben withdrew goods costing $20 000 on 1 October 2021 for his personal use.

(vi) Insurance premium of $28 000 for one year till 30 June 2022 was paid.

(vii) Operating expenses paid, except the insurance premium, were $16 500 per month.

(viii) No depreciation would be charged for non-current assets in the first year of operations.

(ix) On 31 December 2021, some cash was found stolen after all the receipts and payments had been made. Only $477 400 cash was left in the safe.

REQUIRED:

Prepare for the partnership:

(a) an income statement for the nine months ended 31 December 2021. (10 marks)

(b) the partners' current account in columnar form. (2 marks)

(Total: 12 marks)

CE Questions (-2010)

1. 1991.Q8

(a)

Journal entries:

	Dr.	Cr.	
Bonus	37 800		
Capital - Cheung		30 000	
Current account - Cheung		7 800	
Current account - Cheung	6 000		
Current account - Chan		3 000	
Current account - Wong		3 000	(3)

(b)

Chan, Wong & Cheung
Profit & loss appropriation account
for the year ended 31 December 1990

	$	$	
Profit for the year		121 280	
Add: Interest on Dr. current a/c balance			
- Wong			
9500 × 12% (12500 - 3000)	1 140		1
- Chan			
$[(40000 - 3000 - 33100) \times 12\% \times \frac{6}{12} + 10000 \times 12\% \times \frac{4}{12}]$	634 (1)		2
		1 774	
		123 054	
Less: Salary - Cheung (7000 × 12)	84 000		1
Interest on capital			
- Chan (50 000 × 6%)	3 000		1
- Wong (30 000 × 6%)	1 800		1
- Cheung (30 000 × 6%)	1 800		1
		90 600	
		32 454	
Share of profit			
- Chan (32 454 × 50%)	16 227		1
- Wong (32 454 × 30%)	9 736		1
- Cheung (32 454 × 20%)	6 491		1
		32 454	(10)

(c)

Partners' Current account

		Chan	Wong	Cheung		Chan	Wong	Cheung	
		$	$	$		$	$	$	
	Balance b//f	-	12 500	-	Balance b/f	33 100	-	-	
0.5	Goodwill	-	-	6 000	Accrued bonus	-	-	7 800	
					Goodwill	3 000	3 000	-	1
1	Drawings	50 000	-	3 000	Salary	-	-	84 000	0.5
1	Interest on Dr. bal	634	1 140		Interest on capital	3 000	1 800	1 800	1.5
	Balance c/d	4 693	896	91 091	Share of profit	16 227	9 736	6 491	1.5
		55 327	14 536	100 091		55 327	14 536	100 091	
									(7)

Total: 20 marks

2. 1992S.Q7

(a)

Lau, Kwan and Cheung
Trading and Profit and Loss Account for the year ended 31 March 1992

	$	$
Sales		1,670,000
Less: Cost of Sales:		
Opening stock	90,000	
Purchases	820,000	
	910,000	
Less: Closing stock	100,000	810,000
Gross profit		860,000
Less: Expenses:		
Office expenses	5,000	
Rent (12,000 – 1,000)	11,000	
Selling expenses	18,000	
Increase in provision for bad debts (180,000 × 5% – 5,000)	4,000	
Depreciation expense:		
Buildings (1,200,000 × 2%)	24,000	
Motor vehicles (230,000 × 20%)	46,000	108,000
Net profit		752,000

Add: Interest on drawings:			
Lau (12,000 × 10%)		1,200	
Kwan (16,000 × 10%)		1,600	
Cheung (20,000 × 10%)		2,000	4,800
			756,800
Less: Interest on capital:			
Lau (300,000 × 10%)	30,000		
Kwan (200,000 × 10%)	20,000		
Cheung (100,000 × 10%)	10,000	60,000	
Interest on current accounts:			
Lau (50,000 × 15%)	7,500		
Kwan (48,000 × 15%)	7,200		
Cheung (15,000 × 15%)	2,250	16,950	
Salary to Cheung		36,000	112,950
			643,850
Profits shared by:			
Lau 5/10		321,925	
Kwan 3/10		193,155	
Cheung 2/10		128,770	643,850

(b) Lau, Kwan and Cheung

Balance Sheet as at 31 March 1992

	Cost	Accumulated Depreciation	Net Book Value
Fixed Assets	$	$	$
Buildings	1,200,000	48,000	1,152,000
Motor vehicles	230,000	184,000	46,000
	1,430,000	232,000	1,198,000
Current Assets			
Stock		100,000	
Debtors	180,000		
Less: Provision for bad debts	9,000	171,000	
Prepaid rent		1,000	
Bank		10,000	
		282,000	
Less: Current Liabilities			
Creditors		70,000	
Working capital			212,000
			1,410,000

	Lau	Kwan	Cheung	
Financed by:	$	$	$	$
Capital	300,000	200,000	100,000	600,000
Current accounts:				
Balance at 1.4.91	50,000	48,000	15,000	
Add: Salary	—	—	36,000	
Interest on capital	30,000	20,000	10,000	
Interest on current a/c	7,500	7,200	2,250	
Share of profit	321,925	193,155	128,770	
	409,425	268,355	192,020	
Less: Drawings	(15,000)	(20,000)	(20,000)	
Interest on drawings	(1,200)	(1,600)	(2,000)	
Balance at 31.3.92	393,225	246,755	170,020	810,000
				1,410,000

3. 1993.Q6

In the Books of So, Tam & Yau

Journal	Dr.	Cr.	
Bank	10 000		½
Capital :Yau		10 000	½
Capital brought in by Yau			½
Provision for depreciation	3 200		½
Fixed assets	1 200		½
Capital : So		2 200	½
Tam		2 200	½
Fixed assets revalued			½
Capital : Yau	2 000		1
Capital : So		500	1
Tam		1 500	1
Goodwill adjustment upon admission of Yau			½
Capital : So	9 260		
Tam	4 840		1
Current : So		9 260	
Tam		4 840	1
Surplus balance of fixed capital amounts transfered			½

Total: 10 marks

Suggested workings

Capital a/c

	So	Tam	Yau		So	Tam	Yau
	$	$	$		$	$	$
Goodwill adj	-	-	2 000	Balance b/f	22 560	13 140	-
Current a/c	9 260	4 840	-	Bank	-	-	10 000
Balance c/f	16 000	12 000	8 000	Goodwill adj	500	1 500	-
				Profit on rev	2 200	2 200	-
	25 260	16 840	10 000		25 260	16 840	10 000

4. 1994.Q9

Journal

Date	Particulars	Dr.	Cr.
1993		$	$
May 1	Bank	20,000	
	Capital - Calvin		20,000
	(Cash being brought in by new partner, Calvin)		
	Land and buildings	80,000	
	Stock		12,000
	Revaluation: Profit on revaluation		68,000
	(Assets being revalued upon admission of Calvin)		
	Revaluation: Profit	68,000	
	Capital - Alex (5/8)		42,500
	- Bob (3/8)		25,500
	(Profit on revaluation being allocated to existing partners on the old ratio)		
	Current - Calvin (W1)	3,000	
	Current - Alex (W1)		1,875
	- Bob (W1)		1,125
	(Adjustment of goodwill)		

Workings:

(W1)

	Share of Goodwill Before the Change	Share of Goodwill After the Change	Change in Share of Goodwill	Double Entries
Alex	15000 × 5/8 = 9375	15000 × 5/10 = 7500	–1,875	Cr 1,875
Bob	15000 × 3/8 = 5625	15000 × 3/10 = 4500	–1,125	Cr 1,125
Calvin	——	15000 × 2/10 = 3000	+3,000	Dr 3,000

(b)

Alex, Bob and Calvin
Profit and Loss Appropriation A/C
for the year ended 31 December 1993

	1 Jan, 1993 to 30 Apr, 1993		1 May 1993 to 31 Dec 1993		Total	
	$	$	$	$	$	$
Net profit before appropriations (W1)		15,767		47,533		63,300
Less: Partners' salary – Calvin (24000×8/12)			16,000		16,000	
Interest on capital (W2)						
Alex	1,000		3,700		4,700	
Bob	600		2,220		2,820	
Calvin	-	1,600	800	22,720	800	24,320
		14,167		24,813		38,980
Share of profit						
Alex	(5/8) 8,854		(5/10) 12,406		21,260	
Bob	(3/8) 5,313		(3/10) 7,444		12,757	
Calvin	-	14,167	(2/10) 4,963	24,813	4,963	38,980

Workings:

(W1) Net profit before appropriations (After deducting Calvin's salary)

