

- 1 Cherie and Harry are in partnership.

REQUIRED

- (a) Explain **three** disadvantages of operating as a partnership rather than being in business as a sole trader.

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Additional information

The following information was available for the partnership on 30 June 2017.

	\$	
Bank overdraft	1 680	
Capital accounts		
Cherie	42 000	
Harry	28 000	
Current accounts balances at 1 July 2016		
Cherie	1 470	credit
Harry	2 430	debit
Drawings		
Cherie	18 300	
Harry	16 820	
Gross profit for the year	40 960	
Inventory at 30 June 2017	25 540	
Loan Account		
Cherie	8 000	
Non-current assets		
Cost	64 000	
Provision for depreciation	22 000	
Operating expenses	28 390	
Trade payables	1 170	

- 1 Operating expenses included a payment for rent, \$3450, for three months ended 31 August 2017.
- 2 Non-current assets are to be depreciated at 20% per annum using the reducing balance method.
- 3 Inventory at 30 June 2017 was overvalued by \$380.
- 4 Cherie is to receive interest at 8% per annum on her loan to the partnership. No entries have been made to record the interest for the year ended 30 June 2017. The balance of her loan account has remained unchanged throughout the year.

(b) Prepare the income statement for the year ended 30 June 2017. Start the statement with gross profit for the year of \$40 960.

[5]

Additional information

- 1 Interest on drawings has been calculated as follows:

	\$
Cherie	310
Harry	240
- 2 The partners are to receive interest on their fixed capital account balances at 10% per annum.
- 3 Residual profits and losses are to be shared in proportion to their capital account balances.

REQUIRED

- (c)** Prepare the appropriation account for the year ended 30 June 2017.

[4]

(d) Prepare the partners' current accounts for the year ended 30 June 2017.

Current Accounts

	Cherie \$	Harry \$		Cherie \$	Harry \$

[6]

Additional information

Cherie and Harry are concerned about some aspects of the business's efficiency and provide the following information.

Ratio	Year ended 30 June 2017	Year ended 30 June 2016	Industry Average
Non-current asset turnover	1.68 times	1.11 times	1.34 times
Trade payables turnover	28 days	33 days	31 days

REQUIRED

(e) Analyse the efficiency of the business using these ratios.

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Additional information

The partners are also concerned that the rate of inventory turnover has fallen below the industry average. Cherie has suggested that this could be improved by reducing inventory levels. Harry disagreed and suggested instead that an advertising campaign should be organised.

REQUIRED

- (f)** Advise which course of action the partners should take in order to improve the rate of inventory turnover. Justify your advice by discussing **both** of the suggested options.

[5]