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British Venture Capital Association

Statement approved by the Inland Revenue and the Department of Trade and Industry on the use of limited partnerships as venture capital investment funds

26 May 1987

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The Board of Inland Revenue has agreed with the Taxation Committee of the British Venture Capital Association the tax treatment of partnerships established under the Limited Partnerships Act 1907 and used as vehicles for raising funds wholly or partly for equity investment in unquoted companies.

The British Venture Capital Association considers that the existence of an effective onshore structure for United Kingdom venture capital investment funds will help to ensure the continuing and increasing commitment of funds to the venture capital industry for investment in young and growing businesses. The sources of these funds include domestic United Kingdom financial institutions, corporate and other investors, as well as fast developing interest from foreign sources of finance, which have been impressed by the success of the United Kingdom venture capital industry and with the companies in which it has invested over the past seven years.

The principal points agreed by the Inland Revenue and the Department of Trade and Industry are set out below. They are considered further in guidelines prepared by the British Venture Capital Association and agreed with the Inland Revenue which are attached as Annexe A. A summary of the securities law implications of limited partnership structure is attached as Annexe B which has been discussed with the Department of Trade and Industry, who consider it consistent with their understanding of the law.

1 Taxation treatment of the partnership

1.1 A limited partnership established for the purpose of raising funds for investment into companies will be regarded as carrying on a business and will represent a partnership within the definition in section 1 of the Partnership Act 1890 for the purposes of United Kingdom taxation.

1.2 Where one of the partners in a limited partnership is the trustee of an unauthorised unit trust for exempt funds, the partner concerned will be regarded as a single partner for the purposes of the 20 partner limit. Where, in order to avoid exceeding the 20 partner limit, two or more limited partnerships are established having the same structure as each other and investing in parallel, each will be treated as a separate partnership by the Inland Revenue and the Department of Trade and Industry.

1.3 The income and capital gains arising within the partnership will be subject to tax upon receipt by the partnership the income and gains of the partners who are entitled to them. In accordance with the Statement of Practice of 17 January 1975, each partner will be regarded as owning a fractional share of each of the partnership assets, dependent on its profit sharing ratio, and not an interest in the partnership. Tax will be recoverable only from the partners and not from the partnership.

1.4 Where a venture capital fund is run through the medium of a limited partnership and it purchases shares and securities with the intention of holding them as investments, any profits or losses on disposal of those shares and securities will not, unless paragraphs 1.6 or 1.7 apply be treated as income of a trade within Case 1 Schedule D.

1.5 Where management assistance is provided by the general partner to the companies in which investments are held by the partnership, such assistance would not, of itself, cause the limited partnerships to be treated as trading.

1.6 The treatment set out in paragraph 1.4 above does not extend to circumstances where the partnership is carrying on a business of lending money and the acquisition of shares and securities is ancilliary to that business.

1.7 The tax treatment appropriate to each member of the partnership would be looked at separately. For this purpose, its activities as a partner will be regarded as part of its total activities. Thus, for example, a pension fund will retain its exempt status even if some of its investments are made as a limited partner. Similarly, a bank or general insurance company will remain assessable on a Case 1 “realisation” basis both in respect of its investments made as a limited partner and its other investments, on the basis that investments made via the limited partnership will be a small part of its aggregate trade.

1.8 Those provisions will be applicable from the commencement of the partnership even though, pending the acquisition of investments, its assets may temporarily be limited to holding cash deposits or short-term monetary instruments.

2 Taxation treatment of individual partners involved in management

Where a partnership is established with a relatively small amount of partnership capital and substantial loans to the partnership, individuals involved in the management of the partnership, whether as directors or employees of the general partner or any body corporate providing services to the general partner or otherwise and who receive full arm's length rates of remuneration for the services they perform as directors or employees, and who become limited partners (directly or indirectly) by subscribing or purchasing a proportion of capital but not loans to the partnership, will not be considered to have acquired either their partnership interests or their interests in underlying investments of the partnership acquired after they became partners by reason of rights conferred upon them or opportunities offered to them as directors or employees of any body corporate for the purposes of Section 79 of the Finance Act 1972. Gains realised by such persons in consequence of their limited partnership interests will be treated as accruing to those persons as capital gains for the purposes of United Kingdom taxation.