For the year ended 31.12.93: (71,300 – 24,000 × 4/12)	$ 63,300
1.1.93 – 30.4.93: (71,300 × 4/12 – 24,000 × 4/12)	15,767
1.5.93 – 31.12.93: (71,300 × 8/12)	47,533

(W2) Interest on capital

		$
Alex:	1.1.93 – 30.4.93: 50,000 × 6% × 4/12	1,000
	1.5.93 – 31.12.93: (50,000+42,500) × 6% × 8/12	3,700
		4,700
Bob:	1.1.93 – 30.4.93: 30,000 × 6% × 4/12	600
	1.5.93 – 31.12.93: (30,000+25,500) × 6% × 8/12	2,220
		2,820
Calvin	1.5.93 – 31.12.93: 20,000 × 6% × 8/12	800

5. 1996.Q9

(a) Calculation of profit for the period 1 January 1996 to 30 April 1996

		$	
closing capital	Net assets at 30 April 1996 (Cap. & Current bal. on 30/4/96) ($489 240 – $17 640)	471 600	1
	Add: Drawings ($36 000 + $61 200)	97 200	1
		568 800	
beg. capital	Less: Net assets at 31 December 1995 (Cap. & Current bal. on 31/12) (469 080 – 14 760) or (450 000+ 4320)	454 320	1
		114 480	(3)

(b)

Capital Accounts

		Lau	Chun	Kwok		Lau	Chun	Kwok	
		$	$	$		$	$	$	
1	Goodwill w/o	–	108 000	27 000	Bal. b/d	162 000	288 000	–	1
1	Cash (211 680×¼)	52 920	–	–	Goodwill	45 000	90 000	–	1
½	Loan – Lau (211 680×¾)	158 760	–	–	Bank – capital	–	–	92 000	1
	Bal. c/d	–	270 000	92 000	– prenium (135 000 × 1/5)	–	–	27 000	1
					Current account	4 680	–	–	½
		211 680	378 000	119 000		211 680	378 000	119 000	(7)

Current Accounts

		Lau	Chun	Kwok		Lau	Chun	Kwok	
		$	$	$		$	$	$	
1	Drawings	36 000	61 200	–	Bal b/d	2 520	1 800	–	1
	Capital account	4 680	–	–	Share of profit (1:2)	38 160	76 320	–	2
	Bal c/d	–	16 920	–					
		40 680	78 120	–		40 680	78 120	–	(4)

Chun and Kwok
Balance Sheet as at 1 May 1996

Mark		$	$		$	$	Mark
	Fixed Assets			**Capital Accounts**			
½	Building		299 880	Chun		270 000	½
½	Equipment		62 640	Kwok		92 000	½
			362 520			362 000	
	Current Assets			**Current Accounts**			
½	Stock	21 600		Chun		16 920	½
½	Debtors	44 460				378 920	
1½	Bank	126 740	192 800	**Current Liabilities**			
				Loan – Lau	158 760		½
				Creditors	17 640	176 400	½
			555 320			555 320	(6)

Total: 20 marks

6. 1997.Q10

(a)

Cheung and Wong
Profit and Loss Appropriation Account
for the year ended 31 March 1997

Mark		$		$	Mark
	Share of profit:		Net profit b/d	30 000	1
½	Cheung (¼)	7 500			
½	Wong (¾)	22 500			
		30 000		30 000	(2)

Workings:

Calculation of adjusted net profit

		$	Mark
Net profit as per trial balance		40 000	
Add:	Cash drawings included in salaries	6 000	½
		46 000	
Less:	Provision for doubtful debts ($320 000 × 5%)	16 000	½
Adjusted net profit		30 000	

(b)

Revaluation account

Mark		$	$		$	Mark
1	Vehicles (504 000 – 380 000)		124 000	Premises (1480000–1080000)	400 000	1
1	Stock (272 379 – 212 379)		60 000			
	Profit on revaluation:					
	Cheung (¼)	54 000				
	Wong (¾)	162 000	216 000			
			400 000		400 000	(3)

(c)

Capital accounts

Mark		Cheung	Wong	Ho		Cheung	Wong	Ho	Mark
		$	$	$		$	$	$	
	Goodwill (1:1)	–	100 000	100 000	Balance b/d	870 000	800 000	–	
½	Vehicles	128 000	–	–	Profit on				
½	Current	1 000	–	–	revaluation	54 000	162 000	–	1
1	Bank	445 000	212 000	–	Goodwill (1:3)	50 000	150 000	–	1
½	Loan	400 000 *	–	–	Bank	–	–	650 000	½
	Balance c/d	–	800 000	550 000					
		974 000	1 112 000	650 000		974 000	1 112 000	650 000	(6)

* *$760 000 if Loan from Cheung ($360 000) as at 31 March 1997 was transferred to the Capital account*

Current accounts

Mark		Cheung	Wong		Cheung	Wong	Mark
		$	$		$	$	
	Balance b/d	8 500	–	Balance b/d	–	18 500	
½	Drawings	–	6 000	Share of profit	7 500	22 500	1
	Balance c/d	–	35 000	Capital account	1 000	–	½
		8 500	41 000		8 500	41 000	(2)

(d)

Wong and Ho
Balance sheet as at 31 March 1997

	$	$	$	Mark
Fixed assets				
Premises			1 480 000	½
Vehicles (380 000 – 128 000)			252 000	1
Furniture			144 000	½
			1 876 000	
Current assets				
Stock		212 379		½
Debtors	320 000			½
Less: Provision for doubtful debts	16 000	304 000		½
Bank (8880 + 650 000 – 445 000 – 212 000)		1 880		1
		518 259		
Less: **Current liabilities**				
Creditors		249 259	269 000	½
			2 145 000	

Capital accounts			
Wong	800 000	½	
Ho	550 000	½	
	1 350 000		
Current accounts			
Wong	35 000	½	
	1 385 000		
Long term liabilities			
Loan – Cheung (360 000 + 400 000)	760 000	½	
	2 145 000		(7)

7. 1998.Q2

Revaluation account

	$	$		$	
Stock written off		2 000	Plant and machinery	25 900	½
Provision for doubtful debts ($26000 x 5%)		1 300	($76 300 – 50 400)		
Profit on revaluation:					
Allen (3/5)	13 560				
Davis (2/5)	9 040	22 600			
		25 900		25 900	
					(3)

Capital accounts

	Allen	Davis	Charles		Allen	Davis	Charles	
	$	$	$		$	$	$	
Goodwill (W2)	60 000	36 000	24 000	Balance b/d	95 000	85 000	–	1
Balance c/d	61 760	66 840	36 000	Cash	–	–	60 000	½
				Profit on revaluation	13 560	9 040	–	1
				Goodwill (W1)	13 200	8 800	–	1
	121 760	102 840	60 000		121 760	102 840	60 000	
								(5)

answer: (I):

Capital accounts

	Allen	Davis	Charles		Allen	Davis	Charles	
	$	$	$		$	$	$	
Goodwill (W3)	46 800	27 200	24 000	Balance b/d	95 000	85 000	–	1
Balance c/d	61 760	66 840	36 000	Cash	–	–	60 000	½
				Profit on revaluation	13 560	9 040	–	1
	108 560	94 040	60 000		108 560	94 040	60 000	
								(5)

Alternative answer:

Revaluation account

	$	$		$	
Stock written off		2 000	Plant and machinery	25 900	½
Provision for doubtful debts ($26000 x 5%)		1 300	($76 300 – 50 400)		
Profit on revaluation:			Goodwill (120 000 – 98000)	22 000	1
Allen (3/5)	26 760				
Davis (2/5)	17 840	44 600			
		47 900		47 900	
					(4)

Capital accounts

	Allen	Davis	Charles		Allen	Davis	Charles	
	$	$	$		$	$	$	
Goodwill (W2)	60 000	36 000	24 000	Balance b/d	95 000	85 000	–	1
Balance c/d	61 760	66 840	36 000	Cash	–	–	60 000	½
				Profit on revaluation	26 760	17 840	–	1
	121 760	102 840	60 000		121 760	102 840	60 000	
								(4)

Workings:

se in goodwill: ($120 000 – 98 000) = $22 000 (1)

[1] Share of old goodwill		[2] Share of new goodwill		[3] Net adjustments to capital accounts
old ratio	$	new ratio	$	$
3/5	13 200	5/10	60 000	46 800
2/5	8 800	3/10	36 000	27 200
	–	2/10	24 000	24 000
(½)	22 000	(½)	120 000	98 000

(2)

8. 2001.Q9

(a)

Revaluation

		$	$		$	
1	Equipment ($89 100 – 80 000)		9 100	Motor vehicles ($459 000 × 5%)	22 950	1
1	Stock		500			
1	Profit on revaluation:					
	Bill (2/3)	8 900				
	Dick (1/3)	4 450	13 350			
			22 950		22 950	(4)

