

1 Ashir, Bo and Chan are in partnership. The partnership agreement includes the following terms:

- 1 Profits and losses are shared in the ratio of the partners' capital accounts.
- 2 Interest on capital is 6% per annum.
- 3 Interest on drawings is 5% calculated on each partner's total annual drawings.
- 4 Partners' loan interest is 12% per annum.
- 5 Chan receives a salary of \$1000 per month.

The following information is available at 31 December 2016:

	\$	
Capital accounts		
Ashir	40 000	
Bo	30 000	
Chan	10 000	
Current accounts		
Ashir	12 300	
Bo	8 200	
Chan	2 600	debit
Drawings		
Ashir	15 400	
Bo	12 200	
Chan	16 400	
Fixtures and fittings		
Cost	32 400	
Provision for depreciation	21 400	
Motor vehicles		
Cost	80 000	
Provision for depreciation	48 000	
Loan account – Ashir	10 000	
Gross profit	171 620	
Operating expenses	54 960	
Staff wages	32 500	

Additional information

- 1 Operating expenses include a payment of \$600 for insurance covering the 12-month period to 31 August 2017.
- 2 Staff wages owing at 31 December 2016 were \$860.
- 3 Depreciation is to be charged as follows:

Fixtures and fittings	10% per annum using the reducing balance method
Motor vehicles	20% per annum using the straight-line method

REQUIRED

- (a) Prepare the income statement for the partnership for the year ended 31 December 2016. Start with the given gross profit of \$171 620.

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Additional information

On 1 January 2017, Chan decided that he wished to retire with immediate effect. The partners agreed that as part of his settlement, he could keep one of the motor vehicles at the net book value of \$18 000.

At that date it was agreed that the total value of goodwill was \$124 000.

REQUIRED

(d) Prepare a statement to calculate the bank settlement due to, or from, Chan on his retirement.

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Additional information

Following Chan's retirement, Ashir and Bo are considering converting their business to a limited company to continue the business.

REQUIRED

(e) State **two** advantages to a partnership of converting to a limited company.

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Additional information

Ashir's brother Bilal, a sole trader with three employees, has been running his business for four years. Turnover has doubled over the past year and the business is gradually becoming very profitable.

Bilal does not maintain a full set of accounting records, but his friend has recommended that he should.

REQUIRED

- (f) Advise Bilal whether or not he should maintain a full set of accounting records. Give reasons for your answer.

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- (g) State **two** reasons for maintaining a sales ledger control account.

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