3 Change in profit sharing ratios

3.1 Where the ratios in which partners share in the proceeds of disposal of assets vary during the life of a limited partnership without consideration passing outside the partnership, the provisions of paragraph 4 of the Inland Revenue Statement of Practice dated 17 January 1975 apply and, in consequence, where no revaluation or adjustment is made through the partnership accounts the disposal between the partners will be treated as made for consideration equal to the relevant portion of the disposer's capital gains cost. A change in ratios will not give rise to a chargeable gain nor an allowable loss in consequence.

3.2 Where, as a result of the application of paragraph 4 of the Statement of Practice certain limited partners are deemed to have acquired a proportion of costs finance by other partners, the limited partnership may adjust the amounts payable to members of the partnership at its termination to compensate those partners whose liability to tax or chargeable gains has arisen in part by reason of reduction of their allowable costs to the extent of any tax benefit which has accrued to the partners whose profit shares have

increased. The adjustment to be debited to the partners whose costs are deemed to have increased on a change in profit sharing ratios will represent an adjustment to the payments out of partnership capital upon termination and not consideration for the disposal or part of any partner's share in the partnership assets or for the disposal of any other asset. Provided any such adjustment on termination of the partnership is not expressed as being in consideration of the change in profit sharing ratio, it will not be treated as consideration for the purposes of paragraph 6 of the Statement of Practice of 17 January 1975.

4 Taxation treatment of the General Partner

4.1 Where the general partner is a company and derives its remuneration solely from being a partner in the limited partnership, it will normally be expected to qualify as an investment company under Section 304 of the Income and Corporation Taxes Act 1970 as its income will consist of its share of the profits and capital gains from the partnership.

4.2 The general partner will suffer tax on income and gains of the partnership which are apportioned to it as its particular share according to the nature of the profits received ie, franked investment income, unfranked investment income and chargeable gains.

4.3 Where the general partner is an investment company, expenses of management incurred by the general partner in connection with the business of the partnership may be deducted in computing, for the purposes of corporation tax, the total profits of the general partner in accordance with the provisions of Section 304 of the income and Corporation Taxes Act 1970.

26 May 1987

Annexe A
British Venture Capital Association

Guidelines agreed with the Inland Revenue for the establishment of onshore venture capital funds structured as limited partnerships

Promoters of venture capital funds must rely on their own professional advice on the taxation and other consequences of the structure of their funds. Clearly the British Venture Capital Association can take no responsibility for the matters stated in these guidelines.

1 Nature of the limited partnership

1.1 A partnership is defined as "the relation which subsists between persons carrying on a business in common with a view of profit". A limited partnership is a partnership which is registered as such (with the Registrar of Companies) under the Limited Partnership Act 1907; between a general partner (or general partners), who alone has responsibility for the management of the partnership business, and limited partners, who enjoy limited liability so long as they do not participate in the management of the partnership business.

1.2 Like all partnerships (other then certain professional partnerships) the number of partners may not exceed twenty; where there are more than this number of participants, it may be necessary to establish more than one limited partnership investing in parallel.

1.3 Certain pension funds are precluded by their trust deeds from being partners in a partnership (including in a limited partnership). To cater for such pension funds, it may be desirable for one of the partners in the partnership to be the trustee of an exempt unauthorised unit trust in which only unit holders which are exempt from capital gains tax or corporation tax (otherwise than by reason of residence) may be members and which will therefore be exempt from capital gains tax under Section 96 of the Capital Gains Tax Act 1979.

1.4 Both the Inland Revenue and the Department of Trade and Industry have confirmed that, where partnerships are established for the purpose of holding venture capital funds:

a) they would treat each parallel partnership referred to in paragraph 1.2 separately; and

b) they would regard the trustee of the trust referred to in paragraph 1.3 as a single partner for the purposes of the twenty partner limit;

but since the consequences of exceeding the limit would not be confined to taxation, sponsors of venture capital investment funds may wish to take their own advice on this subject.

1.5 The Inland Revenue have confirmed that a venture capital investment fund structured as a limited partnership would be subject to taxation on capital gains in accordance with the Statement of Practice of 17 January 1975 and that "each partner has therefore to be regarded as owning a fractional share of each of the partnership assets and not for this purpose an interest in the partnership". Net income will be allocated to the partners on the agreed profit sharing basis.