(b)

Capital

		Bill	Dick	Tim		Bill	Dick	Tim	
		$	$	$		$	$	$	
2	Goodwill (1:1)	–	101 250	101 250	Balance b/d	343 000	432 000	–	1
½	Transfer to Tim	300 000	–	–	Profit on revaluation	8 900	4 450	–	1
½	Transfer to Tim	101 250	–	–	Goodwill (2:1)	135 000	67 500	–	2
½	Cash *(bal. fig.)*	–	102 700	–	Current account	3 780	–	–	1
½	Loan from Bill *(bal. fig.)*	89 430	–	–	Transfer from Bill	–	–	300 000	½
1	Balance c/d	–	300 000	300 000	Transfer from Bill	–	–	101 250	½
		490 680	503 950	401 250		490 680	503 950	401 250	(11)

(c)

Dick and Tim
Balance sheet as at 31 March 2001

	$	$	
Fixed Assets			
Motor vehicles ($459 000 × 105%)	481 950		½
Equipment	80 000	561 950	½
Current Assets			
Stock ($24300 – 500)	23 800		½
Debtors	54 540		½
Bank ($176 680 – 102 700)	73 980		½
	152 320		
Less: Current Liabilities			
Creditors	22 140		½
Working capital		130 180	
		692 130	
Capital Accounts			
Dick	300 000		½
Tim	300 000	600 000	½
Current Accounts			
Dick		2 700	½
		602 700	
Long-term Liabilities			
Loan from Bill		89 430	½
		692 130	(5)

9. 1998.Q9

Lee and Wong
Trading, profit and loss and appropriation account
for the year ended 31 March 1998

	$	$	$	
Sales (1 261 550 - 3000)			1 258 550	½
Less : Cost of goods sold				
Opening stock		78 458		
Add : Purchases		469 276		
		547 734		
Less: Closing stock		92 621	455 113	1
Gross profit			803 437	
Add : Discounts received			1 384	½
Profit on disposal of furniture [3000 – (4200–1800)]			600	1
Decrease in provision for doubtful debts (1160–57250 × 2%)			15	½
			805 436	
Less : Salaries (240 070 + 2330)		242 400		½
Rent and rates		110 285		½
Sundry expenses		7 241		½
Discounts allowed		2 220		½
Electricity (26444 – 444)		26 000		½
Depreciation – Equipment (470 800 × 10%)		47 080		½
– Furniture and fittings [(267 500–4200) - (129500–1800)]×10%		13 560		1
– Motor vehicles (280 000 × 25%)		70 000		½
Hire purchase interest		~~23 000~~	541 786	½
Net profit			~~263 650~~ 286,650	
Less : Interest on capital – Lee (550 000 × 6%)	33 000			}
– Wong (380 000 × 6%)	22 800	55 800		} ½
Salary to Lee		84 000	139 800	½
			~~123 850~~ 146,850	
Share of profits – Lee (3/5)	88110	74 310		}
– Wong (2/5)	58740	49 540	~~123 850~~	} ½
			146850	(10)

Lee and Wong
Balance Sheet as at 31 March 1998

	Cost	Accumulated Depreciation	Net Value	
Fixed assets	$	$	$	
Equipment	470 800	211 350	259 450	½
Furniture and fittings	263 300	141 260	122 040	1
Motor vehicles	280 000	70 000	210 000	½
	1 014 100	422 610	591 490	
Current assets				
Stock		92 621		½
Trade debtors	57 250			
Less: Provision for doubtful debts	1 145	56 105		½
Prepaid electricity		444		½
Cash at bank		516 895		½
		666 065		
Less: Current liabilities				
Hire purchase creditors (78000 – 23000) × 3	~~165 000~~			2
218,720 Trade creditors (218720 + 23000 – 165000)	~~76 720~~	221,050		1
Accrued salaries	2 330	~~244 050~~	445015	½
Working capital			~~422 015~~	
			~~1 013 505~~ 1036505	
Financed by:	Lee	Wong		
	$	$	$	
Capital	550 000	380 000	930 000 }	½
Current accounts at 1 April 1997	(9 275)	1 350	}	½
Add: interest on capital	33 000	22 800	}	½
share of profits +8400	~~74 310~~ 88110	~~49 540~~ 58740	}	½
	98 035	73 690		
Less: drawings (49850 + 8400) −133850	~~49 850~~	38 370	106505 }	½
Current accounts at 31 March 1998	~~48 185~~	~~35 320~~	~~83 505~~	
	61985	44520	~~1 013 505~~	(10)
			1036505	

10. 2003.Q6

(a)

Sam and Susan
Profit and loss and appropriation
for the year ended 31 March 2003 ½

		$	$		$	
1	Rent ($96 000 –17 000+10 000)		89 000	Commission revenue		
½	Staff salaries		276 960	($709 360 – 12 360 – 3600 +4800)	698 200	2
½	Sundry expenses		7 200			
	Depreciation					
1	Office equipment ($340160 × 25%)		85 040			
1	Furniture and fittings ($200 000×25%)		50 000			
	Net profit c/d		190 000			
			698 200		698 200	
½	Salaries – Susan		96 000	Net profit b/d	190 000	
	Interest on capital					
1	Sam (337 600 × 5%)	16 880				
1	Susan (228 000 × 5%)	11 400	28 280			
	Share of profits					
½	Sam (3/5)	39 432				
½	Susan (2/5)	26 288	65 720			
			190 000		190 000	

(10)

(b)

Capital

		Ted	Sam	Susan		Ted	Sam	Susan	
		$	$	$		$	$	$	
1	Goodwill (3:2)	–	108 000	72 000	Balance b/d	194 400	345 600	–	1
½	Cash	276 664	–	–	Goodwill (4:5)	80 000	100 000	–	1
1	Balance c/d	–	337 600	228 000	Furniture and fittings	–	–	200 000	½
					Cash	–	–	100 000	½
					Current	2 264	–	–	½
		276 664	445 600	300 000		276 664	445 600	300 000	(6)

Current

		Ted	Sam	Susan		Ted	Sam	Susan	
		$	$	$		$	$	$	
½	Balance b/d	–	10 510	–	Balance b/d	664	–	–	½
½	Capital	2 264	–	–	Accrued comm. (4:5)	1 600	2 000	–	2
					Balance c/d	–	8 510	–	
		2 264	10 510	–		2 264	10 510	–	
	Balance b/d	–	8 510	–	Salaries	–	–	96 000	½
1	Drawings	–	–	9 000	Interest on capital	–	16 880	11 400	½
1	Balance c/d	–	47 802	124 688	Share of profit	–	39 432	26 288	½
		–	56 312	133 688		–	56 312	133 688	(7)

(c)

Sam and Susan
Balance sheet as at 31 March 2003 ½

		$	$		$	$	
	Fixed Assets			**Capital Accounts**			
1	Office equipment, net		255 120	Sam	337 600		½
1	Furniture and fittings, net		150 000	Susan	228 000	565 600	½
			405 120				
	Current Assets			**Current Accounts**			
½	Accrued commission	4 800		Sam	47 802		½
½	Bank	338 170	342 970	Susan	124 688	172 490	½
						738 090	
				Current Liabilities			
				Accrued rent		10 000	½
			748 090			748 090	

(6)

11. 1992.Q8

(a)

Realization

1991		$	1991			$
Dec 31	Premises	360,000	Dec 31	Provision for depreciation		
	Motor Car	55,000		- Premises		20,000
	Stock	136,500		- Motor car		11,000
	Debtors	345,000		Provision for bad debts		2,530
	Capital: Carmen (Interest)	2,500		Bank: Purchases		
	Bank: realization expenses	25,000		(253,000 – 26,000)		227,000
				Loan from Aron		
				- Stock taken over		132,760
				Bank: Debtors		
				(345,000–56,200)	288,800	
				Less: Commission		
				(30%)	86,640	202,160
				Creditors: Discounts received		3,500
				Bank: Bad Debts recovered		23,400
				Capital: Loss on realization		
				Aron (3/5)	180,990	
				Bob (1/5)	60,330	
				Carmen (1/5)	60,330	301,650
		924,000				924,000

(b)

Bank

1991		$	1991		$
Dec 31	Realization: Premises	227,000	Dec 31	Bal b/d	120,000
	(253,000 – 26,000)			Realization:	
	Realization: Debtors	202,160		Realization expenses	25,000
	Realization: Bad debts recovered	23,400		Capital: Aron	753
				Carmen	358,937
	Cash account transferred	53,130			
		504,690			504,690

(c)

