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	7370	
Capital accounts		
Nibras		180000
Raif		120000
Current accounts		
Nibras	5950	
Raif		4760
Drawings		
Nibras	19200	
Raif	12140	
Insurance	15400	
Interest on loan from Raif	750	
Loan from Raif		9000
Motor vehicle expenses	12420	
Motor vehicles		
Cost	144000	
Provision for depreciation 1 January 2022		33200
Premises		
Cost	220000	
Provision for depreciation 1 January 2022		44000
Rent receivable		6050
Repairs and maintenance	8270	
Revenue from car hire		88300
Trade receivables	21730	
Wages and salaries	18460	
Totals	485690	485690

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.

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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

	$	$
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Workings:

[9]

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

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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.

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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.

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..... [7]

[Total: 30]

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Question	Answer	Marks
1(a)	**Prepare the statement of profit or loss for the year ended 31 December 2022.**	**9**

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

	$	$	
Revenue		88 300	**(1)**
Add income:			
Allowance for irrecoverable debts	380		**(1)**
Rent receivable	6 600		**(1)**
		6 980	
		95 280	
Less expenses:			
Insurance	13 200		**(1)**
Interest on loan (Raif)	900		**(1)**
Motor vehicle expenses	12 420		
Repairs and maintenance	8 270		
Wages and salaries	18 460		
Depreciation:			
Motor vehicles	27 700		**(1)**
Premises	4 400		**(1)**
		85 350	**(1)**
Profit for the year		9 930	**(1) OF**

Question	Answer	Marks
1(b)	**Prepare the appropriation account for the year ended 31 December 2022.**	**3**

Appropriation account for the year ended 31 December 2022

	$		$
Profit for the year			9 930
Less: interest on capitals			
Nibras	(18 000) **}**	**(1) for both**	
Raif	(12 000) **}**		
			(30 000)
			(20 070)
Less: salary (Nibras)			(6 000) **(1)**
			(26 070)
Shares of residual loss			
Nibras	(15 642) **}**	**(1) OF for both**	
Raif	(10 428) **}**		
			(26 070)

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(c)</td><td>

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.

With agreement

	$			$	
Opening balance	5 950	***(1) OF both ***	Salary	6 000	**(1) OF**
Share of loss	15 642	**(1) OF**	Interest on capital	18 000	
Drawings	19 200	**(1)**	Closing balance	16 792	*** both**
	40 792			40 792	

Without agreement

	$			$	
Opening balance	5 950	* **(1) OF both ***	Share of profit (50%)	5 190	**(1)**
Drawings	19 200	**(1)**	Closing balance	19 960	*** both**
	25 150			25 150	

Result:
The current account balance would decrease by ($19 960 – $16 792)
= $3 168 **(1) OF**

</td><td>**8**</td></tr>
<tr><td>1(d)</td><td>

State <u>one</u> reason for including interest on drawings in a partnership agreement.

Interest on drawings will deter a partner from making excessive drawings **(1)**.

</td><td>**1**</td></tr>
<tr><td>1(e)</td><td>

State the double entry for recording interest on drawings.

Debit: partners' current accounts **(1)**
Credit: appropriation account **(1)**

</td><td>**2**</td></tr>
</table>

Question	Answer	Marks
1(f)	**Advise the partners which option they should choose. Justify your answer by discussing <u>both</u> options.** **Option 1 (max 3)** • Will be a permanent source of capital **(1)** • Will not affect the profit before appropriation **(1)** • Nibras may expect greater rewards/more control **(1)** **Option 2 (max 3)** • Temporary source of finance so no longer-term adverse implications **(1)** • Interest charges will reduce profits **(1)** • Will the partnership be able to obtain a bank loan? **(1)** **Decision supported by a comment (1)** **Accept other valid responses.**	**7**