2 Outline structure

2.1 In agreeing the taxation consequences of a limited partnership carrying on the business of a venture capital investment fund with the Inland Revenue, the following "model" outline structure was put forward. Potential sponsors will clearly wish to take advice as to whether this structure is appropriate to their requirements, but any material deviation from this structure would not necessarily be treated by the Inland Revenue in the same way (see paragraph 5 below).

2.2 The following structure assumes a "carried interest" for the individuals and companies who establish the fund (ie, a capital share in the surplus profits of the fund as a whole over the initial value of the fund) at the rate of 20% with or without a "hurdle rate" (ie a notional rate of return on the initial value of the fund below which the "carried interest" would not participate). Clearly different levels of "carried interest" and varying "hurdle rates", if any, will be appropriate in particular cases. There are three categories of partners: founder partners who would be the individuals and companies sponsoring the partnership who would receive a 20% "carried interest" represented by a 20% share in the partnership capital, the general partner which would participate in profits only to the extent of its "management charge" and investors who would subscribe both 80% of the partnership capital and advance loans to the limited partnership.

a) the founder partners would establish, or arrange the establishment of, the company which would become general partner and also establish the partnership with the general partner by becoming (directly or indirectly by nominating a third party) limited partners, subscribing partnership capital and being granted the right, following the subscription by investors as described in paragraph (c) below, to subscribe a total of 20% of the capital of that and any other limited partnership carrying on business in parallel (to avoid exceeding the 20 partner limit);

b) the limited partnership (or its sponsors and promoters) would then issue a document seeking funds from investors;

c) investors would subscribe capital to the limited partnership amounting to 80% of its total capital (the remaining 20% being held by founder partners) and a large amount of loan which may or may not carry interest (representing the "hurdle rate") depending on the fund concerned and the founders' perception of the basis upon which investors would be interested in participating:

d) the general partner would:

   i) identity investments;

   ii) prepare investment appraisals and investigate potential investments;

   iii) negotiate the terms of investment and complete the investments;

   iv) monitor investments (often involving the provision of a director to the board) and provide advice and assistance to investee companies; and

   v) at the end of the life of the fund or at any appropriate time provide advice to investee companies on making a market for its shares or arrange a sale of its shares in the company;

e) the general partner might, instead of providing these services directly to the limited partnership, procure that an associated body ("the manager") which would employ or retain the services of the founder partners and various other executives, rent premises, employ secretarial staff etc, would act as manager of the partnership;

f) the general partner would pay a fee to the manager for these services: in addition the manager would receive directors fees, syndication fees and arrangement fees from investee target companies;

g) the general partner would receive a partnership share ("the management charge") equal to 2.5%, or such other figure as is considered appropriate, of the initial value of the fund and payable in the manner described in paragraph (h) below;

h) the partnership deed would provide for the proceeds of distributions from investments and realisations to be applied:

   i) as a first charge on income and capital gains in the payment of the management charge;

   ii) if there is insufficient income and capital gain in any year to cover the management charge payable to the general partner, the balance will be advanced from the partnership as an interest free loan;

   ill) if in any year income and capital gains exceed the amount of the management charge, any balance will be applied in reducing or repaying the interest free loan (any balance of this interest free loan at the termination of the partnership would be written off);

   iv) in repaying the loan from investors together with any interest; and

   v) any balance after the loans and interest (if any) have been repaid (such point in time being referred to as "the loan repayment date") will be divided between the limited partners according to their contribution towards partnership capital (ie 20% to founder partners and 80% to investors);

In some cases this order may be varied (see paragraph 4.4 below);

i) the partnership deed would provide that, subject to the share of profits of the general partner, the profit sharing ratio of the investors prior to the loan repayment date would be 100% and after the loan repayment date that of the investors would be 80% and the founders, 20%.

3 Taxation treatment of individual partners involved in management

3.1 The Inland Revenue have confirmed that they take the view, provided that the employees or directors in question receive full arm's length rates of remuneration for the services they perform as directors or employees, that the interests in shares held by employees or directors of the general partner or service company (whether directly or indirectly) as limited partners as a result of the partnership acquiring investments after they become partners does not arise in pursuance of a right conferred on them as directors or employees and that Section 79 of the Finance Act of 1972 would therefore not apply to the increase in value of such interests.

3.2 In some cases an employee or director might become a partner after the establishment of the partnership either by purchasing the interests of one or more founder partners or by subscribing further partnership capital. The Inland Revenue have confirmed that the taxation treatment above would also apply to such persons.