Capital

1991		Aron	Bob	Carmen	1991		Aron	Bob	Carmen
Dec 31		$	$	$	Dec 31		$	$	$
	Current A/C	–	120,000	–		Bal b/d	200,000	85,000	115,000
	Realization: Loss	180,990	60,330	60,330		Current A/C	53,240	–	75,600
	Capital: Deficiency shared	71,497	-	23,833		Creditors			250,000
	Bank: final settlement	753	–	358,937		Realization: Interest			2,500
						Capital: (Deficiency shared)			
						Aron	–	71,497	.
						Carmen		23,833	–
		253,240	180,330	443,100			253,240	180,330	443,100

12. 1995.Q8

(a) **Realisation account**

		$		$	$	
2	Loss on consignment	3 000	Profit on stock		900	½
½	Goodwill written off	6 000	Share of loss on debtors:			
½	Loss on leasehold premises	3 000	Chan (3/7)	300		
½	Loss on equipment	2 060	Lee (2/7)	200		
½	Dissolution expenses	2 200	Wong (2/7)	200		
½	Loss on debtors	700			700	
			Loss on other assets:			
			Chan (1/3)	5 120		)
			Lee (1/3)	5 120		) 1
			Wong (1/3)	5 120		)
					15 360	
		16 960			16 960	(6)

Alternative answer

(a) **Realisation account**

		$	$		$	$	
2	Loss on consignment		3 000	Capital - Chan:			
½	Goodwill		6 000	Leasehold premises	18 000		
	Leasehold premises		21 000	Toys stock	5 200		
	Equipment:			Toys equipment	5 700	28 900	
½ {	Toys Department	7 250		Capital - Lee:			
{	Stationery Dept	4 400	11 650	Stationery stock	6 100		
	Stock:			Equipment	3 890	9 990	
½ {	Toys Department	4 800		Capital - Chan:			
{	Stationery Dept	5 600	10 400	Debtors		5 550	
½	Debtors		6 250	Share of loss on debtors			
½	Bank: Dissolution exp.		2 200	Chan (3/7)	300		
				Lee (2/7)	200		½
				Wong (2/7)	200	700	
				Share of loss			
				Chan (1/3)	5 120		
				Lee (1/3)	5 120		½
				Wong (1/3)	5 120	15 360	
			60 500			60 500	(6)

(b) **Bank account**

		$		$	
	Balance b/d	9 000	Dissolution expenses	2 200	½
1	Flash Limited	7 000	Chan	5482.7 ~~5 570~~	½
½	Wong	500	Lee	8817.3 ~~8 730~~	½
		16 500		16 500	(3)

(c) **Capital accounts**

		Chan	Lee	Wong		Chan	Lee	Wong	
		$	$	$		$	$	$	
½	Leasehold premises	18 000	-	-	Balance b/d	30 000	25 000	2 900	½
1	Stock	5 200	6 100	-	Creditors	16 400	-	-	½
1	Fixtures	5 700	3 890	-	Bank	-	-	500	½
½	Debtors	5 550	-	-	Transfer to				
1½	Loss on debtors	300	200	200	Chan & Lee	-	-	1 920	½
1½	Loss on realisation	5 120	5 120	5 120					
2	Share of Wong's loss	960 (1047.3)	960 (872.7)	-					
1	Bank	~~5 570~~ (5482.7)	~~8 730~~ (8817.3)						
		46 400	25 000	5 320		46 400	25 000	5 320	(11)

13. 2000.Q9

(a)

Realisation

		$		$	$	
½	Office premises	542 250	Motor vehicles taken over: Chau		60 000	½
½	Motor vehicles	198 225	Lok		72 000	½
½	Goodwill written off	146 000	Bank: Office premises ($542 250+60 600)		602 850 ✓	1
½	Stock	61 575	Stock ($20000+41575×80%)		53 260 ✓	1
½	Debtors	67 800	Debtors		54 240	½
½	Realisation expenses	36 500	Share of loss:			
			Chau (3/6)	105 000		½
			Lok (2/6)	70 000		½
			Yeung (1/6)	35 000	210 000	½
		1 052 350			1 052 350	(8)

(b)

Bank

		$		$	
	Balance b/d	9 525	Realisation expenses	36 500	½
1	Office premises ($542 250 + 60 600)	602 850	Capital – Lok	694 670	½
1	Stock ($20000 + 41575 × 80%)	53 260			
½	Debtors	54 240			
1	Capital – Yeung	1 000			
½	Capital – Chau	10 295			
		731 170		731 170	(5)

Capital

		Chau	Lok	Yeung		Chau	Lok	Yeung	
		$	$	$		$	$	$	
1	Motor vehicles	60 000	72 000	–	Balance b/d	157 105	700 670	30 000	1
1	Loss on realisation	105 000	70 000	35 000	Creditors	–	137 600	–	1
1	Share of Yeung's loss (3:2)	2 400	1 600	–	Bank	10 295	–	1 000	1
½	Bank	–	694 670	–	Transfer to Chau and Lok	–	–	4 000	½
		167 400	838 270	35 000		167 400	838 270	35 000	(7)

14. 2002.Q7

(a)

Realisation

		$		$	$	
½	Plant and machinery	272 250	Bank: Debtors (31500 – 3500 – 1000)		27 000	1½
½	Furniture	60 750	Plant and machinery (272 250x80%)		217 800	1
½	Motor vehicles	96 750	Stock (108 000 x75%)		81 000	1
½	Stock	108 000	Capital: Au – furniture		29 000	½
½	Debtors	31 500	Fok – furniture		20 000	½
1½	Capital: Au – commission [(31500 – 3500 – 1000)x2%]	540	Mak – motor vehicles		10 000	½
1 or 0	Realisation expenses	29 600	Creditors: taken over by Mak (72 000x60%)		43 200	1
			discounts received (72 000x40%x5%)		1 440	1½
			Share of loss			
			Au (2/5)	67 980		½
			Fok (1/5)	33 990		½
			Mak (2/5)	67 980	169 950	½
		599 390			599 390	

(14)

(b)

Bank

		$		$	
½	Balance b/d	78 975	Creditors (72 000x40%x95%)	27 360	1½
½	Debtors (31 500 – 3500 – 1000)	27 000	Loan: Fok	90 000	1 or 0
½	Plant and machinery	217 800	Realisation expenses	29 600	1 or 0
½	Stock	81 000	Capital: Au	115 635	½
			Fok	75 610	½
			Mak	66 570	½
		404 775		404 775	

(7)

(c)

Capital

		Au	Fok	Mak		Au	Fok	Mak	
		$	$	$		$	$	$	
1	Furniture	29 000	20 000	—	Balance b/d	195 750	117 000	144 000	1½
½	Motor vehicles	—	—	10 000	Current	16 325	12 600	550	1½
1½	Share of loss	67 980	33 990	67 980	Commission	540	—	—	½
1½	Bank	115 635	75 610	66 570					
		212 615	129 600	144 550		212 615	129 600	144 550	

(8)

15. 2004.Q7

(A) Goodwill is commonly defined as 'the excess of the value of an entire business over the fair value of its separable assets'. 2
It is recorded when there are changes in partnership including admission and/or retirement of partner(s), changes in profit and loss sharing ratio, purchase of a business, etc. 3
Goodwill should be classified as 'Intangible Asset' in a company's balance sheet. 1
(6)

(B)(a) Revaluation

Mark		$	$		$	Mark
½	Prepaid insurance		505	Provision for doubtful debts ($4396 – $3196)	1 200	1
1	Equipment ($115 830 – $80 000)		35 830			
½	Stock		650	Motor vehicles ($920 000 x 40% – $327 850)	40 150	1
1	Profit on revaluation:					
	Charles (2/5)	1 746				
	Don (3/5)	2 619	4 365			
			41 350		41 350	

(5)

(b) Capital

Mark		Charles $	Don $	Eric $		Charles $	Don $	Eric $	Mark
2	Goodwill (2:1)	–	84 000	42 000	Balance b/f	172 000	280 000	–	1
1	Current	43 434	–	–	Profit on revaluation	1 746	2 619	–	1
1	Cash	180 712	–	–	Goodwill (2:3)	50 400	75 600	–	2
1	Balance c/f	–	274 219	250 000	Cash	–	–	42 000	1
					Loan – Charles	–	–	250 000	1
		224 146	358 219	292 000		224 146	358 219	292 000	(11)

