

- 1 Nibras and Raif are in partnership. They own a car hire business.

The following balances were available at 31 December 2022.

	Debit	Credit
	\$	\$
Allowance for irrecoverable debts		380
Cash at bank	7 370	
Capital accounts		
Nibras		180 000
Raif		120 000
Current accounts		
Nibras	5 950	
Raif		4 760
Drawings		
Nibras	19 200	
Raif	12 140	
Insurance	15 400	
Interest on loan from Raif	750	
Loan from Raif		9 000
Motor vehicle expenses	12 420	
Motor vehicles		
Cost	144 000	
Provision for depreciation 1 January 2022		33 200
Premises		
Cost	220 000	
Provision for depreciation 1 January 2022		44 000
Rent receivable		6 050
Repairs and maintenance	8 270	
Revenue from car hire		88 300
Trade receivables	21 730	
Wages and salaries	18 460	
Totals	485 690	485 690

The following additional information is available.

- 1 Interest at 10% per annum on the loan from Raif is accrued for the last two months of the year.
- 2 Insurance payments covered the period 1 January 2022 to 28 February 2023. Monthly insurance costs have remained unchanged during this period.
- 3 The partners have agreed that the allowance for irrecoverable debts is no longer required.
- 4 Rent receivable by the partnership is \$550 per month. Part of the premises have been rented for the full year.
- 5 Motor vehicles are to be depreciated at 25% per annum using the reducing balance method.
- 6 Premises are to be depreciated by 2% per annum using the straight-line method.

REQUIRED

- (a) Prepare the statement of profit or loss for the year ended 31 December 2022. Use the space on **page 4** to show your workings.

Nibras and Raif
Statement of profit or loss for the year ended 31 December 2022

[illegible]

Workings:

Additional information

Nibras and Raif agreed the following terms for the appropriation of profits and losses.

- 1 Interest on capital to be 10% per annum.
- 2 Nibras to receive a partnership salary of \$6000 per annum.
- 3 Remaining profits and losses to be shared in the ratio Nibras:Raif, 3:2.

REQUIRED

- (b)** Prepare the appropriation account for the year ended 31 December 2022.

Nibras and Raif
Appropriation account for the year ended 31 December 2022

..... [3]

Additional information

The partners would like to know what difference it would have made if they had operated without a partnership agreement during the year ended 31 December 2022.

REQUIRED

- (c) Calculate by how much Nibras' current account balance at 31 December 2022 would have been different if there had been **no partnership agreement** during the year ended 31 December 2022.

[8]

Additional information

The partners had considered charging interest on drawings as part of their agreement.

REQUIRED

(d) State **one** reason for including interest on drawings in a partnership agreement.

.....
..... [1]

(e) State the double entry for recording interest on drawings.

Debit
Credit [2]

Additional information

Nibras and Raif would like to expand their business but they require additional finance. They have considered two options:

Option 1: Nibras to introduce additional capital by selling some personal investments

Option 2: Arrange a bank loan

REQUIRED

- (f) Advise the partners which option they should choose. Justify your answer by discussing **both** options.

..... [7]