



National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TĀEA

Exemplar for Internal Achievement Standard

Accounting Level 3

TRIAL

This exemplar supports assessment against:

Achievement Standard 91405

Demonstrate understanding of accounting for partnerships

An annotated exemplar is an extract of student evidence, with a commentary, to explain key aspects of the standard. It assists teachers to make assessment judgements at the grade boundaries.

New Zealand Qualifications Authority

To support internal assessment

	Grade Boundary: Excellence
1.	<p>For Excellence, the student needs to demonstrate comprehensive understanding of accounting for partnerships.</p> <p>This involves justifying the application of partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has processed partnership transactions and statement extracts for Mighty Mini Golf (1). The accuracy of their processing shows a comprehensive understanding of accounting for partnerships (2).</p> <p>The entity's partnership agreement clauses have been justified in the context of the needs of Mighty Mini Golf (3) and the two partners (4).</p> <p>In justifying how the clauses benefit Mighty Mini Golf, the student has explained impacts on the entity maintaining its viability. Day-to-day operational needs and longer-term goals of the business have been considered.</p>

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

- formation entries for both partners ①
- profit distribution statement ②
- capital account for Sam
- capital and current accounts for Alex
- discussion on the purpose and consequences of the salary clause of the partnership agreement

Current: Sam					
Date		Dr	Cr	Bal	Dr/Cr
1/1/14	Balance			9,000	Dr
31/12/14	Salary		8,000	1,000	Dr
	Interest on capital		4,000	3,000	Cr
	Interest on drawings	1800		1200	Cr
	Interest on current	360		840	Cr
	Profit distribution		36,360	37,200	Cr
	Drawings	3,800		33,400	Cr

Mighty Mini Golf			
Statement of Financial Position (extract) as at 31 December 2014			
Equity	4		
Capital		140,000	
Current		48,700	\$188,700

Notes to the Statement of Financial Position

4 Equity

	Capital	Current	Total
Alex	50,000	15,300	65,300
Sam	90,000	33,400	123,400
	\$140,000	\$48,700	\$188,700

Goodwill represents the additional intangible assets that Sam is bringing to the partnership from his sole trader business. Apart from tangible assets he is contributing the reputation, established client base and location associated with his former business as it is being taken over by the partnership as a going concern. **The goodwill from Sam's existing business will bring immediate economic benefit to Mighty Mini Golf as the existing customers are likely to support the new entity, bringing in sales revenue from the start.**

In the absence of a partnership agreement, profits would be equally distributed between Sam and Alex in accordance with the Partnership Act 1908. This Act does not allow any other profit distributions like interest on capital, interest on drawings and interest on current accounts.

The 3:2 profit share ratio in their partnership agreement is fairer than sharing profits equally. Sam has invested a larger amount into the business, taking more of a risk than Alex. The biggest risk for the partners is that they have unlimited liability meaning they can be held personally liable for debts that Mighty Mini Golf cannot pay. They are potentially risking their personal assets by entering into the partnership. The imbalance in capital contributions is reflected in the profit sharing ratio which provides Sam with a greater reward to offset his risk. If Sam was not rewarded for his greater capital contribution he might be inclined to reduce his capital to the level of Alex's. This may mean the entity lacks the capital needed to continue to operate the business effectively.

Mighty Mini Golf needs to keep sufficient money in its bank account to be able to pay expenses and debts as they fall due. If partners' drawings are high the bank balance might fall so low that an overdraft has to be taken out. The interest on the overdraft would decrease Mighty Mini Golf's profit. So that this doesn't happen, Sam and Alex are charged 10% interest on drawings over \$20,000 to discourage them from taking excessive drawings from the business.

Sam and Alex earn 5% per annum on the balance of their capital accounts. This clause is used to compensate partners for the loss of use of their capital, i.e. the funds are not available for Sam to Alex to use for an alternative investment. The interest encourages the partners to keep or increase their investment in Mighty Mini Golf by paying them with an interest rate that is about the same as they would earn on a term deposit at a bank.

The interest is likely to mean that Sam and Alex are more willing to invest in the partnership which will lead to Mighty Mini Golf having more funds at its disposal to use on expanding their customer base, increasing its advertising, replacing equipment or other actions that could increase future sales and profits.

The interest is credited to partners' current accounts only if the partnership makes a profit for the period and it reduces the amount of profit available for sharing in the profit sharing ratio.

Mighty Mini Golf has a clause in the partnership agreement which states that each partner will be charged or credited 4% interest on their closing current account balances. This clause is a disincentive for partners to take more drawings earned in profit share. A current account with a credit balance earns the partner interest to encourage them to retain some of their profit in the business, rather than investing it elsewhere such as a bank where they would receive a similar interest rate.

It is of benefit to Mighty Mini Golf to have access to funds for growth and expansion, which will have positive long-term impacts on revenue and profit figures.