Don and Eric
Balance sheet as at 31 March 2004 ½

	$	$	$	Mark
Fixed Assets				
Equipment			80 000	½
Motor vehicles ($920 000 x 40%)			368 000	1
			448 000	
Current Assets				
Stock ($22 980 – $650)		22 330		1
Debtors	62 800			½
Less: Provision for doubtful debts	3 196	59 604		½
Bank ($239 245 + $42 000 – $180 712)		100 533		1
		182 467		
Less: Current Liabilities				
Creditors		40 380		½
Working capital			142 087	
			590 087	
Capital Accounts				
Don			274 219	½
Eric			250 000	½
			524 219	
Current Accounts				
Don			65 868	½
			590 087	(7)

16. 2005.Q6

(a)

Revaluation

		$	$		$	
½	Motor vehicles		31 080	Goodwill	24 000	1
1	Stock		220	Equipment ($124 000-$110 700)	13 300	1
	Profit on revaluation					
½	Ann (3/6)	3 000				
½	Bill (2/6)	2 000				
½	Carl (1/6)	1 000	6 000			
			37 300		37 300	(5)

(b)

Capital

		Ann	Bill	Carl		Ann	Bill	Carl	
		$	$	$		$	$	$	
½	Current	–	–	3 100	Balance b/d	128 000	126 000	54 000	1½
½	Bank	–	–	51 900	Revaluation profit	3 000	2 000	1 000	1½
	Balance c/d	157 469	154 469		Bank ($105 876 × 25%)	26 469	26 469	–	2
		157 469	154 469	55 000		157 469	154 469	55 000	(6)

(c)

Realisation

		$		$	$	
1½	Motor vehicles [($206 080 – $31 080) × 80%]	140 000	Capital – Ann : Motor vehicle		79 000	½
			Capital – Bill : Stock		58 000	½
1½	Equipment ($124 000 × 80%)	99 200	Bank – Motor vehicle ($60 900 × 90%)		54 810	1½
½	Stock	64 000	– Equipment		100 000	½
½	Debtors	40 810	– Debtors ($40 810 – $2750 – $500)		37 560	1½
1	Goodwill	24 000	Creditors – discount received ($46400 ÷ 2 × 4%)		928	1½
			Shares of loss:			
			Ann (½)	18 856		½
			Bill (½)	18 856	37 712	½
		368 010			368 010	(12)

(d)

Capital

		Ann	Bill		Ann	Bill	
1	Loss on realisation	18 856	18 856	Balance b/d	157 469	154 469	
½	Motor vehicle taken over	79 000	–	Current – Bill	–	22 632	1½
½	Stock	–	58 000				
1½	Current – Ann	968	–				
1	Bank	58 645	100 245				
		157 649	177 101		157 469	177 101	(6)

17. 2006.Q6

(a)

Realisation

		$			$	
½	Office equipment	325 000	Bank: Office equipment (325 000 × 70%)		227 500	1
½	Furniture	72 900	Furniture		35 000	½
½	Motor vehicle	116 800	Stock (100 000 × 90%)		90 000	1
½	Stock	126 000	Debtors			
½	Debtors	37 000				
1	Capital – Ben: transportation expenses	200	[(37000–2000)×98%]		34 300	1½
			Loan – Ann: motor vehicle		100 000	1
½	Realisation expenses	2 100	Capital – Ben: Stock		9 750	1
			Creditors: discount received (86 000×50%×5%)		2 150	1½
			Shares of loss:			
			Ann (2/7)	51 800		½
			Ben (2/7)	51 800		½
			Joe (3/7)	77 700	181 300	½
		680 000			680 000	(13)

(b)

Bank

		$		$	
½	Office equipment	227 500	Balance b/d	120 400	½
½	Furniture	35 000	Creditors (86000 – 2150)	83 850	1
½	Stock	90 000	Realisation expenses	2 100	½
½	Debtors	34 300	Capital: Ann	134 150	½
			Ben	46 300	½
		386 800		386 800	(5)

(c)

Capital

		Ann	Ben	Joe		Ann	Ben	Joe	
		$	$	$		$	$	$	
1	Current account	–	–	16 000	Balance b/d	160 000	95 000	80 000	1½
1	Stock	–	9 750	–	Current account	32 800	19 500	–	1
1½	Share of loss	51 800	51 800	77 700	Transportation expense	–	200	–	1
2	Share of Joe's deficiency (1:1)	6 850	6 850	–	Deficiency	–	–	13 700	1
1	Bank	134 150	46 300	–					
		192 800	114 700	93 700		192 800	114 700	93 700	(11)

18. 2007.Q6

[Out of DSE syllabus - manufacturing account]

(a)

Ernest and Fred

Manufacturing account for the year ended 31 March 2007

	$	$	
Opening stock		81 100	½
Add: Purchases ($1 005 600 + $5200)	1 010 800		½
Carriage inwards	19 020	1 029 820	½
		1 110 920	
Less: Closing stock		67 490	½
Raw materials consumed		1 043 430	½
Direct labour ($200 000 – $2500)		197 500	½
Prime cost		1 240 930	½
Factory overheads			
Indirect labour	80 040		½
Salaries to factory supervisor	72 000		½
Repairs to machinery	5 320		½
Rent and rates [($275 800 + $4200) × ¼]	70 000		½
Depreciation – machinery ($751 500 × 20%)	150 300	377 660	½
		1 618 590	
Add: Opening work in progress		46 610	½
		1 665 200	
Less: Closing work in progress		52 140	½
Production cost of finished goods		1 613 060	1
			(8)

(b)

Ernest and Fred

Trading, profit and loss and appropriation account for the year ended 31 March 2007

		$	$	
Sales ($2 741 200 + $1000)			2 742 200	1
Less: Returns inwards			26 120	½
			2 716 080	
Less: Cost of goods sold				
Opening stock		163 750		½
Add: Production cost of finished goods		1 613 060		½
		1 776 810		
Less: Closing stock ($170 300 – $280)		170 020	1 606 790	1
Gross profit			1 109 290	
Add: Gain on sale of office equipment {$30 000 – [$84 000 – $56 000 – ($84 000 – $56 000) × 10%]}			4 800	1½
			1 114 090	
Less: Administrative expenses		120 930		½
Selling expenses		92 690		½
Increase in provision for doubtful debts ($136 400×5%–$3760)		3 060		1
Interest on loan ($150 000 × 8%× 6/12)		6 000		1
Rent and rates [($275 800 + $4200) × ¾]		210 000		½
Carriage outwards		13 840		½
Depreciation – office equipment [($502 800–$254 800)×10%]		24 800		1
Salaries		143 200	614 520	½
Net profit			499 570	
Less: Interest on capital				
Ernest ($180 000 × 5%)	9 000			½
Fred ($150 000 × 5%)	7 500	16 500		½
Salaries – Ernest	80 000			½
– Fred	100 000	180 000		½
Bonus – Fred		50 000	246 500	½
			253 070	
Share of profit – Ernest (3/5)		151 842		½
– Fred (2/5)		101 228	253 070	½
				(14)

(c)

Current

		Ernest	Fred		Ernest	Fred	
		$	$		$	$	
½	Balance b/d	20 000	–	Balance b/d	–	30 000	½
2	Drawings (15 000 – 5200) (12 000 + 1000)	9 800	13 000	Interest on capital	9 000	7 500	1
				Bonus	–	50 000	1
1	Balance c/d	131 042	175 728	Share of profit	151 842	101 228	1
		160 842	188 728		160 842	188 728	
							(7)

19. 2008.Q6

(a) Capital

		Dave	Eva	Fred		Dave	Eva	Fred	
		$	$	$		$	$	$	
1½	Goodwill (2:1:1)	30 000	15 000	15 000	Balance b/d	300 000	63 000	–	
1	Capital – Fred	75 000	–	–	Goodwill (2:1)	40 000	20 000	–	1
½	Current	–	48 000	–	Capital – Dave	–	–	75 000	1
1½	Balance c/d	261 600	20 000	100 000	Cash ($25 000+$15 000)	–	–	40 000	1
					Current	26 600	–	–	½
		366 600	83 000	115 000		366 600	83 000	115 000	

(8)

(b) Realisation

		$	$		$	
1	Office equipment ($202 000 – $20 200)		181 800	Capital – Fred ($5000 × 8)	40 000	1
1	Motor vehicles ($156 000 – $21 000)		135 000	Capital – Dave ($135 000 × 90%)	121 500	1
½	Stock		42 000	Bank – office equipment	200 000	½
½	Debtors		57 000	– debtors ($57 000 – $200)	56 800	1
1	Capital – Dave (realisation expense)		2 600	Creditors – discounts received ($18 000 × 5%)	900	1
	Share of profit					
½	Dave (½)	400				
½	Eva (¼)	200				
½	Fred (¼)	200	800			
			419 200		419 200	

(10)

