

## **Foreword**

This resource material was developed to provide teachers with examples of graded assignments for reference and is by no means exhaustive. Teachers are advised to adapt the materials according to the diverse learning needs of students if deemed necessary.

Graded Assignment 3: Accounting for Partnership  
Elementary Level – Question Paper

Albert and Betty had been in partnership for many years, sharing profits and losses in the ratio 3:2. The following terms were included in the partnership agreement:

- (1) Interest on capital was 5% per annum.
- (2) Albert was entitled to an annual salary of \$36,000.
- (3) Interest on partners' drawings was charged at 10% per annum.

On 31 December 2019, Albert retired from the partnership and Candy was admitted as a new partner on the same day. Profits and losses were to be shared equally in the new partnership.

The trial balance as at 31 December 2019 was prepared as follows:

	Dr \$	Cr \$
Machinery	250,000	
Accumulated depreciation – machinery		97,000
Motor vehicles	160,000	
Accumulated depreciation – motor vehicles		83,500
Inventory as at 31 December 2019	200,000	
Trade receivables	69,000	
Cash at bank		127,000
Capital accounts - Albert		180,000
- Betty		120,000
Current accounts - Albert	5,000	
- Betty		8,000
Drawings - Betty (withdrawn on 1 August 2019)	30,000	
Salary - Albert	35,000	
Trade payables		38,000
Net profit for the year		95,500
	749,000	749,000

**REQUIRED:**

(a) Prepare the partnership's appropriation account for the year ended 31 December 2019.

(4 marks)

Upon the retirement of Albert and admission of Candy on 31 December 2019, the partners agreed on the following:

- (i) The amount due to Albert would be left as a loan to the partnership and repaid in 2023.
- (ii) Candy brought in \$300,000 cash by cheque as capital.
- (iii) Machinery and motor vehicles were valued on 1 January 2020 at \$108,000 and \$82,000 respectively.
- (iv) An allowance for doubtful accounts of 4% was to be made.
- (v) Goodwill was to be valued at \$120,000 and no goodwill account was to be maintained in the books.

**REQUIRED:**

- (b) Prepare the following accounts to record the partnership change:
- (i) revaluation account
  - (ii) capital accounts in columnar form (8 marks)
- (c) Prepare a statement of financial position for the new partnership as at 1 January 2020. (8 marks)
- (Total: 20 marks)

Graded Assignment 3: Accounting for Partnership  
Elementary Level – Student Worksheet

(a) Explanatory Notes: Appropriation account for partnership

The purpose of preparing an appropriation account is to adjust the net profit /loss before sharing among partners according to the profit and loss sharing ratio.

- The adjustments include interest on drawings, interest on capital and partners' salaries.

Albert and Betty			
appropriation account for the year ended 31 December 2019		\$	\$
Net profit			
Add: Interest on drawings – Betty ( <i>Working 1</i> )			
Less: Interest on capital ( <i>Working 2</i> )			
- Albert			
- Betty			
Partner's salary – Albert ( <i>Working 3</i> )			
			45,750
Share of profit:			
Albert (3/5)			
Betty (2/5)			45,750

**Working 1:**

The business charged the partners interest calculated in monthly basis based on the amount drawn:

= Amount drawn × interest rate ÷ 12 months × number of months drawn

Interest on drawings - Betty

= \$ \_\_\_\_\_ × \_\_\_\_\_ % ÷ 12 months × \_\_\_\_\_ months

= \$ \_\_\_\_\_

**Working 2:**

The business paid the partners interest calculated based on the opening balance of the capital account:

= Opening balance of capital account × interest rate

Interest on capital - Albert

= \$ \_\_\_\_\_ × \_\_\_\_\_ %

= \$ \_\_\_\_\_

Interest on capital - Betty

= \$ \_\_\_\_\_ × \_\_\_\_\_ %

= \$ \_\_\_\_\_

**Working 3:**

The business paid salaries to the partners who worked for the business.

= The amount incurred in the financial year

= \$ \_\_\_\_\_

(bi) Explanatory notes: Revaluation account

Through the revaluation process, fair values of the assets would be reflected in the books. A revaluation account is opened to record the amount of revaluation gain or loss.

- The aggregated gain / loss in the revaluation account would be shared among partners and transferred to the Capital accounts, using the old profit and loss sharing ratio.

Revaluation loss to be recorded on debit side				Revaluation gain to be recorded on credit side
↓		Revaluation account	↓	
Machinery*  Allowance for doubtful accounts (iv) (\$ _____ × _____)	\$			\$
		Motor vehicles**  Capital - Albert - Betty		

\* If the net book value > revalued amount, revaluation loss occurs:

	\$
Net book value of Machinery (\$ _____ - \$ _____)	
Revalued amount of Machinery	
Revaluation loss of Machinery	

\*\* If the revalued amount > net book value, revaluation gain occurs:

	\$
Revalued amount of Motor vehicles	
Net book value of Motor vehicles	
(\$ _____ - \$ _____)	
Revaluation gain of Motor vehicles	

(bii)	Capital account			Capital account			
	Albert	Betty	Candy	Albert	Betty	Candy	
	\$	\$	\$	\$	\$	\$	
Goodwill *	-----	<input type="text"/>	<input type="text"/>	Balance b/d	<input type="text"/>	<input type="text"/>	-----
Revaluation – loss	<input type="text"/>	<input type="text"/>	-----	Cash at bank	-----	-----	<input type="text"/>
Loan – Albert***	<input type="text"/>	-----	-----	Goodwill*	<input type="text"/>	<input type="text"/>	-----
Balance c/d	-----	<input type="text"/>	<input type="text"/>	Current **	<input type="text"/>	-----	-----
	<u>284,450</u>	<u>168,000</u>	<u>300,000</u>		<u>284,450</u>	<u>168,000</u>	<u>300,000</u>

**\* Goodwill adjustment:**

Step 1: Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill	\$120,000	
	Cr	Capital - Albert	\$ _____
	Cr	Capital - Betty	\$ _____

Step 2: Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)

Dr	Capital - Betty	\$ _____	
Dr	Capital - Candy	\$ _____	
	Cr	Goodwill	\$120,000

\*\* The current account balance of the leaving partner would be transferred to the respective capital account. Prepare Albert's current account to calculate the balance.

