**Question 24**

**Partnership — revaluations**

Wallace and Bruce are in partnership, sharing profits and losses in the ratio of equity invested. The following is their Trial Balance as at 31 December Year 2.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | **£000** | **£000** |
| Gross Profit | |  | 90 |
| Inventory at 31 December Year 2 | | 9 |  |
| Rates | | 6 |  |
| Advertising | | 7 |  |
| Property (at cost) | | 100 |  |
| Equipment (at cost) | | 50 |  |
| Delivery Vans (at cost) | | 20 |  |
| Provisions for Depreciation at 1 January Year 2: | |  |  |
|  | Equipment |  | 10 |
|  | Delivery Vans |  | 4 |
| Cash and Cash Equivalents | | 49 |  |
| Trade Receivables | | 26 |  |
| Trade Payables | |  | 15 |
| Provision for Bad Debts at 1 January Year 2 | |  | 4 |
| VAT | | 12 |  |
| Discounts | |  | 3 |
| Equity Accounts | |  |  |
|  | Wallace |  | 120 |
|  | Bruce |  | 40 |
| Current Accounts | |  |  |
|  | Wallace |  | 7 |
|  | Bruce | 4 |  |
| Drawings | |  |  |
|  | Wallace | 30 |  |
|  | Bruce | 20 |  |
| Loan — Wallace | |  | 40 |
|  | | 333 | 333 |

**Notes at 31 December Year 2**

1. The partnership agreement of Wallace and Bruce states:
2. interest on equity will be paid at 20% per annum
3. interest on drawings will be charged at 10% per annum
4. a partnership salary of £17,000 will be paid to Bruce
5. interest on loans from partners will be paid at 10% per   
   annum
6. Advertising receivable £1,000.
7. The rates payment for the final quarter of the year is still outstanding.
8. Equipment which had been purchased on 31 May Year 1 and had cost £15,000 was   
   sold on 31 October Year 2 for £7,000 by cheque. It is the policy of the firm to charge   
   a full year’s depreciation in the year of purchase and none in the year of sale. No   
   entries have been made in respect of this sale.
9. Provide for depreciation per annum as follows:
10. Equipment — 20% on cost
11. Delivery vans — 25% of the reduced balance
12. The provision for bad debts is to be adjusted to £3,000.
13. Property was professionally revalued during the year at £110,000.   
    The surplus on revaluation is to be transferred **directly** to a Revaluation   
    Reserve Account.
14. Inventory at 31 December Year 2 had a market value of £11,000.

From the trial balance and notes **you are required to prepare:**

1. an Income Statement for the year ended 31 December Year 2 **15**
2. updated current accounts **6**
3. a Statement of Financial Position as at 31 December Year 2 **13**