(c) Capital

		Dave	Eva	Fred		Dave	Eva	Fred	
		$	$	$		$	$	$	
3	Profit and loss appropriation: Share of loss ($88 000 + $60 000)	74 000	37 000	37 000	Balance b/d	261 600	20 000	100 000	
0.5	Realisation-stock	-	-	40 000	Profit and loss appropriation: Partner's salaries	-	-	40 000	1
0.5	Realisation-motor vehicles	121 500	-	-	Realisation - realisation expense	2 600	-	-	0.5
2	Capital: Eva (2:1)	11 200		5 600	Realisation	400	200	200	0.5
2	Bank	57 900		57 600	Capital: Dave		11 200		0.5
					Capital: Fred		5 600		0.5

	Dave	Eva	Fred		Dave	Eva	Fred
	264 600	37 000	140 200		264 600	37 000	140 200

(11)

Working

Bank

	$		$
Realisation – office equipment	200 000	Balance b/d	124 200
Realisation – debtors	56 800	Creditors ($18 000 × 95%)	17 100
		Capital – Dave	57 900
		Capital – Fred	57 600
	256 800		256 800

20. 2009.Q4

(a) Revaluation

		$		$	$	
½	Motor vehicles ($430 000 × 20%)	86 000	Equipment		20 000	½
1	Stock ($40 000 – $35 000)	5 000	Revaluation loss:			
	Provision for bad debts		Ivan (2/5)	28 708		½
1	($38 500 × 2%)	770	Joe (3/5)	43 062	71 770	½
		91 770			91 770	

(4)

(b) **Journal**

		Debit	Credit	
		$	$	
(1)	Cash ($200 000 + $50 000)	250 000		1
	Capital – Ivan *	30 000		1
	Capital – Joe *		80 000	1
	Capital – Kerry		200 000	1
(2)	Cash	200 000		1
	Capital – Ivan	30 000		1
	Capital – Joe		80 000	1
	Capital – Kerry		150 000	1
(3)	Motor vehicles	120 000		½
	Stock	80 000		½
	Capital – Kerry		200 000	1
				(10)

21. 2010.Q4

(a) Capital

		Ron	Sue	Tim		Ron	Sue	Tim	
		$	$	$		$	$	$	
1	Accumulated depreciation: office equipment ($90 000 x 20% x 6/12) (3:2)	5 400	3 600		Balance b/d	208 000	150 000		1
1	Accrued interest ($90 000 x 10% x 7/12) (3:2)	3 150	2 100	-	Goodwill	108 000	72 000		1
1.5	Goodwill	67 500	67 500	45 000	Trade payables			48 000	0.5
2	Revaluation ($500 + $1 350)	1 110	740		Inventory			33 000	0.5
	Balance c/f	230 840	148 060	81 000	Bank			45 000	0.5
		308 000	222 000	126 000		308 000	222 000	126 000	
									(9)

(b) **Statement to show the calculation of working capital as at 1 January 2010**

		$	$	
Current assets				
Stock ($24 500 + $33 000)			57 500	1
Debtors ($27 000 – $1350)			25 650	1
			83 150	
Less:	**Current liabilities**			
	Creditors	12 000		½
	Accrued interest	5 250		½
	Bank overdraft ($59 300 – $45 000)	14 300	31 550	1
Working capital			51 600	1
				(5)

DSE Questions

1. SP.Q5(b), (c), (d)

(b)

Leung
Trading and profit and loss account for the 3 months ended 31 March 20X6

	$'000	$'000	
Sales		1 260	½
Less: Cost of goods sold (2460 × 1260/4200)		738	½
Gross profit		522	
Less: Operating expenses	165		½
Manager's salary	93	258	1
Net profit		264	½
			(3)

(c)

Leung and Chan
Trading, profit and loss and appropriation account
for the 9 months ended 31 December 20X6

	$'000	$'000	$'000	
Sales (4200 – 1260)			2 940	½
Less: Cost of goods sold (2460 × 2940/4200)			1 722	½
Gross profit			1 218	
Less: Operating expenses			495	½
Net profit			723	
Less: Partners' salary - Chan		225		1
Interest on capital - Leung	18			
- Chan	9	27	252	½
			471	
Share of net profit				
Leung (2/3)		314		1
Chan (1/3)		157	471	1
				(5)

(d)

Capital

		Leung $'000	Chan $'000		Leung $'000	Chan $'000	
½	Goodwill adjustment		20	Balance b/f	280		
1	Current	60	-	Goodwill adjustment	20		½
1	Balance c/d (2:1)	240	120	Current	-	140	1
		300	140		300	140	
	Balance c/f	240	120	Balance b/d	240	120	
							(4)

2. PP.Q6

(a) (1)

Revaluation Account

	2011	$	$	2011	$	
½	Allowance for doubtful debts (iii)		2 600	Premises (ii)	550 000	½
½	Inventory (iii)		2 400	Plant and equipment (ii)	43 000	½
	Gain on revaluation					
1	Capital – Alice (3/6)	294 000				
	– Brian (2/6)	196 000				
	– Clara (1/6)	98 000	588 000			
			593 000		593 000	
						(3)

(2)

Capital

		Alice $	Brian $	Clara $		Alice $	Brian $	Clara $	
1	Goodwill		70 000	140 000	Balance b/d	276 000	468 000	365 000	
1	Motor vehicles		11 000	11 000	Goodwill	210 000			1
0.5	Loan - Alice	680 000			Revaluation	294 000	196 000	98 000	0.5
0.5	Bank	100 000							
0.5	Balance c/f		583 000	342 000					
		780 000	664 000	493 000		780 000	664 000	493 000	
									(5)

(3)

Brian and Clara
Balance sheet as at 1 January 2012

	$	$	$	
Non-current Assets				
Premises			1 400 000	½
Plant and equipment			107 000	½
Motor vehicles ($82 100 – $22 000)			60 100	½
			1 567 100	
Current Assets				
Inventory		31 200		½
Trade receivables		21 200		½
Bank ($135 500 – $100 000)		35 500		½
		87 900		
Less: **Current Liabilities**				
Trade payables	28 600			½
Accrued expenses	21 400	50 000		½
Net current assets			37 900	
			1 605 000	
Less: **Non-current Liabilities**				
Loan – Alice			680 000	½
			925 000	

Financed by:

Capital accounts		
– Brian	583 000	½
– Clara	342 000	
	925 000	

(b) The amount of $6 000 000 should not be recognised 1
Reasons: 2
- Prudence concept: the future benefits arising frpm the intangible asset are uncertain
- Money measurement concept: Alice's professional knowledge cannot be quantified and expressed in monetary term
- Objectivity concept: the valuation is only a personal and subjective estimation

(2 marks for each relevant explanation, max. 2 marks)

3. 2012.Q7

(a) (1) Realisation

	2012		$	2012		$	$	
½	Jan 1	Plant and machinery	129 000	Jan 1	Loan from Andy		60 000	1
½		Office equipment	134 500		Loan from Bob		36 100	½
½		Inventory	92 000		Capital – Carol		11 500	1
½		Trade receivables	40 500		Bank		285 700	½
½		Bank – realisation expenses	4 920		Trade payables - Discounts		720	½
					Loss on realisation			
					Capital – Andy (2/10)	1 380		
					Capital – Bob (3/10)	2 070		1
					Capital – Carol (5/10)	3 450	6 900	
			400 920				400 920	

(7)

(2) Bank

	2012		$	2012		$	
	Jan 1	Balance b/d	2 200	Jan 1	Realisation expenses	4 920	½
½		Realisation	285 700		Loan from Bob ($50 000 – $36 100)	13 900	1
½		Capital – Carol	9 250		Trade payables ($50 200 – $720)	49 480	1
					Accrued expenses	11 500	½
					Capital – Andy	190 920	½
					– Bob	26 430	½
			297 150			297 150	

(5)

(3) Capital

	2012	Andy	Bob	Carol	2012	Andy	Bob	Carol	
		$	$	$		$	$	$	
½	Current account			6 300	Balance b/d	178 000	22 000	12 000	½
½	Realisation	1 380	2 070	3 450	Current account	14 300	6 500		½
½	Realisation			11 500	Bank			9 250	½
1	Bank	190 920	26 430						
		192 300	28 500	21 250		192 300	28 500	21 250	

(4)

(b) Advantages (max) 2

- Will not affect the initial investment made by partners as transactions between partners and the partnership during the year can be shown through the current accounts instead of the capital accounts
- Debit balance of the current account due to a partner's excessive drawings could be used as a signal or warning to other partners

(2 marks for each relevant advantage)

4. 2013.Q4

(a)