Current account - Albert	
\$	\$
Balance b/d	Appropriation account
Capital - Albert	- Interest on capital
	- Partner's salary
	- Profit shared

Only the unpaid portion of Partner's salary would be entered in the current account  
 Amount incurred for the year (refer to item (2)) - Amount paid (stated in trial balance)

\*\*\* As Albert is leaving, there is no balance c/d in his capital account. The balance would be left as a loan to the business.

(c) Betty and Candy  
Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery			
Motor vehicles			
 <b><u>Current assets</u></b>			
Inventory			
Trade receivables			
Less: Allowance for doubtful accounts ( <i>iv</i> )			
(\$ _____ × _____ %)			
Cash at bank (\$ _____ - \$ _____)			
 <b><u>Capital accounts</u></b>			
Betty ( <i>refer to part (bii)</i> )			
Candy ( <i>refer to part (bii)</i> )			
 <b><u>Current accounts</u></b>			
Betty ( <i>Working 1</i> )			
 <b><u>Non-current liabilities</u></b>			
Loan from Albert ( <i>refer to part (bii)</i> )			
 <b><u>Current liabilities</u></b>			
Trade payables			



## Working 1

## Current account - Betty

		\$			\$
Drawings			Balance b/d		
Appropriation account			Appropriation account		
- Interest on drawings			- Interest on capital		
Balance c/d			- Profit shared		

Graded Assignment 3: Accounting for Partnership  
Elementary Level – Suggested Solution and Explanatory Notes

(a)

Albert and Betty		\$	\$
appropriation account for the year ended 31 December 2019			
Net profit			95,500
Add: Interest on drawings – Betty ( <i>Working 1</i> )			1,250
			96,750
Less: Interest on capital ( <i>Working 2</i> )			
- Albert		9,000	
- Betty		6,000	15,000
Partner's salary – Albert			36,000
			45,750
Share of profit:			
Albert (3/5)			27,450
Betty (2/5)			18,300
			45,750

Working 1:

Interest on drawings - Betty

$$= \$30,000 \times 10\% \div 12 \text{ months} \times 5 \text{ months}$$

$$= \$1,250$$

Working 2:

Interest on capital - Albert

$$= \$180,000 \times 5\%$$

$$= \$9,000$$

Interest on capital - Betty

$$= \$120,000 \times 5\%$$

$$= \$6,000$$

Be reminded to state the profit and loss sharing ratio.

Revaluation account			
	\$		\$
Machinery*	45,000	Motor vehicles**	5,500
Allowance for doubtful accounts (\$69,000 × 4%)	2,760	Capital – Albert (3/5)	25,356
		– Betty (2/5)	16,904
	<u>47,760</u>		<u>47,760</u>

Increase in allowance for doubtful accounts => Decrease in net value of trade receivables (assets)

\* Machinery

	\$	
Net book value \$(250,000 - 97,000)	153,000	
Revalued amount	<u>108,000</u>	✚ Revaluation loss =
Loss on revaluation	<u>45,000</u>	Net book value > revalued amount

\*\* Motor vehicles

	\$	
Revalued amount	82,000	
Net book value \$(160,000 – 83,500)	<u>76,500</u>	✚ Revaluation gain =
Gain on revaluation	<u>5,500</u>	Net book value < revalued amount

✚ Gain / loss on revaluation is shared among partners, using old profit and loss sharing ratio:

If gain on revaluation occurs,

Dr Revaluation

Cr Capital accounts

If loss on revaluation occurs,

Dr Capital accounts

Cr Revaluation

(bii)

	Capital account				Capital account		
	Albert	Betty	Candy		Albert	Betty	Candy
	\$	\$	\$		\$	\$	\$
Goodwill *	-----	60,000	60,000	Balance b/d	180,000	120,000	-----
Revaluation – loss	25,356	16,904	-----	Cash at bank	-----	-----	300,000
Loan - Albert	259,094	-----	-----	Goodwill*	72,000	48,000	-----
Balance c/d	-----	91,096	240,000	Current **	<u>32,450</u>	-----	-----
	<u>284,450</u>	<u>168,000</u>	<u>300,000</u>		<u>284,450</u>	<u>168,000</u>	<u>300,000</u>

**\* Goodwill adjustment:**

**Step 1: Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)**

Dr	Goodwill	\$120,000	
	Cr	Capital - Albert	\$72,000
	Cr	Capital - Betty	\$48,000

**Step 2: Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)**

Dr	Capital - Betty	\$60,000	
Dr	Capital - Candy	\$60,000	
	Cr	Goodwill	\$120,000

**\*\* The current account balance of the leaving partner would be transferred to the respective capital account. Prepare Albert's current account to calculate the balance.**

Current account - Albert			
	\$		\$
Balance b/d	5,000	Appropriation account	
Capital - Albert	32,450	- Interest on capital	9,000
		- Partner's salary	1,000
		(\$36,000 - \$35,000)	
		- Profit shared	27,450
	<u>37,450</u>		<u>37,450</u>

(c)

Betty and Candy  
Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			82,000
			190,000
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv)	2,760	66,240	
(\$69,000 × 4%)			
Cash at bank (\$300,000 - \$127,000)		173,000	439,240
			629,240
<div style="border: 1px solid black; padding: 5px; display: inline-block; color: red;"> <p>As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account</p> </div>			
<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		240,000	331,096
<b><u>Current accounts</u></b>			
Betty (Working 1)			1,050
			332,146
<b><u>Non-current liabilities</u></b>			
Loan from Albert			259,094
<b><u>Current liabilities</u></b>			
Trade payables			38,000
			629,240

(c)

Betty and Candy  
 Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			82,000
			190,000
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv)	2,760	66,240	
(\$69,000 × 4%)			
Cash at bank (\$300,000 - \$127,000)		173,000	
			439,240

As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account

Less: <b><u>Current liabilities</u></b>			
Trade payables		38,000	
<b>Working Capital</b>			401,240
			591,240

Financed by			
<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		240,000	331,096
		240,000	

<b><u>Current accounts</u></b>			
Betty (Working 1)			1,050
<b><u>Non-current liabilities</u></b>			
Loan from Albert			259,094
			591,240

As provided in item (i), the loan would be repaid in more than 1 year later (i.e. 2023). Hence, it is classified as non-current liabilities.

