

- 2 Kim, a sole trader, provided the following statement.

Statement of financial position at 30 September 2014

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Non-current assets	
Motor vehicles	100 000
Equipment	80 000
Fixtures and fittings	<u>172 000</u>
	<u>352 000</u>
Current assets	
Inventory	105 000
Trade receivables	<u>343 000</u>
	<u>448 000</u>
Total assets	<u>800 000</u>
Capital and liabilities	
Opening capital	600 000
Add profit for the year	<u>80 000</u>
	680 000
Less Drawings	<u>88 000</u>
	<u>592 000</u>
Current liabilities	
Trade payables	192 000
Bank overdraft	<u>16 000</u>
	<u>208 000</u>
Total capital and liabilities	<u>800 000</u>

Additional information

- 1 On 1 October 2014 Kim admitted Chan as a partner.
- 2 Goodwill was valued at \$120 000 but will not remain in the books of the partnership.
- 3 The profit sharing ratio was agreed at Kim 60% and Chan 40%.
- 4 Chan agreed to pay a cheque of \$160 000 to the partnership. In addition he introduced equipment valued at \$325 000 and inventory valued at \$26 000.

## REQUIRED

**(a)** Prepare the capital accounts of Kim and Chan at 1 October 2014.

[10]

[8]

(c) State **three** advantages to Kim of forming a partnership.

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**Additional information**

Kim has provided for doubtful debts at a rate of 2%.

Chan would like to change the existing rate of the provision to 5%.

**REQUIRED**

(d) Explain why this change might be necessary.

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- (e) Calculate the difference in the provision for doubtful debts if the existing rate had changed to 5%.

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- (f) State how this change would affect the partnership's income statement and statement of financial position.

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