4 Apportionment of capital gains

4.1 As stated above the Inland Revenue have confirmed that they would regard the Statement of Practice of 17 January 1975 relating to the capital gains tax treatment of partnerships as applying to limited partnerships of this nature. Capital realisations would therefore be treated as belonging to partners as they arise in accordance with their profit sharing ratios. Subject to the general partner's share of the profits of the partnerships in an amount equal to the "management charge," the founder partners would not be treated as having any profit sharing ratio prior to the loan repayment date: after the loan repayment date their profit sharing ratio would be 20% and that of the Investors would be 80%.

4.2 The Inland Revenue would regard paragraph 4 of the Statement of Practice as applying at the loan repayment date. This provides that, on a change in profit sharing ratios where no consideration is paid for the change, each partner whose ratio is reduced is treated as disposing of a fractional share in the partnership assets to each partner whose share is increased at a value such that neither a loss nor a gain accrues. The investors will therefore be treated as having disposed of 20% of the investments held by the

partnership of the founder partners at the base cost for capital gains tax of such assets. After the loan repayment date, founder partners would be liable to capital gains tax on the difference between their share of the disposal proceeds and the base cost apportioned to them as a result of the disposal.

4.3 The allocation of pad of the investors' base cost to the founder partners for no consideration, in accordance with paragraph 4 of the Statement of Practice, may in certain circumstances affect the apportionment of the overall capital gain amoung the partners. More will arise to the investor partners because they will not be able to deduct the whole of their investment in the partnership from their shares of the disposal proceeds and less to founder partners because they will be able to deduct part of the investor partners' acquisition costs from their shares of the disposal proceeds. While this will be of no concern to exempt investors, it may affect others and in such cases it may be considered appropriate for the founder partners to compensate the investors by an adjustment in profit sharing ratios after the loan repayment date, by a payment at the termination of the partnership or by other methods. Provided any such compensation payment is not expressed to be consideration for the change in profit sharing ratios, it will not be taxable and will not affect the tax treatment referred to above.

4.4 Some venture capital funds allow the holders of the carried interest (ie the founder partners) to receive a share in the gains on disposal of investments before the level of realisations of the fund as a whole equals the initial value of the fund plus any hurdle rate, provided the remaining investments have been valued by the fund's auditors at an appropriate amount taking into account distributions of capital and of income already made. Such distributions before the loan repayment date could involve a special variation of the profit sharing ratio of the partnership with regard to the investment then disposed of so that a proportion of the base cost and the disposal proceeds of that investment would be apportioned to the founder partners.

5 Deviations from the guidelines

The Inland Revenue has no clearance procedure in this area and can offer no guarantee that it will be able to comment on any schemes which do not follow the guidelines. For the next 12 months, however, it will do its best to comment on any variations which sponsors regard as essential for the successful flotations of a particular limited partnership. Enquiries should be addressed to Board of Inland Revenue, Technical Division (Partnership), Room 91, New Wing, Somerset House, London WC2R 1 LB, and should adopt the following format:

> "XY limited partnership is proposing to depart from the guidelines in the following ways ..... for the following commercial reasons ..... The impact of this on UK tax as against a scheme adopting the guidelines will be ..... This proposed departure leaves the sponsors (name and address) doubtful as to the impact of section ..... in the following circumstances ..... The legal advice they have received is as follows based on the following arguments ..... Can the Revenue confirm that it agrees with this legal advice? The accounts of the limited partnership will be submitted to ..... District and we authorise Technical Division to copy this letter and its reply to the District Inspector".

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Annexe B
British Venture Capital Association

Securities law implications agreed with the Department of Trade and Industry of the use of limited partnerships as venture capital investment funds

This Annexe, which has been discussed with the Department of Trade and Industry who consider it consistent with their understanding of the law, sets out the anticipated securities law implications of the limited partnership structure described in Annexe A. It must, however, be emphasised that it is for the courts to interpret the law and promoters of venture capital funds must therefore rely on their own professional advice. In accordance with the structure described in Annexe A, it is assumed in this Annexe that the limited partnership will be managed by a separate company or partnership ("the Manager"). The Manager will market the limited partnership to prospective investors in the limited partnership and also identify and seek to attract prospective investee companies. If the guidelines below are followed, only the Manager (and not the limited partnership itself) will need to be authorised.