## Working 1

Current account - Betty			
	\$		\$
Drawings	30,000	Balance b/d	8,000
Appropriation account		Appropriation account	
- Interest on drawings	1,250	- Interest on capital	6,000
Balance c/d	1,050	- Profit shared	18,300
	32,300		32,300
	32,300		32,300

**Points to be noted:**

- Appropriation adjustments made in the partnership accounts:
  - Interest on drawings: *Dr Current account*  
*Cr Appropriation account*
  - Interest on capital: *Dr Appropriation account*  
*Cr Current account*
  - Partners' salaries: *Dr Appropriation account*  
*Cr Current account*
- The share of the aggregated gain / loss on revaluation will be credited / debited to the respective capital accounts based on the old profit and loss sharing ratio. Summary of the Revaluation account is as follows:

Revaluation Account	
To record:	\$
Decrease in assets value	Increase in assets value
Increase in liabilities value	Decrease in liabilities value
Increase in allowance for doubtful accounts	Decrease in allowance for doubtful accounts

- Goodwill is an intangible asset valued at the excess amount of the total value of a business over the sum of the fair value of all separable net assets. There are two scenarios with different accounting treatments as follows:

Scenario 1:Goodwill account to be opened in the books

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill <sup>^</sup>	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

Scenario 2:Goodwill account not to be opened in the books**Step 1:**

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill *	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

^ As the goodwill account is to be maintained in the books, the value of goodwill will be reported on the statement of financial position as Assets.

**Step 2:**

Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)

Dr	Capital – Betty	\$60,000
Dr	Capital – Candy	\$60,000
	Cr Goodwill*	\$120,000

\* In this scenario, no goodwill will be shown on the statement of financial position.

4. The differences between Capital account and Current account for partnership:

Capital Account

- + Record the initial contribution invested by the partners
- + Items to be recorded in capital account
  1. Capital contributions by the partners
  2. Goodwill adjustment
  3. Gain / loss on revaluation

Current Account

- + Record the recurring items between the partners and the business.
- + Items to be recorded in current account
  1. Drawings from the partners
  2. Interest on capital
  3. Interest on drawings
  4. Partners' salaries
  5. Share of profit or loss

Common mistakes:

1. Unable to identify the revaluation gain or loss on non-current assets due to wrong comparison between the fair value and the cost instead of net book value.
2. Fail to classify the amount of loan from Albert as non-current liabilities in the statement of financial position.
3. Fail to close Albert's current account to his capital account upon his retirement.
4. Mistakenly state the net book value instead of fair value for the non-current assets in the statement of financial position.
5. Fail to record partners' drawings in the current account.
6. Mistakenly record the annual partner salaries of Albert instead of the outstanding amount in his current account.



Graded Assignment 3: Accounting for Partnership  
Standard Level – Question Paper

Albert and Betty had been in partnership for many years, sharing profits and losses in the ratio 3:2. The following terms were included in the partnership agreement:

- (1) Interest on capital was 5% per annum.
- (2) Albert was entitled to an annual salary of \$36,000.
- (3) Interest on partners' drawings was charged at 10% per annum.

On 31 December 2019, Albert retired from the partnership and Candy was admitted as a new partner on the same day. Profits and losses were to be shared equally in the new partnership.

The trial balance as at 31 December 2019 was prepared as follows:

	Dr \$	Cr \$
Machinery	250,000	
Accumulated depreciation – machinery		97,000
Motor vehicles	160,000	
Accumulated depreciation – motor vehicles		83,500
Inventory as at 31 December 2019	200,000	
Trade receivables	69,000	
Cash at bank		127,000
Capital accounts		
- Albert		180,000
- Betty		120,000
Current accounts		
- Albert	5,000	
- Betty		8,000
Drawings		
- Betty (withdrawn on 1 August 2019)	30,000	
Salary		
- Albert	35,000	
Trade payables		38,000
Net profit for the year		95,500
	749,000	749,000

**REQUIRED:**

- (a) Prepare the partnership's appropriation account for the year ended 31 December 2019. (4 marks)

Upon the retirement of Albert and admission of Candy on 31 December 2019, the partners agreed on the following:

- (i) The amount due to Albert would be left as a loan to the partnership and repaid in 2023.
- (ii) Candy brought in \$300,000 cash by cheque as capital.
- (iii) Machinery and motor vehicles were valued on 1 January 2020 at \$108,000 and \$82,000 respectively.
- (iv) An allowance for doubtful accounts of 4% was to be made.
- (v) Goodwill was to be valued at \$120,000 and no goodwill account was to be maintained in the books.

**REQUIRED:**

- (b) Prepare the following accounts to record the partnership change:
- (i) revaluation account
  - (ii) capital accounts in columnar form (8 marks)
- (c) Prepare a statement of financial position for the new partnership as at 1 January 2020. (8 marks)
- (Total: 20 marks)

Graded Assignment 3: Accounting for Partnership  
Standard Level – Student Worksheet

**Hint 1:** Use the following table to identify the information given in the question. Please put a tick in the column of account to which the piece of information is related.