Capital

Marks		Carrie	Daisy	Ellen		Carrie	Daisy	Ellen	Marks
		$	$	$		$	$	$	
1	Goodwill		175 000	175 000	Balance b/d	700 000	650 000		
0.5	Current	72 000			Cash at bank			850 000	0.5
0.5	Cash at bank	230 000			Revaluation (W1)	556 800	371 200		2
0.5	Loan from Carrie	1 164 800			Goodwill	210 000	140 000		1
	Balance c/f		986 200	675 000					
		1 466 800	1 161 200	850 000		1 466 800	1 161 200	850 000	

(5)

(b)

Daisy and Ellen
Statement of financial position as at 1 January 2012 ½

	$	$	
Non-current assets			
Property		2 320 000	½
Equipment		480 000	½
		2 800 000	
Current assets			
Trade receivables	550 000		½
Less: Allowance for doubtful debts	22 000		½
	528 000		
Cash at bank ($100 000 + $850 000 – $230 000)	720 000	1 248 000	1
		4 048 000	

Financed by:

	$	$	
Financed by:			
Capital accounts - Daisy	986 200		½
- Ellen	675 000		
		1 661 200	
Current account - Daisy		247 000	½
		1 908 200	
Long-term liabilities			
Loan from Carrie	1 164 800		½
Bank loan	700 000	1 864 800	½
Current liabilities			
Trade payables		275 000	½
		4 048 000	

(c)

Current

Marks		Daisy	Ellen		Daisy	Ellen	Marks
		$	$		$	$	
0.5	Balance b//d	433 224	113 776	Balance b/d	247 000	-	0.5
				Appropriations:			1
				- Salary to Daisy	60 000	-	
				- Interest on capital	39 448	27 000	1
				- Share of profit (1:1)(W2)	86 776	86 776	1
		433 224	113 776		433 224	113 776	

(4)

(d) Reasons: 2

- a partner is entitled to get a fair share of the net assets of the company upon his/her retirement
- fair values of the assets would be reflected through the asset revaluation process
- holding gains or losses would be recognised through the asset revaluation process
- the respective share of the gains and losses would be credited and debited to the capital account of the retiring partner and therefore the amount due to/from the partner can be ascertained

(2 marks for each relevant reason, max. 2 marks)

Workings

W1

	$
Gain on revaluation of property ($2 320 000 – $1 250 000)	1 070 000
– Loss on revaluation of equipment ($600 000 × 20%)	(120 000)
– Additional allowance for doubtful debts ($550 000 × 4%)	(22 000)
	928 000

W2

	$
Profit before appropriations	**300 000**
Salary to Daisy	**(60 000)**
Interest on capital ($986 200 × 4% + $675 000 × 4%)	**(66 448)**
Profit to be shared	**173 552**

5. 2014.Q5

(a)

Andy and Bobby
Statement showing the calculation of the adjusted net profit
For the year ended 31 December 2013

	$	$	
Net profit		165 000	
Less: Interest on bank loan (i) ($280 000 x 9% x 3/12)	6 300		0.5
Adjustment for goods sent on sale-or-return basis (ii) ($20 000 x 20% x 25/125)	800	7 100	1
Adjusted net profit		157 900	0.5
			(2)

(b)

Andy and Bobby
Profit and loss appropriation account for the year ended 31 December 2013

	$	$	$	
Net profit			157 900	
Add: Interest on drawings – Abby ($18 000 x 10% x 10/12)		1 500		0.5
– Bobby ($12 000 x 10% x 4/12)		400	1 900	0.5
			159 800	
Less: Salary – Abby		60 000		1
Interest on capital – Abby ($150 000 x 8%)	12 000			0.5
– Bobby ($300 000 x 8%)	24 000	36 000	96 000	0.5
			63 800	
Share of profit:				
Abby (2/5)		25 520		0.5
Bobby (3/5)		38 280	63 800	0.5
				(4)

(c)

Current

		Abby $	Bobby $		Abby $	Bobby $	
0.5	Balance b//d	43 000	-	Balance b/d	-	27 000	0.5
1	Drawings	18 000	12 000	Appropriations:			
				- Share of profit	25 520	38 280	0.5
0.5	Appropriations: Interest on drawings	1 500	400	- Interest on capital	12 000	24 000	0.5
1	Balance c/d	15 020	76 880	- Salary – Abby ($60 000 - $20 000)	40 000	-	0.5
		77 520	89 280		77 520	89 280	
							(5)

6. 2015.Q5

(a)

Realisation

		$		$	
½	Office equipment	465 000	Ron's capital: office equipment	232 500	½
½	Inventory	83 000	Loan from Tim: inventory ($80 000 × 60%)	48 000	½
½	Trade receivables	62 000			
½	Ron's capital: handling fee	1 200	Cash at bank: trade receivables	60 000	½
½	Cash at bank: realisation expenses	3 800	Trade payables: discounts received	4 824	½
			Loss on realisation:		
			Ron (1/6) 44 946		
			Sam (2/6) 89 892		
			Tim (3/6) 134 838	269 676	½
		615 000		615 000	

(5)

(b)

Capital

		Ron $	Sam $	Tim $		Ron $	Sam $	Tim $	
0.5	Realisation: office equipment	232 500			Balance b/d	112 300	30 000	190 700	0.5
0.5	Realisation	44 946	89 892	134 838	Realisation: handling fee	1 200			0.5
1	Sam's capital	14 973		44 919	Trade payables			196 176	0.5
0.5	Cash at bank			207 119	Ron's Capital		14 973		0.5
					Tim's Capital		44 919		
					Cash at bank	178 919			0.5
		292 419	89 892	386 876		292 419	89 892	386 876	

(5)

7. 2016.Q5

(a) (i)

Revaluation account

		$		$	
0.5	**Inventory**	**133 400**	**Property**	**1 238 000**	**0.5**
0.5	**Allowance for doubtful debts**	**2 300**			
0.5	**Cash – Professional fees**	**26 200**			
	Gain on revaluation:				
0.5	**Capital – Chu (3/5)**	**645 660**			
	Capital – Yam (2/5)	**430 440**			
		1 238 000		**1 238 000**	

(ii)

Capital accounts

		Chu $	**Yam $**	**Mak $**		**Chu $**	**Yam $**	**Mak $**	
1	**Goodwill**	**75 000**	**50 000**	**25 000**	**Balance b/d**	**705 000**	**45 000**	**-**	0.5
0.5	**Cash**	**765 660**	**-**	**-**	**Revaluation**	**645 660**	**430 440**	**-**	0.5
1	**Balance c/d**	**600 000**	**525 000**	**375 000**	**Goodwill**	**90 000**	**60 000**	**-**	1
					Cash	**-**	**39 560**	**400 000**	1
		1440 660	**575 000**	**400 000**		**1 440 660**	**575 000**	**400 000**	

(8)

(b)

Factors affecting the value of goodwill: Max. 2

- Reputation
- Quality of goods and services
- Quality of employees and management
- Customer loyalty
- Relationship with suppliers
- Geographical location

(1 mark for each relevant factor, max. 2 marks)

Total: 10 marks

8. 2017.Q8

(a)

Capital

	2016	Bill $	Ben $	Tom $	2016	Bill $	Ben $	Tom $	
0.5	Goodwill			48 000	Balance b/d	162 000	466 000		
0.5	Loan – Bill	252 500			Cash at bank			240 000	0.5
1	Balance c/d		**563 500**	**192 000**	Current	42 000			0.5
					Revaluation (w1)	24 500	73 500		2
					Goodwill	24 000	24 000		1
		252 500	563 500	240 000		252 500	563 500	240 000	

(6)

(w1) Gain on revaluation = $248 000 – ($120 000 / 0.8) = $98 000 (b)(i)

Appropriation account for the year ended 31 December 2016

		$	
Net loss	$(371 000 + 19 600 +5050) (w2)	395 650	1.5
Add: Salary to Tom	($2000 x 12)	24 000	1
		419 650	
Share of loss	- Ben (1/2)	**209 825**	0.5
	- Tom (1/2)	**209 825**	
		419 650	
			(3)

(w2) Depreciation expenses under-provided for = [$248 000 – ($120 000/0.8)] x 20% = $19 600
Loan interest expense = $252 500 x 2% = %5050

(b)(ii)

Current

	2016	Ben $	Tom $	2016	Ben $	Tom $	
0.5	Balance b/d	20 000		Appropriation account – salary		24 000	0.5
0.5	Appropriation account – share of loss	**209 825**	**209 825**	Balance c/d	**229 825**	**185 825**	0.5
		229 825	209 825		229 825	209 825	
							(2)

(c) Items that would be recorded in the current account
- Drawings
- Interest on capital
- Interest on drawings
- Interest on loan to partner(s)

(1 mark for each item, max. 2 marks)

(2)

(d)