1 The Present Law

1.1 The need for authorisation

The Manager will need to be authorised under the Prevention of Fraud (investments) Act 1958 ("the PFI Act") The PFI Act requires anyone who carries on the business of dealing in securities in Great Britain to be authorised; dealing in securities includes both investing on behalf of the partnership and seeking investors in the limited partnership and investee companies. The Manager can obtain authorisation by being licensed by the Department of Trade and Industry ("the DTI") or by joining The Stock Exchange or a recognised association of dealers in securities, such as F1MBRA. Assuming that the Manager is authorised, the limited partnership will not itself need to be authorised if it acts only through the Manager and all investment agreements are signed by the Manager on its behalf; this, however, will only be the case if the Manager merely promotes itself as the manager of a limited partnership or limited partnerships with funds to invest and neither the Manager nor the limited partnership promotes the availability of the (named) limited partnership as a prospective investor.

1.2 Marketing

The PFI Act also restricts the marketing of the limited partnership to prospective investors or prospective investee companies by way of circulars (that is, documents in standard form). However, the restrictions do not apply to such circulars which are issued by a person authorised under the PFI Act (for example, the Manager), even if they are issued about or on behalf of the limited partnership; if, however, the limited partnership has already begun to carry on a business, this exception applies only insofar as this can be done without holding out the limited partnership as dealing in securities. There are also restrictions on the cold-calling of certain kinds of prospective investors or investee companies under the Licensed Dealers Rules.

2 The Financial Services Act

2.1 Introduction

The PFI Act will be replaced in the near future (probably at the end of the year) by the Financial Services Act 1986 (“the FSA”). As the new regime has not yet been established and the FSA is new legislaion, it is impossible at this stage to state the position definitively. Much will depend on the rules to be brought in by the DTI or the Securities and Investments Board (“the SIW) in due course and sponsors will need to seek advice nearer the time.

2.2 The need for authorisation

The Manager will need to be authorised under the FSA. The FSA will require anyone who carries on investment business in the United Kingdom to be authorised; investment business includes both establishing and operating a limited partnership and seeking investors in the limited partnership and investee companies, and the Manager will carry on both these activities. A person can be authorised on direct application to the SIB or by membership of a self-regulatory organisation (“SRO”) recognised by the SIB; the SIB prefers the latter alternative.

Although acquiring stakes in investee companies is a regulated investment activity, the limited partnership will not need to be authorised itself provided that all soliciting of investee companies, or prospective vendors or purchasers of their securities, ("counterparties") is done by the Manager rather than the limited partnership itself or the general partner; this is so whether the investment agreements are signed on behalf of the limited partnership by the general partner or by the Manager.

2.3 Marketing

The FSA will also regulate marketing by way of 'Investment advertisements"; 'Investment advertisements" include any form of advertising (even if not a circular under the PFI Act) which seeks to induce prospective investors to invest in the limited partnership or to attract prospective investee companies. The FSA will normally prohibit the issue of investment advertisements unless they are issued or approved by an authorised person. However, as the Manager will be authorised, it can issue its own investment advertisements about itself or the limited partnership, and it can also "approve" any investment advertisements issued by the limited partnership. Nonetheless, such investment advertisements can be issued (and, indeed, investment advice can be given) to prospective investors only if they are authorised persons or professional securities investors or are within certain exemptions which may be made available by means of regulations under the FSA. The form and content of the investment advertisements may be regulated by the SIB or the relevant SRO. There will also be restrictions on the cold-calling of prospective investors or investee companies.

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venture capital investment funds

Annexe C
BVCA and
Limited Partnerships

Apportionment of Capital Gains Tax and Allocation of Proceeds

An accounting example is attached, to demonstrate the above. This is based on the following assumptions:

a) Management own 200,000 capital units of £1 each

b) Investors own 800,000 capital units of £1 each

c) Investors provide £9,000,000 of loans

d) Investments worth £10,000,000 are made during the first two years

e) Investments worth £22,000,000 are sold in Years 3, 4 and 8. The details are as follows:

	Cost	**Proceeds**
Year 3	3,000,000	5,600,000
Year 4	1,500,000	3,800,000
Year 8	5,500,000	12,600,000
	£10,000,000	£22,000,000

f) the profit sharing ratio will be 100:0 in favour of the investors until proceeds of £9 million are achieved. Thereafter the ratio will be 80:20. No capital accounts will be repaid until after the change in profit sharing has taken place; on this occasion there will also be a change in the capital sharing ratio such that 20% of the accumulated gains in the capital accounts of the investors will be transferred to the capital accounts of the managers.

g) Such capital gains tax as arises shall be paid by the limited partner concerned. The management will pay tax on the gains they have made against the original historic base cost of the fund investments. Those corporate investors, which are not exempt institutions, will have a liability to tax which must be met from the repayment of their loans (subject to other arrangements being negotiated).

