

Student 3: Low Merit

NZQA Intended for teacher use only

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

- formation entries
- profit distribution statement

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Mighty Mini golf General Ledger					
Capital - Sam					
1/1/14	Balance			80,000	Cr
31/12/14	Bank		10,000	90,000	Cr
Current - Sam					
1/1/14	Balance			6,000	Cr
31/12/14	Partner's salary		8,000	17,000	Cr
	Interest on capital		4,000	21,000	Cr
	Interest on current		360	21,360	Cr
	Interest on drawings	1,800		19,560	Cr
	Profit share		36,120	55,680	Cr
	Drawings	38,000		17,680	Cr
Capital - Alex					
1/1/14	Balance			40,000	Cr
1/7/14	Current - Alex		10,000	50,000	Cr
Current - Alex					
1/1/14	Balance			6,000	Cr
1/7/14	Capital - Alex	10,000		4,000	Dr
31/12/14	Partner's salary		10,000	6,000	Cr
	Interest on capital		2,000	8,000	Cr
	Interest on current		240	8,240	Cr
	Interest on drawings	500		7,740	Cr
	Profit share		24,080	31,820	Cr
	Drawings	25,000		6,820	Cr

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Mighty Mini Golf Statement of Financial Position (extract) as at 31 December 2014		
Equity	4	
Contributed capital		140,000
Plus Current		5,000
Capital		\$145,000

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Notes to the Statement of Financial Position

4 Equity

	Capital	Current	Total
Partner - Alex	50,000	(4,000)	46,000
Partner - Sam	90,000	9,000	99,000
Total	140,000	5,000	145,000

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

Goodwill represents Sam and Alex's assets with no physical presence, e.g. customer base, quality of service, which is immediately profitable for the partnership, Mighty Mini Golf.

Profits would have been distributed equally between Sam and Alex if the partnership agreement was not drafted at the time of formation. This is in accordance with the Partnership Act 1908. The Act does not allow profit distribution, e.g. interest on drawings, interest on capital etc.

10% interest on drawings is charged when drawings are above \$20,000. This discourages the partners Alex and Sam from taking out cash from the partnership Mighty Mini Golf. This allows the business to retain cash to ensure debts and expenses can be paid.

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The partners are also charged interest if their current accounts have debit or negative balances. This discourages Sam and Alex from letting this happen. As with interest on drawings, the idea is to ensure there is enough cash in the MMG's bank account for when expenses and liabilities have to be paid because if they can't be paid the business will get into financial difficulty and might need to close.

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Sam will receive a greater share of the profit than Alex (three-fifths compared with two-fifths). This is because he contributed more capital than Alex so it is only fair.

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