	Appropriation account	Revaluation account	Capital account	Current account
(1) Interest on capital was 5% per annum.	✓(e.g)			✓(e.g.)
(2) Albert was entitled to an annual salary of \$36,000.				
(3) Interest on partners' drawings was charged at 10% per annum.				
(i) The amount due to Albert would be left as a loan to the partnership.				
(ii) Candy brought in \$300,000 cash by cheque as capital.				
(iii) Machinery and motor vehicles were valued on 1 January 2020 at \$108,000 and \$82,000 respectively.				
(iv) An allowance for doubtful accounts of 4% was to be made.				
(v) Goodwill was to be valued at \$120,000 and no goodwill account was to be maintained in the books.				

Hint 2: You need to apply the old profit and loss sharing ratio and/or new profit and loss sharing ratio respectively in different parts of your answer. Please put a tick if you are going to apply the ratio on the following accounting treatments:

Profit and loss sharing ratio	<u>Share of profit/loss after appropriation adjustments</u>	<u>Share of gain/loss on revaluation</u>	<u>Goodwill adjustment</u>
Old ratio: Albert : Betty 3:2			
New ratio: Betty: Candy 1:1			

(a) Albert and Betty  
Appropriation account for the year ended 31 December 2019  


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\$ \$

Net Profit

Add: Interest on drawings – Betty

(\$ \_\_\_\_\_ × \_\_\_\_\_ % × \_\_\_\_\_ ÷ 12 months)

\_\_\_\_\_  
 \_\_\_\_\_

Share of profit:

\_\_\_\_\_  
 \_\_\_\_\_

(bi) **Hints:**

- ✚ Gain on revaluation = Net book value < revalued amount
- ✚ Loss on revaluation = Net book value > revalued amount
- ✚ The aggregated gain / loss in the revaluation account would be shared among partners and transferred to the Capital accounts

<p>✚ <u>Gain on revaluation:</u>                  Share among partners                  Dr Revaluation account                  Cr Capital accounts</p>	<p>✚ <u>Loss on revaluation:</u>                  Share among partners                  Dr Capital accounts                  Cr Revaluation account</p>
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Revaluation account	
\$	\$
_____	_____
=====	=====

Working 1: Calculate the revaluation (gain / loss)\* on machinery:

\$

\_\_\_\_\_  
=====

Working 2: Calculate the revaluation (gain / loss)\* on motor vehicles:

\$

\_\_\_\_\_  
=====

Working 3: Calculate the (increase / decrease)\* in allowance for doubtful accounts:

= \_\_\_\_\_ = \$ \_\_\_\_\_

- (bii) Hints: Steps of recording the partnership change in Capital account  
 Step 1: Opening balances of capital account  
 Step 2: Record the gain /loss on revaluation  
 Step 3: Record the amount contributed by the new partner (Candy)  
 Step 4: Goodwill adjustment when no goodwill account is to be maintained in the books: prepare the necessary journal entries in the following box

Dr	Goodwill	\$ _____	
	Cr Capital - _____		\$ _____
	Cr Capital - _____		\$ _____
Dr Capital - _____		\$ _____	
Dr Capital - _____		\$ _____	
	Cr Goodwill		\$ _____

- Step 5: Transfer the Current account balance of the leaving partner (Albert) to the respective Capital account (See Working 1)
- Step 6: Calculate the amount due to the leaving partner (Albert) as loan to the partnership
- Step 7: Calculate the closing balances of the Capital account for the remaining partners

Capital account					
Albert	Betty	Candy	Albert	Betty	Candy
\$	\$	\$	\$	\$	\$
<div style="border-bottom: 1px solid black; margin-bottom: 5px;"> <span style="float: right;">Current (W1)</span> </div>			<div style="border-bottom: 1px solid black; margin-bottom: 5px;"> </div>		

Working 1

Current account - Albert	
	\$
Capital – Albert (Step 5)	Appropriation account  - Partner’s salary
_____	_____

Only the unpaid portion of Partner's salary would be entered in the current account:  
 Amount incurred for the year (refer to item (2)) - Amount paid (stated in trial balance)

(c)

Betty and Candy  
 Statement of financial position as at 1 January 2020

	\$	\$	\$
--	----	----	----

**Non-current assets**

**Current assets**

\_\_\_\_\_  
 \_\_\_\_\_

**Capital accounts**

-

-

**Current accounts**

- Betty (W1)

**Non-current liabilities**

**Current liabilities**

\_\_\_\_\_  
\_\_\_\_\_

**Working 1**

Current account - Betty	
\$	\$
_____	_____
_____	_____



Graded Assignment 3: Accounting for Partnership  
Standard Level – Suggested Solution and Explanatory Notes

- (a) **Hint 1: Use the following table to identify the information given in the question. Please put a tick in the column to which the piece of information is related.**

	Appropriation account	Revaluation account	Capital account	Current account
(1) Interest on capital was 5% per annum.	✓(e.g)			✓(e.g.)
(2) Albert was entitled to an annual salary of \$36,000.	✓			✓
(3) Interest on partners' drawings was charged at 10% per annum.	✓			✓
(i) The amount due to Albert would be left as a loan to the partnership.			✓	
(ii) Candy brought in \$300,000 cash by cheque as capital.			✓	
(iii) Machinery and motor vehicles were valued on 1 January 2020 at \$108,000 and \$82,000 respectively.		✓		
(iv) An allowance for doubtful accounts of 4% was to be made.		✓		
(v) Goodwill was to be valued at \$120,000 and no goodwill account was to be maintained in the books.			✓	

Hint 2: You need to apply the old profit and loss sharing ratio and/or new profit and loss sharing ratio respectively in different parts of your answer. Please put a tick if you are going to apply the ratio on the following accounting treatments:

Profit and loss sharing ratio	Share of profit/loss after appropriation adjustments	Share of gain/loss on revaluation	Goodwill adjustment
Old ratio: Albert : Betty 3:2	✓	✓	✓
New ratio: Betty: Candy 1:1			✓

Albert and Betty  
Appropriation account for the year ended 31 December 2019

	\$	\$
Net profit		95,500
Add: Interest on drawings – Betty ( $\$30,000 \times 10\% \times 5 \div 12$ months)		1,250
		96,750
Less: Interest on capital ( <i>refer to (1)</i> )		
- Albert ( $\$180,000 \times 5\%$ )	9,000	
- Betty ( $\$120,000 \times 5\%$ )	6,000	15,000
Partner’s salary – Albert ( <i>refer to (2)</i> )		36,000
		45,750
Share of profit:		
Albert (3/5)	27,450	
Betty (2/5)	18,300	45,750

As the appropriation account is prepared for the period before the change in partnership, old profit and loss sharing ratio should be used.