Note: Apportionment of Gain of £2.3m in Year 4

The first £9m of proceeds, to repay the investors' loans, are reached when £3.4m of the proceeds in Year 4 are received.

Therefore the investors and management share in this as follows:

a) Investors $2.3m \times \frac{3.4}{3.8}$	2,057,895
b) Investors $2.3m \times \frac{.4}{3.8} \times 80\%$	193,684
and management will receive the balance of	48,421
	2,300,000

c) This is also the occasion of a change in capital sharing raios. At the time of the final loan repayment the accumulated gains in the investors' capital accounts amount to £4,657,895; of this 20% (£931,579) is transferred to the management capital account.

Years 1 and 2

Partnership Capital Account

Balance C/Forward	1,000,000	Management Units	200,000
		Investor Units	800,000
			1,000,000

Partnership Loan Account

Balance C/Forward	9,000,000	Investor Loans	9,000,000

Cash Account

Partnership Units	1,000,000	Investments	10,000,000
Investor Units	9,000,000		
	10,000,000		

Investments Account

Investments	10,000,000	Balance C/Forward	10,000,000

Years 3, 4 & 8

Cash Account

Year 3

Proceeds from sales	5,600,000	Repayment of Loans	5,600,000

Year 4

Proceeds from sales	3,800,000	Repayment of Loans	3,400,000
		Capital Repaid	4000,000
			3,800,00

Year 8

Proceeds from sales	12,600,000	Capital A/C Repaid	12,600,000

Investment Account

Year 3

Balance C/Forward	10,000,000	Cost of Sales	3,000,000
		Balance C/Forward	7,000,000
			10,000,000

Year 4

Balance C/Forward	7,000,000	Cost of Sales	1,500,000
		Balance C/Forward	5,500,000
			7,000,000

Year 8

Balance C/Forward	5,500,000	Cost of Sales	5,500,000

Years 3, 4 & 8

Management Capital Account

Year 3

		Balance Forward	200,000

Year 4

Capital A/C Repaid	80,000	From investors - (c)	931,579
Balance C/Forward	1,100,000	Surplus on Gains	48,421
	1,180,000		1,180,000

Year 8

		Balance B/Forward	1,100,000
		Surplus on Gains	
		20% x £7,100,000	1,420,000
Capital A/C Repaid	2,520,000		2,520,000
Total Gains	2,400,000	(CGT on 1,468,421)	
Capital Repaid	200,000		
	2,600,000		

Investors Capital Account

Year 3

		Balance Forward	800,000
		Surplus on Gains	2,600,000
Balance C/Forward	3,400,00		3,400,000

Year 4

		Balance B/Forward	3,400,000
To management - (c)	931,579	Surplus on Gains	2,057,895
Capital A/C Repaid	320,000	Note (a)	193,684
Balance C/Forward	4,400,000	Note (b)	5,651,579
	5,651,579		5,651,579

Year 8

		Balance B/Forward	4,400,000
		Surplus on Gains	
		80% x £7,100,000	5,680,000
Capital A/C Repaid	10,080,000		10,080,000
Total Gains	9,600,000	(CGT on 10,531,579 if applicable)	
Capital Repaid	800,000		
	10,400,000		

Years 3, 4 & 8

Partnership Loan Account

Year 3

Loans Repaid	5,600,000	Balance B/Forward	9,000,000
Balance C/Forward	3,400,000		
	9,000,000		

Year 4

Loans Repaid	3,400,000	Balance B/Forward	3,400,000

Gain on Investment Account

Year 3

Cost of Investments	3,000,000	Proceeds	5,600,000
Gains to Capital A/C	2,600,000		
	5,600,000		

Year 4

Cost of Investments	1,500,000	Proceeds	3,800,000
Gains to Capital A/C	2,300,000		
	3,800,000		

Year 8

Cost of Investments	5,500,000	Proceeds	12,600,000
Gains to Capital A/C	7,100,000		
	12,600,000		