

- 3 The partners wish to create a provision for doubtful debts of 5% of trade receivables.
- 4 Depreciation on the motor vehicles is charged at 20% using the straight-line method. Depreciation is charged on a monthly basis.
- 5 On 1 November 2018 a motor vehicle which had cost \$7000 on 1 May 2016 was part-exchanged for a new motor vehicle. The amount of the part-exchange was \$3300. The balance of the purchase cost of the new vehicle, \$6800, was paid by cheque.
- 6 There were no additions or disposals of equipment during the year.

REQUIRED

(b) Calculate:

- (i)** the profit or loss on the disposal of the motor vehicle

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- (ii)** the **total** depreciation charge for motor vehicles for the year ended 30 April 2019.

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(d) Explain why a business may create a provision for doubtful debts.

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Additional information

When the partners started the business they each invested \$25 000 and agreed to share profits and losses equally.

The partners are concerned that the business has low profit and a high bank overdraft. Ahmed's brother is prepared to invest \$25 000 into the business.

He has suggested two options to Ahmed and Raji.

Option 1: To loan this amount to the partnership and receive an annual interest of 10%.

Option 2: To invest the full amount and become an equal partner. Through his business contacts he feels that he will be able to improve the total revenue.

REQUIRED

(e) Advise the partners which option, if either, they should accept. Justify your answer.

[7]