

SOURCE MATERIAL FOR USE WITH QUESTION 6

- 6 Poon and Quan are in partnership sharing profits and losses in the ratio 2:1. The following is their summary Statement of Financial Position at 28 February 2015:

	£
Non-current Assets (book value)	
Motor vehicles	25 000
Fixtures and fittings	<u>9 000</u>
	34 000
Current Assets	
Inventory	36 000
Trade receivables	46 000
Bank	<u>2 000</u>
	<u>118 000</u>
Capital:	
Poon	60 000
Quan	40 000
Current Liabilities	
Trade payables	<u>18 000</u>
	<u>118 000</u>

On 28 February 2015 Poon retired from the business and Quan continued in business as a sole trader. The following was agreed:

- Goodwill was valued at £60 000, and this would remain in the books of Quan
- Poon would take one of the motor vehicles at the book value of £10 000
- Inventory was re-valued at £30 000
- All other assets and liabilities were transferred at book value
- Poon would leave £50 000 in the business as a loan for 5 years. The balance owing to him would be paid by cheque.

On 1 March 2015 Quan obtained a £30 000 8% business bank loan.

Required:

- (a) Where there is no partnership agreement, state how the following would be treated:
- (i) Partners' salaries
 - (ii) Partners' loans
 - (iii) Share of profits or losses
 - (vi) Interest on drawings
- (4)
- (b) Prepare the:
- (i) Capital Accounts of Poon and Quan
- (8)
- (ii) Bank Account
- (5)
- (iii) Quan's opening Statement of Financial Position at 1 March 2015.
- (11)
- (c) Evaluate the decision of Quan to keep goodwill in his books.
- (4)

(Total for Question 6 = 32 marks)

Answer space for question 6 is on pages 30 to 34 of the question paper.

6 (a)

- (i) No salaries ✓
- (ii) 5% interest on loans over and above the capital ✓
- (iii) Equal shares ✓
- (iv) No interest on drawings ✓

(4)

(b)

(i)

		Capital Accounts			
		Poon	Quan	Poon	Quan
		£	£	£	£
Motor vehicle	10 000 ✓	Balance		60 000	40 000
Inventory revaluation	4 000 ✓	2 000 ✓	Goodwill	40 000 ✓	20 000 ✓
Loan to Quan	50 000 ✓				
Bank	36 000 ✓	of			
Balance c/d		58 000			
		<u>100 000</u>	<u>60 000</u>	<u>100 000</u>	<u>60 000</u>
		Balance b/d			58 000 ✓
					if Cr

NOTE: Poon bank settlement figure only if no balance carried down

(8)

(ii)

		Bank Account	
		£	£
Balance b/d	2 000 ✓	Poon	36 000 ✓
8% Bank loan	30 000 ✓		✓(✓of)
Balance c/d	4 000		
	<u>36 000</u>		<u>36 000</u>
		Balance b/d	4 000 ✓

(5)

(iii)

Quan - Statement of Financial Position at 1 March 2015

£		
Non-current Assets		
Goodwill	60 000	✓
Motor vehicles	15 000	✓
Fixtures and fittings	<u>9 000</u>	✓
	84 000	
Current Assets		
Inventory	30 000	✓
Trade receivables	<u>46 000</u>	✓
	<u>160 000</u>	
Capital:		
Quan	58 000	✓✓(✓of)
Current Liabilities		
Trade payables	18 000	✓
Bank overdraft	4 000	✓of
Non-current Liabilities		
Loan – Poon	50 000	✓
8% Bank loan	<u>30 000</u>	✓
	<u>160 000</u>	

(11)

(c)

Valid answers may include

In favour

- Shows all assets at valuation
- Should be included when selling the business.

Against

- Not prudent to record goodwill
- Intangible, difficult to value.

✓✓ per point (Max one point in favour and one point against)

(4)

(Total 32 marks)