**Total marks (34)**

**Question 24 — solution**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **(a)** | **Income Statement and Appropriation Account of Wallace and Bruce for the year ended 31 December Year 2** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | **£000** |  | **£000** |  |  |  |
|  | Gross Profit |  |  |  |  | 90 | **(1)** |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Add | Reduction in Provision for Bad Debts | |  | 1 | **(1)** |  |  |  |  |
|  | Discounts |  |  | 3 | **(1)** | 4 |  |  |  |
|  |  |  |  |  |  | 94 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Less | Expenses |  |  |  |  |  |  |  |  |
|  | Rates (6/3 × 4) |  |  | 8 | **(1)** |  |  |  |  |
|  | Advertising (7−1) |  |  | 6 | **(1)** |  |  |  |  |
|  | Depreciation |  |  |  |  |  |  |  |  |
|  | Equipment (20% × 35) | | | 7 | **(1)** |  |  |  |  |
|  | Delivery Vans (25% × (20−4)) | | | 4 | **(1)** |  |  |  |  |
|  | \*Loss on Sale of Equipment | |  | 5 | **(2)** |  |  |  |  |
|  | Finance Cost on Loan — Wallace | |  | 4 | **(1)** | 34 |  |  |  |
|  | Profit for the Year | |  |  |  | 60 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Add | Interest on Drawings: |  |  |  |  |  |  |  |  |
|  | Wallace |  |  | 3 |  |  |  |  |  |
|  | Bruce |  |  | 2 | **(1)** | 5 |  |  |  |
|  |  |  |  |  |  | 65 |  |  |  |
| Less | Interest on Equity |  |  |  |  |  |  |  |  |
|  | Wallace | 24 |  |  |  |  |  |  |  |
|  | Bruce | 8 | **(1)** | 32 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Salary — Bruce |  |  | 17 | **(1)** | 49 |  |  |  |
|  | Residual Profit |  |  |  |  | 16 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Divided as follows: |  |  |  |  |  |  |  |  |
|  | Wallace |  |  |  |  | 12 | **(1)** |  |  |
|  | Bruce |  |  |  |  | 4 | **(1)** |  |  |
|  |  |  |  |  |  | 16 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **15** |  |
| **\*Workings for Loss on Sale of Equipment** | | | | |  |  |  |  |  |
| Cost | | 15 |  |  |  |  |  |  |  |
| Less depreciation to date | | 3 | **(1)** |  |  |  |  |  |  |
|  | | 12 |  |  |  |  |  |  |  |
| Less Bank | | 7 |  |  |  |  |  |  |  |
| Loss on Sale | | 5 | **(1)** | **2** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **(b)** | | **Current Accounts** | | Wallace Debit | | | Credit | | | Balance | | | | | Bruce Debit | | Credit | | | Balance | | | | |  | | |  | | |
|  |  | |  | | £ | | | £ | | | £ | | | | | £ | | £ | | | £ | | | | |  | | |  | | |
|  |  | | Balance 1 January Year 2 | |  | | | 7 | | | 7 | | | | | 4 | |  | | | -4 | | | | | **(1)** | | |  | | |
|  |  | | Interest on Equity | |  | | | 24 | | | 31 | | | | |  | | 8 | | | 4 | | | | | **(1)** | | |  | | |
|  |  | | Interest on Loan | |  | | | 4 | | | 35 | | | | |  | |  | | | 4 | | | | |  | | |  | | |
|  |  | | Salary | |  | | |  | | | 35 | | | | |  | | 17 | | | 21 | | | | | **(1)** | | |  | | |
|  |  | | Share of Profit | |  | | | 12 | | | 47 | | | | |  | | 4 | | | 25 | | | | | **(1)** | | |  | | |
|  |  | | Drawings | | 30 | | |  | | | 17 | | | | | 20 | |  | | | 5 | | | | | **(1)** | | |  | | |
|  |  | | Interest on Drawings | | 3 | | |  | | | 14 | | | | | 2 | |  | | | 3 | | | | | **(1)** | | | **6** | | |
|  |  | |  | |  | | |  | | |  | | | | |  | |  | | |  | | | | |  | | |  | | |
|  |  | |  | |  | | |  | | |  | | | | |  | |  | | |  | | | | |  | | |  | | |
|  | **(c)** | | **Statement of Financial Position of Wallace and Bruce as at 31 December Year 2** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  | | |  | | |  | | | |  | | | | | Net book | | | | | |  | | |  | | |  | | |
|  | |  | | | Cost | | | Depreciation | | | | | | | | | value | | |  | | |  | | |  | | |  | | |
|  | | **Non-current Assets** | | | £000 | | |  | | | £000 | | | |  | | £000 | | |  | | |  | | |  | | |  | | |
|  | | Property | | | 100 | | |  | | | -10 | | | |  | | 110 | | | **(1)** | | |  | | |  | | |  | | |
|  | | Equipment | | | 35 | | |  | | | 14 | | | |  | | 21 | | | **(2)** | | |  | | |  | | |  | | |
|  | | Delivery Vans | | | 20 | | |  | | | 8 | | | |  | | 12 | | | **(1)** | | |  | | |  | | |  | | |
|  | |  | | | 155 | | |  | | | 12 | | | |  | | 143 | | |  | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
| Add | | **Current Assets** | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Inventory | | |  | | |  | | | 9 | | | | **(1)** | |  | | |  | | |  | | |  | | |  | | |
|  | | Trade Receivables | | | 26 | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
| Less | | Provision for Bad Debts | | | 3 | | |  | | | 23 | | | | **(1)** | |  | | |  | | |  | | |  | | |  | | |
|  | | Advertising Receivable | | |  | | |  | | | 1 | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | VAT | | |  | | |  | | | 12 | | | | **(1)** | |  | | |  | | |  | | |  | | |  | | |
|  | | Cash and Cash Equivalents (49 + 7) | | | | | | | | | 56 | | | | **(1)** | |  | | |  | | |  | | |  | | |  | | |
|  | | Total Assets | | |  | | |  | | | 101 | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | **Current Liabilities** | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Trade Payables | | | | | 15 | | |  | | |  | |  | | |  | | |  |  | | | | | |  | | |
|  | | Rates Payable | |  | | | 2 | | | **(1)** | | | 17 | |  | | |  | | |  |  | | | | | |  | | |
|  | | Working Equity | | |  | | |  | | |  | | | |  | | 84 | | |  | | |  | | |  | | |  | | |
|  | | Net Assets Employed | | |  | | |  | | |  | | | |  | | 227 | | |  | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | **Non-current Liabilities** | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Loan — Wallace | | |  | | |  | | |  | | | |  | | 40 | | | **(1)** | | |  | | |  | | |  | | |
|  | | Net Assets | | |  | | |  | | |  | | | |  | | 187 | | |  | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | **EQUITY** | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Equity Accounts | | | 120 | | |  | | | 40 | | | |  | | 160 | | | **(1)** | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Current Accounts | | | 14 | | |  | | | 3 | | | |  | | 17 | | | **(1)** | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | | 177 | | |  | | |  | | |  | | |  | | |
|  | | **Reserves** | | |  | | |  | | |  | | | |  | |  | | |  | | |  | | |  | | |  | | |
|  | | Revaluation Reserve | | |  | | |  | | |  | | | |  | | 10 | | | **(1)** | | |  | | |  | | |  | | |
|  | |  | | |  | | |  | | |  | | | |  | | 187 | | |  | | |  | | **13** | | | | | | |

**Total marks (34)**