(bi)

Revaluation account

	\$		\$
Machinery (Working 1)	45,000	Motor vehicles (Working 2)	5,500
Allowance for doubtful accounts (Working 3)	2,760	Capital – Albert (3/5)	25,356
		– Betty (2/5)	16,904
	47,760		47,760

Increase in allowance for doubtful accounts =>  
Decrease in value of trade receivables -net (assets)  
  
⇒ Loss on revaluation

Be reminded to state the profit and loss sharing ratio.

Working 1: Calculate the revaluation (gain / loss)\* on machinery

	\$
Revalued amount	108,000
Net book value \$(250,000 – 97,000)	153,000
Loss on revaluation	<u>45,000</u>

Working 2: Calculate the revaluation (gain / loss)\* on motor vehicles

	\$
Revalued amount	82,000
Net book value \$(160,000 – 83,500)	76,500
Gain on revaluation	<u>5,500</u>

Working 3: Calculate the (increase / decrease)\* in allowance for doubtful accounts  
 = \$69,000 × 4% = \$2,760

(bii)

Capital account							
	Albert	Betty	Candy		Albert	Betty	Candy
	\$	\$	\$		\$	\$	\$
Goodwill*	-----	60,000	60,000	Balance b/d	180,000	120,000	-----
Revaluation – loss	25,356	16,904	-----	Cash at bank	-----	-----	300,000
Loan - Albert	259,094	-----	-----	Goodwill*	72,000	48,000	-----
Balance c/d	-----	91,096	240,000	Current (W1)	32,450	-----	-----
	<u>284,450</u>	<u>168,000</u>	<u>300,000</u>		<u>284,450</u>	<u>168,000</u>	<u>300,000</u>

\* Goodwill adjustment when no goodwill account is to be maintained:

Step 1: Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill		\$120,000
	Cr	Capital - Albert	\$72,000
	Cr	Capital - Betty	\$48,000

Step 2: Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)

Dr	Capital - Betty	\$60,000	
Dr	Capital - Candy	\$60,000	
	Cr	Goodwill	\$120,000

Current account - Albert			
	\$		\$
Balance b/d	5,000	Appropriation account	
Capital - Albert	32,450	- Interest on capital	9,000
		- Partner's salary	1,000
		(\$36,000 - \$35,000)	
		- Profit shared	27,450
	<u>37,450</u>		<u>37,450</u>

(c)

Betty and Candy Statement of financial position as at 1 January 2020			
	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			<u>82,000</u>
			190,000
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv)	2,760	66,240	
(\$69,000 × 4%)			
Cash at bank (\$300,000 - \$127,000)		<u>173,000</u>	439,240
			<u>629,240</u>

As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account

<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		<u>240,000</u>	331,096
<b><u>Current accounts</u></b>			
Betty (Working 1)			<u>1,050</u>
			332,146
<b><u>Non-current liabilities</u></b>			
Loan from Albert			259,094
<b><u>Current liabilities</u></b>			
Trade payables			<u>38,000</u>
			<u>629,240</u>

As provided in item (i), the loan would be repaid more than 1 year later (i.e. 2023). Hence, it is classified as non-current liabilities.

(c)

Betty and Candy

Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			82,000
			<u>190,000</u>
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv)	2,760	66,240	
(\$69,000 × 4%)			
Cash at bank (\$300,000 - \$127,000)		<u>173,000</u>	
			<u>439,240</u>

As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account

Less: <b><u>Current liabilities</u></b>			
Trade payables		<u>38,000</u>	
<b>Working Capital</b>			<u>401,240</u>
			<u>591,240</u>

Financed by			
<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		<u>240,000</u>	331,096

<b><u>Current accounts</u></b>			
Betty (Working 1)			1,050
<b><u>Non-current liabilities</u></b>			
Loan from Albert			<u>259,094</u>
			<u>591,240</u>

As provided in item (i), the loan would be repaid in more than 1 year later (i.e. 2023). Hence, it is classified as non-current liabilities.

Working 1

Current account - Betty

	\$		\$
Drawings	30,000	Balance b/d	8,000
Appropriation account		Appropriation account	
- Interest on drawings	1,250	- Interest on capital	6,000
Balance c/d	1,050	- Profit shared	18,300
	<u>32,300</u>		<u>32,300</u>

**Points to be noted:**

- The purpose of preparing an appropriation account is to adjust the net profit /loss before sharing among partners according to the profit and loss sharing ratio. The adjustments include interest on drawings, interest on capital and partners' salaries.
- In the books of partnership, both capital account and current account are prepared for each partner. The advantages of keeping a current account in addition to the capital account are as follows:
  - Initial investment of each partner would not be affected by the recurring transactions between the partners and the partnership.
  - The partnership can be alerted by debit balances in partners' current accounts due to excessive drawings made.
- The share of the aggregated gain/loss on revaluation will be credited/debited to the respective capital accounts based on the old profit and loss sharing ratio. Through the revaluation process, the retiring partner is entitled to get a fair share of the net assets of the partnership and fair values of the assets can be reflected in the books.
- The accounting treatments between the partner's salary and the salary paid to staff are different. Partner's salary is one of the adjustments made in the appropriation account before sharing the profit among partners while the salary paid to staff is an expense reported on the income statement.
- Beware of the amount of partner's salary paid during the year which is stated on trial balance and record the outstanding amount only in the current account.
- Goodwill is an intangible asset valued at the excess amount of the total value of a business over the sum of the fair value of all separable net assets. There are two scenarios with different accounting treatments as follows:

Scenario 1:Goodwill account to be opened in the books

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill <sup>^</sup>	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

<sup>^</sup> As the goodwill account is to be maintained in the books, the value of goodwill will be reported on the statement of financial position as Assets.

