

5 Samir and Punita are in partnership. The partnership agreement provides for the following:

interest on drawings of 5%

interest on capital of 3% per annum

a salary to Punita of \$11 000 per annum

residual profits and losses are to be shared 60% to Samir and 40% to Punita.

The partners provided the following information.

	\$
Profit for the year ended 31 December 2022	24 600
Capital account balances at 1 January 2022	
Samir	80 000
Punita	75 000
Current account balances at 1 January 2022	
Samir	6 450 credit
Punita	8 335 credit
Drawings for the year ended 31 December 2022	
Samir	16 000
Punita	12 400

REQUIRED

- (a)** Prepare the appropriation account for Samir and Punita for the year ended 31 December 2022.

Samir and Punita
Appropriation Account for the year ended 31 December 2022

[illegible]

[6]

- (b) Prepare Punita's current account for the year ended 31 December 2022. Balance the account and bring down the balance at 1 January 2023.

Punita
Current account

Date	Details	\$	Date	Details	\$
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[6]

Samir would now like to pay the expenses of his own private car from the partnership bank account.

REQUIRED

- (c) Place a tick (✓) in the appropriate boxes below to show the effects of Samir paying the expenses of his own private car from the partnership bank account.

	Increase	Decrease	No effect
Partnership profit for the year			
Samir's drawings			
Samir's interest on drawings			

[3]

Samir and Punita are considering converting the partnership to a limited company. They do not anticipate any need for additional capital.

REQUIRED

- (d) Advise Samir and Punita whether they should convert the business to a limited company. Justify your answer with **two** advantages and **two** disadvantages of converting the business to a limited company.

[5]

[Total: 20]

Question	Answer	Marks																																																												
5(a)	<div>Samir and Punita</div> <div>Appropriation Account for the year ended 31 December 2022</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Profit for the year</td><td></td><td></td><td>24 600</td></tr><tr><td>Add Interest on drawings</td><td></td><td></td><td></td></tr><tr><td>Samir</td><td>800</td><td>}</td><td></td></tr><tr><td>Punita</td><td><u>620</u></td><td>} (1)</td><td><u>1 420</u></td></tr><tr><td></td><td></td><td></td><td>26 020</td></tr><tr><td>Less Interest on capital</td><td></td><td></td><td></td></tr><tr><td>Samir</td><td>2 400</td><td>}</td><td></td></tr><tr><td>Punita</td><td><u>2 250</u></td><td>} (1)</td><td></td></tr><tr><td></td><td>4 650</td><td></td><td></td></tr><tr><td>Less Salary – Punita</td><td><u>11 000</u></td><td>(1)</td><td><u>15 650</u></td></tr><tr><td></td><td></td><td></td><td>10 370 (1)OF</td></tr><tr><td>Share of profit</td><td></td><td></td><td></td></tr><tr><td>Samir</td><td>6 222</td><td>(1)OF</td><td></td></tr><tr><td>Punita</td><td><u>4 148</u></td><td>(1)OF</td><td><u>10 370</u></td></tr></table>		\$		\$	Profit for the year			24 600	Add Interest on drawings				Samir	800	}		Punita	<u>620</u>	} (1)	<u>1 420</u>				26 020	Less Interest on capital				Samir	2 400	}		Punita	<u>2 250</u>	} (1)			4 650			Less Salary – Punita	<u>11 000</u>	(1)	<u>15 650</u>				10 370 (1)OF	Share of profit				Samir	6 222	(1)OF		Punita	<u>4 148</u>	(1)OF	<u>10 370</u>	6
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5(b)	<div>Punita</div> <div>Current account</div> <table><tr><td>Date</td><td>Details</td><td>\$</td><td>Date</td><td>Details</td><td>\$</td></tr><tr><td>2022</td><td></td><td></td><td>2022</td><td></td><td></td></tr><tr><td>Dec 31</td><td>Drawings (1)</td><td>12 400</td><td>Jan 1</td><td>Balance</td><td>8 335</td></tr><tr><td></td><td>Interest on drawings (1) OF</td><td>620</td><td>Dec 31</td><td>b/d</td><td>2 250</td></tr><tr><td></td><td>Balance c/d</td><td>12 713</td><td></td><td>Interest on capital (1) OF</td><td>11 000</td></tr><tr><td></td><td></td><td></td><td></td><td>Salary (1)</td><td>4 148</td></tr><tr><td></td><td></td><td><u>25 733</u></td><td></td><td>Profit share (1) OF</td><td><u>25 733</u></td></tr><tr><td></td><td></td><td></td><td>2023</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>Jan 1</td><td>Balance b/d (1)OF</td><td>12 713</td></tr></table>	Date	Details	\$	Date	Details	\$	2022			2022			Dec 31	Drawings (1)	12 400	Jan 1	Balance	8 335		Interest on drawings (1) OF	620	Dec 31	b/d	2 250		Balance c/d	12 713		Interest on capital (1) OF	11 000					Salary (1)	4 148			<u>25 733</u>		Profit share (1) OF	<u>25 733</u>				2023						Jan 1	Balance b/d (1)OF	12 713	6						
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Question	Answer				Marks
5(c)		Increase	Decrease	No effect	3
	Partnership profit for the year			✓ (1)	
	Samir's drawings	✓ (1)			
	Samir's interest on drawings	✓ (1)			
5(d)	<p>Advantages Shareholders have limited liability (1) Company is a separate legal entity (1) May improve reputation/standing of the business (1) Continuity of existence (1) Max (2)</p> <p>Disadvantages More complex accounting required/have to produce annual financial statements (1) More legal requirements (1) May be costly to establish (1) May be increased administration costs (1) Max (2)</p> <p>Accept other valid points</p> <p>Recommendation (1)</p>				5