**Question 11**

**Partnership**

Bogart and Bacall are in partnership, with Bogart having invested twice as much equity as Bacall. Their partnership agreement states:

* Interest on equity is payable to each partner at 10% per annum.
* Annual drawings are to be 25% of the amount of equity each partner has invested.
* Interest on drawings is payable by each partner at 20% per annum.
* A partnership salary of £8,000 is payable to Bacall.
* Residual profit/loss is to be shared between Bogart and Bacall in the ratio of 3:2 respectively.

For Year 1 the following figures relate to the Current Account of Bacall:

* opening balance — nil
* interest on equity — £3,000
* interest on drawings — £1,500
* closing balance — £6,000

Using **all** of the appropriate information from above:

1. **Prepare** the Current Account of Bacall to determine her share of the profit or loss for   
   Year 1. **6**
2. **Calculate** for Bogart the following amounts for Year 1:
3. equity invested
4. annual drawings
5. share of profit/loss **3**
6. **Calculate** the Profit/Loss for the Year for Year 1. **7**

**Total marks (16)**

**Question 11 — solution**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. **Current Account — Bacall** | | | | | |  |  |  |  |  | |  |  | | | | | |  | | |  | | |  | |  | | |
|  | |  | | |  | **Debit** |  | **Credit** |  | **Bal** | |  |  | | | |  |  | | | |
| Interest on Equity | |  | | |  |  |  | £3,000 | **(1)** | £3,000 | |  |  |  | | | |
| Partnership Salary | |  | | |  |  |  | £8,000 | **(1)** | £11,000 | |  |  |  | | | |
| Drawings | |  | | |  | £7,500 | **(2\*)** |  |  | £3,500 | |  |  |  | | | |
| Interest on Drawings | |  | | | £1,500 | **(1)** |  |  | £2,000 | |  |  |  | | | |
| **Share of Profit** | |  | | |  |  |  | **£4,000** | **(1)** | £6,000 | |  |  | | | | | | | | | | |  | |  | | |  | |
|  | |  | | |  |  |  |  |  |  | |  |  | | |  | | | | | | | |  | |  | | |  | |
| **\* Working**: | | Interest on Equity  **(1)**  = £3,000 = 10% of Equity = £30,000 | | | | | | | | | | | | | |  | | | | | | | |  | |  | | |  | |
|  | |  | |  | |  |  |  |  |  | |  |  | | |  | | | | | | | |  | |  | | |  | |
|  | | Drawings = 25% of Equity = 25% x £30,000 = £7,500 **(1)** | | | | | | | | | | | | | | **6** | | | | |  | |  | | | | |
|  | |  | |  | |  |  |  |  |  | | **(1)** |  | | |  | | | | | | | |  | |  | | |  | |
| **(b)** **Bogart:** | | Equity invested = 2:1 = £30,000 x 2 = £60,000  **(1)** | | | | | | | | | | | | | |  | | | | | | | |  | |  | | |  | |
|  | | Drawings = 25% of Equity = 25% x £60,000 = £15,000 | | | | | | | | | | | | | |  | | | | | | | |  | |  | | |  | |
|  | | Share of Profit = 3:2 = £4,000/2x3 = £6,000 | | | | | | | | | | | | | | **3** | | | | |  | |  | | | | |
|  | | | |  | |  |  |  |  |  | |  |  | | |  | | | | | | | |  | |  | | |  | |
| **(c) Profit for the Year for Year 1:** | |  | | Share of Profit Bogart  **(1)** | | | | | | £6,000 | **(1)** | |  | | |  | | | | | | | |  | |  | | |  | |
|  | | | | | |  |  | Bacall |  | £4,000 | **(1)** | | £10,000 | | |  | | | | | | | |  | |  | | |  | |
|  | Add: | |  | Salary | | |  | Bacall |  |  |  | | £8,000 | **(1)** |  | |  |  | | | |
|  | Add: | |  | Interest on E | | | | Bogart |  | £6,000 | **(1)** | |  |  |  | |  |  | | | |
|  |  | |  |  | | |  | Bacall |  | £3,000 | **(1)** | | £9,000 |  |  | |  |  | | | |
|  |  | |  |  | | |  |  |  |  |  | | £27,000 |  |  | |  |  | | | |
|  | Less: | |  | Interest on D | | | | Bogart |  | £1,500 | **(1)** | |  |  |  | |  |  | | | |
|  |  | |  |  | | |  | Bacall |  | £3,000 | **(1)** | | £4,500 |  |  | |  |  | | | |
|  |  | |  | **Profit for the Year** | | | | |  |  |  | | £22,500 |  | **7** | | |  | |  | | | | |

**Total marks (16)**