**1** Carlos and Erika have been in partnership for several years and prepare their financial statements to 31 July.

At 1 August 2016 the following information related to non-current assets was available.

| | $ |
|---|---|
| Plant and machinery | |
| Cost | 65 000 |
| Provision for depreciation | 5 000 |
| Motor vehicles | |
| Cost | 18 000 |
| Provision for depreciation | 3 600 |

During the year ended 31 July 2017 the following took place.

1. On 1 November 2016, the partnership purchased a new machine for $7500.

2. On 1 December 2016 a machine was sold for $6800. The machine had been purchased for $10 000 on 1 May 2015.

3. On 1 February 2017 a new motor vehicle was purchased for $14 000.

4. The accounting policies in respect of depreciation are:

   Plant and machinery is depreciated using the straight-line method at 10% per annum.

   Motor vehicles are depreciated using the reducing balance method at 20% per annum.

   A full year's depreciation is charged in the year of purchase and none in the year of disposal.

5. No adjustments have yet been made for depreciation or disposal of the machine.

The profit for the year ended 31 July 2017 before any adjustments was $37 490.

**REQUIRED**

**(a)** Calculate the revised profit before appropriation for the year ended 31 July 2017.

Workings:

[5]

**Additional information**

The terms of the partnership agreement are as follows:

1. Annual partnership salaries: Carlos \$10 000 and Erika \$15 000.
2. Interest on capital: 3% per annum.
3. No interest is to be paid on drawings up to \$20000. Interest at a rate of 6% is to be charged on any drawings in excess of \$20 000.
4. Profits and losses are to be shared in the ratio of the capital invested.

The following information is also available at 31 July 2017.

| | $ |
|---|---|
| Capital account: | |
| Carlos | 84 000 |
| Erika | 28 000 |
| Drawings: | |
| Carlos | 15 000 |
| Erika | 25 000 |

**REQUIRED**

**(b)** Prepare the partnership appropriation account for the year ended 31 July 2017.

Carlos and Erika
Appropriation account for the year ended 31 July 2017

[4]

**Additional information**

On 31 July 2016 the balances on the partners' current accounts were:

| | $ | |
|---|---|---|
| Carlos | 1 300 | credit |
| Erika | 250 | debit |

**REQUIRED**

**(c)** Prepare the current accounts for the year ended 31 July 2017.

Carlos and Erika
Current accounts

| | Carlos | Erika | | Carlos | Erika |
|---|---|---|---|---|---|
| | $ | $ | | $ | $ |
| | | | | | |
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[5]

**Additional information**

The following information is also available:

| | 31 July 2017 | 31 July 2016 |
|---|---|---|
| | $ | $ |
| Credit sales | 385 000 | 327 500 |
| Credit purchases | 172 000 | 153 000 |
| Inventory | 6 535 | 10 800 |
| Bank overdraft | 16 100 | 1 200 |
| Other receivables | 34 | 126 |
| Other payables | 586 | 248 |
| | | |
| Trade receivables collection period | 46 days | 31 days |
| Trade payables payment period | 36 days | 39 days |

**REQUIRED**

**(d)** Calculate the following at 31 July 2017:

**(i)** Trade receivables

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**(ii)** Trade payables

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**(e)** Assess the working capital position of the partnership at 31 July 2017.

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**(f)** Advise the partners of **three** ways in which they could improve the cash position of the business.

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3 ..................................................................................................................................

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**Additional information**

Carlos and Erika are considering converting the partnership into a limited company.

**REQUIRED**

**(g)** Advise the partners whether or not they should take this course of action. Justify your answer.

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