Realisation

		$			$	
0.5	Equipment ($248 000 x 0.8)	198 400	Ben's Capital: Equipment		174 000	0.5
0.5	Trade receivables	70 000	Cash at bank – Trade receivables and inventory		96 000	0.5
0.5	Inventory	98 000	Trade payables – discounts received		1 000	0.5
0.5	Cash at bank – realization expenses	6 000	Interest payable		5 050	0.5
			Share of realization loss:			
			Capital – Ben (1/2)	**48 175**		
			Capital – Tom (1/2)	**48 175**	96 350	
		372 400			372 400	
						(4)

(e)

Capital

	2017	Ben $	Tom $	2017	Ben $	Tom $	
0.5	Current account	**229 825**	**185 825**	Balance b/d	**563 500**	**192 000**	0.5
0.5	Realisation: Equipment	174 000		Cash at bank		42 000	0.5
0.5	Realisation	**48 175**	**48 175**				
0.5	Cash at bank	111 500					
		563 500	234 000		563 500	234 000	
							(3)

20 marks

9. 2018.Q4

(a)

Capital

		Jay $	Joe $	Tom $		Jay $	Joe $	Tom $	
0.5	Goodwill	24 000	24 000	32 000	Balance b/d	229 000	144 000		0.5
0.5	Balance c/d (w1)	325 000	200 000	350 000	Goodwill	48 000	32 000		0.5
					Revaluation	72 000	48 000		1
					Bank/Cash			382 000	1
		349 000	224 000	382 000		349 000	224 000	382 000	

(w1) [($325 000 + $200 000) / 60%] x 40% = $350 000 (4)

(b)

Appropriation account for the year ended 31 December 2017

		$	$	
Net profit for the year (w2)			728 600	2
Add: Interest on drawings	- Jay ($180 000 x 5% x 8/12)	6 000		0.5
	- Joe ($120 000 x 5% x 6/12)	3 000	9 000	0.5
			737 600	
Less: Interest on capital	- Jay ($325 000 x 4%)	13 000		0.5
	- Joe ($200 000 x 4%)	8 000		0.5
	- Tom ($350 000 x 4%)	14 000	35 000	0.5
			702 600	
Less: Salaries to partner	- Tom ($22 000 x 12)		264 000	0.5
			438 600	
Share of profits:				
- Jay (3/10)			131 580	
- Joe (3/10)			**131 580**	1
- Tom (4/10)			**175 440**	
			438 600	

(w2) $4 002 600 - $1 085 400 – ($2 412 000 - $264 000) – ($75 600 - $35 000) = $728 600 (6)

(c) As Tom's salary has been paid at the end of each month, there is no outstand salary owing to him and so it will not be included in the balance of his current account. (1)

11 marks

Marking notes – 2018Q4:

✓ Use **proper account names** in the account:

Acceptable 接受	Not acceptable 不接受
Revaluation 重估	Gain on revaluation
	重估計值 / 商譽計值 / 重估增值

10. 2019.Q7

(a)(i)

Revaluation

	2019 Jan 1	$	$	2019 Jan 1	$	
0.5	Motor vans ($574 000 - $390 000)		184 000	Property	346 000	0.5
0.5	Allowance for doubtful debts		42 000	Trade receivables	2 000	1
	Profit on revaluation					
0.5	Capital - Ron (2/5)	48 800				
	Capital - Ann (2/5)	48 800				
	Capital - Ben (1/5)	24 400	122 000			
			348 000		348 000	

(3)

(a)(ii)

Capital

	2019 Jan 1	Ron $	Ann $	Ben $	Carol $	2019 Jan 1	Ron $	Ann $	Ben $	Carol $	
1	Goodwill		90 000	60 000	30 000	Balance b/d	1 160 000	798 000	698 000		0.5
0.5	Loan from Ron	900 000			42 000	Revaluation	**48 800**	**48 800**	**24 400**		0.5
0.5	Cash at bank	**380 800**				Goodwill	72 000	72 000	36 000		0.5
1.5	Balance c/d		**828 800**	**698 400**	**700 000**	Equipment				50 000	0.5
						Cash at bank				**680 000**	0.5
		1 280 800	918 800	758 400	730 000		1 280 800	918 800	758 400	730 000	

(6)

(a) (iii)

Ann, Ben and Carol
Statement of financial position as at 1 January 2019

	$	$	
Non-current assets			
Property ($1 000 000 + $346 000)		1 346 000	0.5
Equipment ($360 000 + $50 000)		410 000	0.5
Motor vans		390 000	0.5
		2 146 000	
Current assets			
Inventory	283 000		0.5
Trade receivables, net ($240 000 - $42 000 + $2 000)	200 000		1
Cash at bank ($287 000 **+ $680 000 - $380 800**)	586 200		1
	1 069 200		
Less: Current liabilities			
Trade payables	88 000		0.5
Loan from Ron	900 000	81 200	1
		2 227 200	
Financed by:			
Capital - Ann		**828 800**	0.5
Ben		**698 400**	0.5
Carol		**700 000**	0.5
		2 227 200	(6)

(b)

Appropriation account for the quarter ended 31 March 2019

	$	
Net profit for the quarter ($270 000 - ($900 000 x 10%) x 3/12)	247 500	1
Less: Partner's salary - Ben ($30 000 x 3/12)	7 500	0.5
	240 000	
Share of profits:		
- Ann (3/5)	114 000	0.5
- Ben (2/5)	76 000	0.5
- Carol	50 000	0.5
	240 000	

(3)

(c) Reasons: (2)

- valuation may be subjective
- relationship with future economic benefit is not easily identifiable or measurable

(1 mark for each relevant reasons, maximum 2 marks)

Total: 20 marks

Supplementary marking notes for Q7:

Candidates' common mistakes:

- ignored the account names given in the question, which were used by the partnership
- Misinterpreted the dates of transactions
- Improper format of the statements
- No workings -- no marks would be given if the final answers are wrong

不接受：重估帳戶借貸方分別記錄重估前及重估後的資產價值

(a)(i) 重估

2018年	$	重估帳人帳概念錯誤	$
12月31日 物業	1,000,000	12月31日 物業	1,346,000
31日 設備	360,000	31日 汽車	590,000
31日 汽車	574,000	31日 設備	360,000

不接受：財務狀況表上在同一列列示所有合夥人的資本餘額

資金籌措

資本	(780000 + 674000 + 700000)	2154000

應分開列示三位合夥人的資本額

不接受：損益分配帳內 不 列示損益分配比率

盈利分撥

– 陳君	應列明損益分配比率 (3/5, 2/5)	127800
		~~85000~~
– 李君		~~[illegible]~~
– 張君		50000

正確記錄張君的保證利潤

11. 2020.Q6

In red: not part of marking scheme. Presented for reference only.

(a)

Realisation

	2020		$	2020		$	$	
	Jan 1			Jan 1				
0.5	Furniture		468 000	Bank: furniture ($468 000 x 70%)	(i)		327 600	1
0.5	Office equipment		180 000	Bank: inventory	(iii)		10 000	0.5
0.5	Inventory		53 500	Loan from Tim	(iii)		31 000	0.5
0.5	Trade receivables		36 500	Capital - Sum	(iv)		30 500	0.5
0.5	Bank: scrap charge	(ii)	23 400	Trade payables: discounts received ($53 000 x 40% x 5%)	(v)		1 060	0.5
0.5	Bank: realisation expenses	(vi)	6 800					
				Loss on realisation:				
				Capital - Yip (1/6)		61 340		
				Capital - Tim (2/6)		122 680		0.5
				Capital - Sum (3/6)		184 020	368 040	
			768 200				768 200	

(6)

(b)

Capital

	2020	Yip $	Tim $	Sum $	2020	Yip $	Tim $	Sum $	
	Jan 1				Jan 1				
0.5	Current account	34 300			Balance b/d	80 000	190 000	280 000	0.5
0.5	Realisation (iv)			30 500	Current account		47 700	48 600	0.5
0.5	Realisation	**61 340**	**122 680**	**184 020**	Capital - Tim	7 820			0.5
1	Capital: Yip		7 820	7 820	Capital - Sum	7 820			
1	Bank		107 200	106 260					0.5
		95 640	237 700	328 600		95 640	237 700	328 600	

(5)

11 marks

Reference:

Bank

2020	$	2020	$
Jan 1		Jan 1	
Realisation: furniture	327 600	Balance b/d	42 000
Realisation: inventory	10 000	Realisation: scrap charge	23 400
		Trade payables ($53 000 - $1 060)	51 940
		Realisation: realisation expenses	6 800
		Capital - Tim	107 200
		Capital - Sum	106 260
	337 600		337 600