Scenario 2:Goodwill account not to be opened in the books**Step 1:**

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill *	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

**Step 2:**

Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)

Dr	Capital – Betty	\$60,000	
Dr	Capital – Candy	\$60,000	
	Cr	Goodwill*	\$120,000

\* In this scenario, no goodwill will be shown on the statement of financial position.

Common mistakes:

- Unable to work out the correct balance of cash at bank account because of overlooking the credit balance stated on trial balance.
- Mistakenly report the unadjusted capital balances on the statement of financial position.
- Fail to compute the correct Albert's current account balance as the annual partner's salary is included in the calculation instead of the unpaid portion.

Graded Assignment 3: Accounting for Partnership  
Advanced Level – Question Paper

Albert and Betty had been in partnership for many years, sharing profits and losses in the ratio 3:2. The following terms were included in the partnership agreement:

- (1) Interest on capital was 5% per annum.
- (2) Albert was entitled to an annual salary of \$36,000.
- (3) Interest on partners' drawings was charged at 10% per annum.

On 31 December 2019, Albert retired from the partnership and Candy was admitted as a new partner on the same day. Profits and losses were to be shared equally in the new partnership.

The trial balance as at 31 December 2019 was prepared as follows:

	Dr \$	Cr \$
Machinery	250,000	
Accumulated depreciation – machinery		97,000
Motor vehicles	160,000	
Accumulated depreciation – motor vehicles		83,500
Inventory as at 31 December 2019	200,000	
Trade receivables	69,000	
Cash at bank		127,000
Capital accounts - Albert		180,000
- Betty		120,000
Current accounts - Albert	5,000	
- Betty		8,000
Drawings - Betty (withdrawn on 1 August 2019)	30,000	
Salary - Albert	35,000	
Trade payables		38,000
Net profit for the year		95,500
	749,000	749,000

**REQUIRED:**

- (a) Prepare the partnership's appropriation account for the year ended 31 December 2019. (4 marks)

Upon the retirement of Albert and admission of Candy on 31 December 2019, the partners agreed on the following:

- (i) The amount due to Albert would be left as a loan to the partnership and repaid in 2023.
- (ii) Candy brought in \$300,000 cash by cheque as capital.
- (iii) Machinery and motor vehicles were valued on 1 January 2020 at \$108,000 and \$82,000 respectively.
- (iv) An allowance for doubtful accounts of 4% was to be made.
- (v) Goodwill was to be valued at \$120,000 and no goodwill account was to be maintained in the books.

**REQUIRED:**

- (b) Prepare the following accounts to record the partnership change:
- (i) revaluation account
  - (ii) capital accounts in columnar form (8 marks)
- (c) Prepare a statement of financial position for the new partnership as at 1 January 2020. (8 marks)
- (Total: 20 marks)

Challenging question

The partnership has been selling antiques for more than 40 years in Causeway Bay which is famous for 'Bargain Price at Best Quality' products. It employs 10 staff and the staff turnover rate has been zero over the last 10 years. On 1 July 2020, Betty and Candy were approached by ABC Ltd and was offered a purchase price of \$1 million cash for taking over the business. The net assets of the partnership, with book value of \$0.5 million on 1 July 2020, were revalued at \$0.8 million.

**REQUIRED:**

- (d) What is the excess amount of purchase price paid by ABC Ltd over the fair value of the partnership's net assets called? Suggest two reasons why ABC Ltd is willing to pay the excess amount for the takeover.
- (e) Explain with a reason why a partnership prefers not to maintain goodwill account in its books. (Total: 4 marks)



Graded Assignment 3: Accounting for Partnership  
Advanced Level – Student Worksheet

(a)

(bi)





Graded Assignment 3: Accounting for Partnership  
Advanced Level –Suggested Solution and Explanatory Notes

(a) Albert and Betty

Appropriation account for the year ended 31 December 2019

	\$	\$
Net profit		95,500
Add: Interest on drawings – Betty ( <i>refer to (3)</i> ) ( $\$30,000 \times 10\% \times 5 \div 12 \text{ months}$ )		1,250
		96,750
Less: Interest on capital ( <i>refer to (1)</i> )		
- Albert ( $\$180,000 \times 5\%$ )	9,000	
- Betty ( $\$120,000 \times 5\%$ )	6,000	15,000
Partner's salary – Albert ( <i>refer to (2)</i> )		36,000
		45,750
Share of profit:		
Albert (3/5)	27,450	
Betty (2/5)	18,300	45,750

According to the accrual concept, the amount incurred in the period (e.g. full entitlement) should be recorded in the appropriation account regardless of whether it is paid or not.

(bi) Through the revaluation process, fair value of the assets would be reflected in the books, and a revaluation account is opened to record the amount of revaluation gain or loss.