	Grade Boundary: High Merit
2.	<p>For Merit, the student needs to demonstrate in-depth understanding of accounting for partnerships.</p> <p>This involves explaining the application of partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has processed transactions for Mighty Mini Golf at an in-depth level. 'Follow through' has been employed in appropriately transferring figures to the profit distribution statement, partners' current accounts and the statement of financial position (1).</p> <p>Partnership elements have been explained (2), and the student has recognised the link between partnership agreement clauses and the ongoing viability of the entity (3).</p> <p>The student begins to justify how certain elements of the partnership agreement contribute towards the ongoing viability of Mighty Mini Golf (4).</p> <p>This evidence does not reach Excellence because the student needs to accurately complete the profit distribution statement. Further justification of elements would need to be provided. For example, the student could explain how the goodwill from Sam's former business represents income and profit for the partnership, and why it is appropriate that Alex's salary is higher than Sam's salary.</p>

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.

	Grade Boundary: Low Merit
3.	<p>For Merit, the student needs to demonstrate in-depth understanding of accounting for partnerships.</p> <p>This involves explaining the application of partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has demonstrated, for Mighty Mini Golf, an in-depth understanding of formation entries, partners' capital and current accounts, profit distribution statement and the statement of financial position extract and note (1). 'Follow through' has been employed in assessing processing.</p> <p>The student's explanations of some of Mighty Mini Golf's partnership elements show an in-depth understanding of their purpose (2) and how they can assist the partnership to continue operations (3).</p> <p>For a more secure Merit, the student could explain interest on capital accounts as capital investments have a significant impact on the viability of a partnership, use closing current account balances in the equity section of the statement of financial position.</p>

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

①

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

①

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

①

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.

2

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.

2

3

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.

2

	Grade Boundary: High Achieved
4.	<p>For Achieved, the student needs to demonstrate understanding of accounting for partnerships.</p> <p>This involves applying partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has correctly processed formation entries, capital accounts and the statement of financial position and note (1). Partnership elements have been applied to Mighty Mini Golf (2). There is some recognition of how agreement clauses contribute to the partnership's ability to continue operations (3).</p> <p>To reach Merit, the student could demonstrate greater understanding of current accounts and the profit distribution statement by processing transactions with greater accuracy. Explanations of partnership agreement clauses could be more detailed.</p>

Student 4: High Achieved
NZQA Intended for teacher use only

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

- formation entries
- statement of financial position extract and note

①

Mighty Mini Golf General Ledger					
Date		Dr	Cr	Bal	
Capital - Sam					
1/1/13	Balance			80,000	Cr
31/12/15	Bank		10,000	90,000	Cr
Current - Sam					
31/12/13	Balance			9,000	Dr
	Salary		8,000	1,000	Dr
	Interest on Capital		4,000	3,000	Cr
	Interest on Current	360		2,640	Cr
	Interest on Drawings	3,800		(1,160)	Cr
	Profit Share		39,000	37,840	Cr
	Drawings	38,000		(160)	Dr
Capital - Alex					
1/1/13	Balance			40,000	Cr
1/7/13	Current - Alex		10,000	50,000	Cr
Current - Alex					
31/12/13	Balance			4,000	Cr
	Salary		10,000	14,000	Cr
	Interest on Capital		2,000	16,000	Cr
	Interest on Current		160	16,160	Cr
	Interest on Drawings	2,500		13,660	Cr
	Profit Share		260,000	39,660	Cr
	Drawings	25,000		14,660	Cr

Mighty Mini Golf Profit Distribution Statement for the year ended 31/12/12			
Net Profit			82,500
Add: Interest on drawings – Sam		3,800	
Interest on drawings – Alex		2,500	6,300
			88,880
Less: Distributions:			
Salary – Sam	8,000		
Salary – Alex	10,000	18,000	
Interest on current – Sam	(360)		
Interest on current – Alex	160	(200)	
Interest on capital – Sam	4,000		
Interest on capital – Alex	2,000	6,000	23,800
			65,000
Profit share – Sam		39,000	
Profit share – Alex		26,000	65,000

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

Goodwill represents future inflow of economic benefit from those goods with no physical presence, e.g. customer base, location, quality of service which will bring in profit to Mighty Mini Golf. **Some of the customers from Sam's old mini-golf business will probably keep going to the new business.**

2

If there was no Partnership Agreement at the time of formation the profits would have been distributed equally to follow the New Zealand Partnership Act 1908 even if one partner worked longer and deserved a higher salary.

Sam and Alex are charged interest on drawings in excess of \$20,000 to put them off taking too much drawings out of Mighty Mini Golf to ensure financial stability (liquidity).

3

Sam and Alex can earn 5% interest on the balances of their capital accounts. **This rewards them for keeping their capital invested in the business.**

2

Sam gets a lower salary than Alex, although Sam's share of the profit is higher so it is probably fair.

