

Student 2: High Merit

NZQA Intended for teacher use only

The following aspects of evidence have been omitted from this exemplar:

- capital and current accounts for Alex and Sam
- statement of financial position extract and note

1

Mighty Mini Golf General Journal			
Date		Dr	Cr
1/1/14	Bank	900	
	Accounts receivable	5,100	
	Land	100,000	
	Buildings	70,000	
	Mini-golf equipment	2,500	
	Goodwill	5,050	
	Allowance for doubtful debts		50
	Accounts payable		3,500
	Mortgage		100,000
	Capital – Sam		80,000
	(to record Sam's contribution)		
	Bank	40,000	
	Capital – Alex		40,000
	(to record Alex's contribution)		

Mighty Mini Golf Profit Distribution Statement for the year ended 31/12/14			
Net Profit			82,500
Add: Interest on drawings – Sam		3,000	
Interest on drawings – Alex		1,500	4,500
			87,000
Less: Distributions:			
Salary – Sam	8,000		
Salary – Alex	10,000	18,000	
Interest on current – Sam	(360)		
Interest on current – Alex	560	200	
Interest on capital – Sam	2,000		
Interest on capital – Alex	4,000	6,000	24,200
			62,800
Profit share – Sam		37,680	
Profit share – Alex		25,120	62,800

Sections of the student's narrative response have been omitted from this Exemplar.

Goodwill represents the future economic benefits from assets like the business's location, good service and customer data base. These don't have a physical presence but they represent income and profit for a business.

If there isn't a partnership agreement partners have to follow the Partnership Act which says that profits have to be shared equally. The Act does not allow any other profit distributions such as interest on drawings, interest on current accounts and interest on capital accounts.

According to their partnership agreement Sam gets 60% of residual profit and Alex gets 40%. This difference reflects Sam's greater capital contribution therefore the greater risk he has taken in investing in the partnership.

4

Interest on drawings is charged to discourage Sam and Alex from taking high drawings. They are charged interest on any drawings above \$20,000 so that they don't withdraw so much cash from Mighty Mini Golf that the business might not be able to pay its bills when they fall due.

2

3

Interest on capital is paid to the partners so that they will keep their capital amounts in the business instead of in a bank account. Without Sam and Alex's capital the business could fall short of money and may have to take out a bank loan or even stop operating.

3

Alex's salary is \$10,000 p.a. and Sam's is \$8,000. The partners have agreed on the salaries so there must be a difference in their roles.