- ✚ *Items to be revalued include Machinery, Motor vehicles and Allowance for doubtful accounts*
- ✚ *Loss on revaluation = Net book value > revalued amount*
- ✚ *Gain on revaluation = Net book value < revalued amount*

Revaluation account			
	\$		\$
Machinery*	45,000	Motor vehicles**	5,500
Allowance for doubtful accounts ( $\$69,000 \times 4\%$ )	2,760	Capital – Albert (3/5)	25,356
		– Betty (2/5)	16,904
	47,760		47,760

\* Machinery

	\$
Revalued amount	108,000
Net book value $\$(250,000 - 97,000)$	153,000
Loss on revaluation	45,000

\*\* Motor vehicles

	\$
Revalued amount	82,000
Net book value $\$(160,000 - 83,500)$	76,500
Gain on revaluation	5,500

(bii)

Capital account							
	Albert	Betty	Candy		Albert	Betty	Candy
	\$	\$	\$		\$	\$	\$
Goodwill	-----	60,000	60,000	Balance b/d	180,000	120,000	-----
Revaluation – loss	25,356	16,904	-----	Cash at bank	-----	-----	300,000
Loan - Albert	259,094	-----	-----	Goodwill	72,000	48,000	-----
Balance c/d	-----	91,096	240,000	Current (W1)	32,450	-----	-----
	<u>284,450</u>	<u>168,000</u>	<u>300,000</u>		<u>284,450</u>	<u>168,000</u>	<u>300,000</u>

**✚ Goodwill adjustment**

Share between Albert and Betty (3:2)

Dr Goodwill

Cr Capital – Albert

Cr Capital – Betty

Share between Betty and Candy (1:1)

Dr Capital – Betty

Dr Capital – Candy

Cr Goodwill

Working 1

Current account - Albert			
	\$		\$
Balance b/d	5,000	Appropriation account	
Capital - Albert	32,450	- Interest on capital	9,000
		- Partner's salary	1,000
		(\$36,000 - \$35,000)	
		- Profit shared	27,450
	<u>37,450</u>		<u>37,450</u>

Only the unpaid portion of Partner's salary would be entered in the current account:  
 Amount incurred for the year (refer to item (2)) - Amount paid (stated in trial balance)

(c)

Betty and Candy  
Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			82,000
			190,000
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv)	2,760	66,240	
(\$69,000 × 4%)			
Cash at bank (\$300,000 - \$127,000)		173,000	439,240
			629,240
<div style="border: 1px solid black; padding: 5px; display: inline-block; color: red;"> <p>As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account</p> </div>			
<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		240,000	331,096
<b><u>Current accounts</u></b>			
Betty (Working 1)			1,050
			332,146
<b><u>Non-current liabilities</u></b>			
Loan from Albert			259,094
<b><u>Current liabilities</u></b>			
Trade payables			38,000
			629,240

As provided in item (i), the loan would be repaid in more than 1 year later (i.e. 2023). Hence, it is classified as non-current liabilities.

Alternative Format:

(c)

## Betty and Candy

## Statement of financial position as at 1 January 2020

	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery (iii)			108,000
Motor vehicles (iii)			82,000
			<u>190,000</u>
<b><u>Current assets</u></b>			
Inventory		200,000	
Trade receivables	69,000		
Less: Allowance for doubtful accounts (iv) (\$69,000 × 4%)	2,760	66,240	
Cash at bank (\$300,000 - \$127,000)		<u>173,000</u>	
			<u>439,240</u>

As the account balance of the cash at bank shown on trial balance is a credit balance, it means there are bank overdraft and negative amount in the bank account

Less: <b><u>Current liabilities</u></b>			
Trade payables		<u>38,000</u>	
<b>Working Capital</b>			<u>401,240</u>
			<u><u>591,240</u></u>

Financed by			
<b><u>Capital accounts</u></b>			
Betty (from part (bii))		91,096	
Candy (from part (bii))		<u>240,000</u>	331,096

<b><u>Current accounts</u></b>			
Betty (Working 1)			1,050
<b><u>Non-current liabilities</u></b>			
Loan from Albert			<u>259,094</u>
			<u><u>591,240</u></u>

As provided in item (i), the loan would be repaid in more than 1 year later (i.e. 2023). Hence, it is classified as non-current liabilities.

## Working 1

Current account - Betty			
	\$		\$
Drawings	30,000	Balance b/d	8,000
Appropriation account		Appropriation account	
- Interest on drawings	1,250	- Interest on capital	6,000
Balance c/d	1,050	- Profit shared	18,300
	<u>32,300</u>		<u>32,300</u>



Challenging question

- (d) The excess amount of purchase price paid by ABC Ltd over the fair value of the partnership's net assets is **Goodwill**.

Reasons for paying the excess amount:

- Good quality of goods
- Good reputation owing to long establishment
- Good relationship with suppliers owing to long establishment
- Loyal customer base owing to long establishment
- Good location
- Efficient, experienced and loyal employees

(Any two reasons of the above)

- (e) Reasons for not maintaining goodwill account:

- Valuation of goodwill may be subjective and not reliable
- Its relationship with future economic benefit is not easily identified and measurable

(Any reason of the above)

**Points to be noted:**

1. Fluctuating capital account or fixed capital account can be adopted in the preparation of partnership account. Both the invested amount contributed by partners and the recurring transactions with the partnership are recorded in the fluctuating capital account. On the contrary, only the invested amount contributed by partners are recorded in the fixed capital account while an additional current account is opened to record the recurring transactions.
2. The 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. Through this process, holding gains or losses would also be recognised. 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.
3. Goodwill is an intangible asset valued at the excess amount of the total value of a business over the sum of the fair value of all separable net assets. There are two scenarios with different accounting treatments as follows:

Scenario 1:

Goodwill account to be opened in the books

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill <sup>^</sup>	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

<sup>^</sup> As the goodwill account is to be maintained in the books, the value of goodwill will be reported on the statement of financial position as Assets.

Scenario 2:

Goodwill account not to be opened in the books

**Step 1:**

Share the goodwill between Albert and Betty by old profit and loss sharing ratio (3:2)

Dr	Goodwill *	\$120,000	
	Cr	Capital – Albert	\$72,000
	Cr	Capital – Betty	\$48,000

**Step 2:**

Share the goodwill between Betty and Candy by new profit and loss sharing ratio (1:1)

Dr	Capital – Betty	\$60,000	
Dr	Capital – Candy	\$60,000	
	Cr	Goodwill*	\$120,000

\* In this scenario, no goodwill will be shown on the statement of financial position.

