

- 1 Maneesh has not maintained a full set of accounting records for the year ended 31 December 2015. The following information has been provided:

Assets and liabilities at 1 January 2015

	Assets	Liabilities
	\$	\$
Non-current assets at net book value	83 400	
Inventory	18 500	
Trade receivables	22 460	
Prepaid rent	1 900	
Cash in hand	180	
Trade payables		12 770
Accrued general expenses		1 320
Bank overdraft		5 640
Balance at 1 January 2015	<u>126 440</u>	<u>106 710</u>
		<u>126 440</u>

Summary bank account for the year ended 31 December 2015

	\$		\$
Receipts from credit customers	176 750	Balance at 1 January 2015	5 640
Cash sales banked	7 450	Payments to credit suppliers	138 132
Balance at 31 December 2015	17 272	Non-current assets	5 200
		Drawings	14 120
		General expenses	11 280
		Rent	<u>27 100</u>
	<u>201 472</u>		<u>201 472</u>
		Balance at 1 January 2016	17 272

Additional information

- Maneesh makes both cash and credit sales. All sales were made at 40% gross margin.
- Credit sales for the year totalled \$184 190.
- Credit purchases for the year totalled \$136 422. There were no cash purchases.
- The business maintains a cash float of \$180.
- Maneesh withdrew \$20 per week from cash sales for drawings, before banking the rest.
- Maneesh depreciates his non-current assets at 20% per annum using the reducing balance method.
- The rent charge for the year was \$24 600.
- The general expenses charge for the year was \$14 160.
- Irrecoverable debts of \$900 should be written off at 31 December 2015.

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2015.

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[illegible]

[illegible]

Additional information

Maneesh is concerned that the bank overdraft has increased substantially during the year ended 31 December 2015.

REQUIRED

(c) Suggest to Maneesh **four** possible reasons for the increase in the bank overdraft.

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Additional information

Maneesh has been advised by the bank manager that the bank overdraft must be repaid in full as soon as possible. Maneesh's brother has offered the following possible solutions.

- 1 Lend Maneesh \$20 000 repayable in five equal annual instalments of \$5000 each (including interest).
- 2 Enter into a formal partnership with Maneesh in which his brother:
 - (i) immediately pays \$20 000 into the business bank account; and
 - (ii) receives 10% share of the future profits for the year.

REQUIRED

(d) Advise Maneesh which option he should choose. Justify your answer.

[illegible]

(e) State **two** items which may be included in a partnership agreement (other than the share of profit)

which will affect the appropriation account

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2 [2]

which will **not** affect the appropriation account.

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2 [2]