	Grade Boundary: Low Achieved
5.	<p>For Achieved, the student needs to demonstrate understanding of accounting for partnerships.</p> <p>This involves applying partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has accurately processed the partners' capital accounts and the profit distribution statement is mostly correct (1). Some understanding of the purpose of Mighty Mini Golf's partnership clauses has been demonstrated (2).</p> <p>For a more secure Achieved, Alex's formation entry would be recorded, allowance for doubtful debts calculated, and the statement of financial position extract and note would be completed.</p> <p>Partnership elements would be more closely applied to Mighty Mini Golf.</p>

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

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

1

Mighty Mini Golf General Journal			
1/1/12	Bank	900	
	Accounts Receivable	5,100	
	Buildings	70,000	
	Land	100,000	
	Mini-golf Equipment	12,000	
	Goodwill	5,000	
	Accounts Payable		3,500
	Mortgage		100,000
	Capital - Sam		80,000
	(to record Sam's contribution)		
	(to record Alex's contribution)		

Date		Dr	Cr	Bal	
Current - Sam					
31/12/13	Balance			9,000	Dr
	Partner's Salary		8,000	1,000	Dr
	Interest on Capital		4,500	3,500	Cr
	Interest on Current	360		3,140	Cr
	Interest on Drawings	1,800		1,340	Cr
	Profit Distribution		36,060	34,720	Cr
	Drawings	38,000		(3,280)	Dr
Current - Alex					
31/12/13	Balance			4,000	Cr
	Partner's Salary	10,000		6,000	Dr
	Interest on Capital		2,000	4,000	Dr
	Interest on current		560	3,440	Dr
	Interest on Drawings	500		3,940	Dr
	Profit Distribution		24,040	20,100	Cr
	Drawings	25,000		(4,900)	Dr

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

Goodwill represents the future economic benefits of assets of Mighty Mini Golf with no physical presence.

In the absence of a Partnership Agreement, profits are to be shared equally among the partners, according to the Partnership Act 1908.

The reason why there is a clause that charges partners if their drawings exceed \$20,000 is to discourage them from withdrawing or spending too much money from the business. This means the business will have sufficient funds to carry on.

2

Interest on capital accounts is earned at 5% p.a. on opening balances. This encourages the partners to keep their capital in the business. If they took their money out and put it in a bank account they could earn about the same interest percentage.

2

	Grade Boundary: High Not Achieved
6.	<p>For Achieved, the student needs to demonstrate understanding of accounting for partnerships.</p> <p>This involves applying partnership accounting elements to enable the partnership to continue operations.</p> <p>This student has accurately processed formation entries and capital accounts (1). Some generic understanding of partnership elements has been demonstrated (2), with minimal application to Mighty Mini Golf (3).</p> <p>To reach Achieved, the student could accurately process more profit-sharing transactions in current accounts, enter salaries in the profit distribution statement and complete the statement of financial position extract and note.</p> <p>Partnership elements could be applied in context and linked to the ongoing operations of the entity.</p>

Student 6: High Not Achieved

NZQA Intended for teacher use only

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

- formation entries
- capital accounts for Alex
- profit distribution statement

1

Current - Sam					
1/1/13	Balance			9,000	Dr
31/12/15	Interest on Capital		4,000	5,000	Dr
	Interest on Drawings	1,800		6,800	Dr
Current - Alex					
1/1/13	Balance			14,000	Cr
	Capital - Alex	10,000		4,000	Cr
	Interest on Capital		2,000	6,000	Cr
	Interest on Drawings	500		5,500	Cr

Mighty Mini Golf			
Profit Distribution Statement for the year ended 31/12/13			
Net Profit			82,500
Add: Interest on drawings - Sam		1,800	
Interest on drawings - Alex		500	2,300
			84,800
Less: Distributions:			
Interest on Capital - Sam	4,000		
Interest on Capital - Alex	2,000	6,000	
Interest on Current - Sam	(360)		
Interest on Current - Alex	560	200	
Drawings - Sam	38,000		
Drawings - Alex	25,000	63,000	69,200
			15,600
Profit share - Sam		9,360	
Profit share - Alex		6,240	15,600

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

Goodwill represents the assets in the partners' firm that have no physical presence, things like the good reputation of the business that will mean customers keep coming to buy from it.

If a Partnership Agreement has not been established, then the profit share in the partnership should be shared equally between partners, due to the Partnership Act 1908.

The partners agree on what their salaries will be. There is a difference in what they will be paid and this could be to do with different work the partners do or their different qualifications. They also agree on their percentage profit share and this might also be different for the partners.

2

The clause that charges interest on partners' drawings over \$20,000 is to discourage Sam and Alex from taking too much money out of the partnership's bank account.

3