Common mistakes:

1. No working is shown in the answers to gain step marks.
2. Fail to include allowance for doubtful accounts in calculating the revaluation loss upon the retirement of Albert.
3. Mix up the amount incurred and the amount paid of partner's salary, leading to wrong computation of profit shared and current account balance.
4. Using abbreviations in financial statements.

Graded Assignment 3: Accounting for Partnership  
Marking Scheme

			<b>Marks</b>
(a)	Albert and Betty Appropriation account for the year ended 31 December 2019		
	\$	\$	
	Net profit	95,500	0.5
	Add: Interest on drawings – Betty ( <i>refer to (3)</i> ) (\$30,000 × 10% ÷ 12 × 5)	1,250	1
		96,750	
	Less: Interest on capital ( <i>refer to (1)</i> )		
	- Albert (\$180,000 × 5%)	9,000	0.5
	- Betty (\$120,000 × 5%)	6,000	0.5
	Partner's salary – Albert ( <i>refer to (2)</i> )	36,000	0.5
		45,750	
	Share of profit:		
	Albert (3/5)	27,450	0.5
	Betty (2/5)	18,300	0.5
		45,750	
			(Total: 4 marks)

(bi)

		Revaluation account			
		\$		\$	
0.5	Machinery*	45,000		5,500	0.5
0.5	Allowance for doubtful accounts (\$69,000 × 4%)	2,760		25,356	0.5
		47,760		16,904	0.5
				47,760	(2.5)

\* Machinery

	\$
Revalued amount	108,000
Net book value \$(250,000 - 97,000)	153,000
Loss on revaluation	45,000

\*\* Motor vehicles

	\$
Revalued amount	82,000
Net book value \$(160,000 - 83,500)	76,500
Gain on revaluation	5,500

(bii)		Capital account								
		Albert	Betty	Candy	Albert	Betty	Candy			
		\$	\$	\$	\$	\$	\$			
0.5	Goodwill	-----	60,000	60,000	Balance b/d	180,000	120,000	-----	0.5	
0.5	Revaluation – loss	25,356	16,904	-----	Cash at bank	-----	-----	300,000	0.5	
0.5	Loan - Albert	259,094	-----	-----	Goodwill	72,000	48,000	-----	0.5	
	Balance c/d	-----	91,096	240,000	Current (W1)	32,450	-----	-----	2.5	
		<u>284,450</u>	<u>168,000</u>	<u>300,000</u>	<u>284,450</u>			<u>168,000</u>	<u>300,000</u>	(5.5)

(Total: 8 marks)

Working 1 (0.5 marks per entry)

Current account - Albert			
	\$		\$
Balance b/d	5,000	Appropriation account	
Capital - Albert	32,450	- Interest on capital	9,000
		- Partner's salary	1,000
		\$(36,000 – 35,000)	
		- Profit shared	27,450
	<u>37,450</u>		<u>37,450</u>

(c) Betty and Candy			
Statement of financial position as at 1 January 2020			
	\$	\$	\$
<b><u>Non-current assets</u></b>			
Machinery		108,000	0.5
Motor vehicles		<u>82,000</u>	0.5
		190,000	
<b><u>Current assets</u></b>			
Inventory		200,000	0.5
Trade receivables	69,000		0.5
Less: Allowance for doubtful accounts	<u>2,760</u>	66,240	0.5
Cash at bank		<u>173,000</u>	0.5
		<u>439,240</u>	
		<u>629,240</u>	
<b><u>Capital accounts</u></b>			
- Betty		91,096	0.5
- Candy		<u>240,000</u>	0.5
		331,096	
<b><u>Current accounts</u></b>			
- Betty (Working 1)		<u>1,050</u>	3
		332,146	
<b><u>Non-current liabilities</u></b>			
Loan from Albert		259,094	0.5

**Current liabilities**

Trade payables	38,000	0.5
----------------	--------	-----

	629,240	
--	---------	--

(Total: 8 marks)

**Alternative Format:**

(c)

Betty and Candy

Statement of financial position as at 1 January 2020

	\$	\$	\$	
<b><u>Non-current assets</u></b>				
Machinery			108,000	0.5
Motor vehicles			82,000	0.5
			190,000	
<b><u>Current assets</u></b>				
Inventory		200,000		0.5
Trade receivables	69,000			0.5
Less: Allowance for doubtful accounts	2,760	66,240		0.5
Cash at bank		173,000		0.5
		439,240		
Less: <b><u>Current liabilities</u></b>				
Trade payables		38,000		0.5
<b>Working Capital</b>			401,240	
			591,240	
Financed by				
<b><u>Capital accounts</u></b>				
- Betty		91,096		0.5
- Candy		240,000	331,096	0.5
<b><u>Current accounts</u></b>				
- Betty (Working 1)			1,050	3
<b><u>Non-current liabilities</u></b>				
Loan from Albert			259,094	0.5
			591,240	

(Total: 8 marks)

Working 1 (0.5 marks per entry)

Current account - Betty			
	\$		\$
Drawings	30,000	Balance b/d	8,000
Appropriation account		Appropriation account	
- Interest on drawings	1,250	- Interest on capital	6,000
Balance c/d	1,050	- Profit shared	18,300
	32,300		32,300

Challenging question

- (d) The excess amount of purchase price paid by ABC Ltd over the fair value of the partnership's net assets is **Goodwill**. (1)

Reasons for paying the excess amount:

- Good quality of goods
- Good reputation owing to long establishment
- Good relationship with suppliers owing to long establishment
- Loyal customer base owing to long establishment
- Good location
- Efficient, experienced and loyal employees

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

- (e) Reasons for not maintaining goodwill account:

- Valuation of goodwill may be subjective and not reliable
- Its relationship with future economic benefit is not easily identified and measurable

(1 mark for each reason, max. 1 mark)