



- 2 Farah and Salma are sisters who trade as a partnership. Their partnership agreement provides for the following:

- interest on capital of 2% per annum
- interest on drawings of 4% per annum
- a salary to Farah of \$11 200 per annum
- residual profits and losses to be shared as Farah 30%, Salma 70%.

Farah and Salma provided the following details.

		\$
Profit for the year ended 28 February 2025		38 175
Capital accounts at 1 March 2024		
Farah		52 000
Salma		75 000
Current accounts at 1 March 2024		
Farah		3 450 credit
Salma		1 900 debit
Drawings for the year ended 28 February 2025		
Farah	drawn from bank on 31 December 2024	14 250
Salma	drawn from bank on 31 December 2024	14 250
	goods taken for own use 31 August 2024	5 750





REQUIRED

(a) Prepare the appropriation account for Farah and Salma for the year ended 28 February 2025.

Farah and Salma  
Appropriation Account for the year ended 28 February 2025

	\$	\$
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[6]





- (b) Prepare Farah's current account for the year ended 28 February 2025. Balance the account and bring down the balance at 1 March 2025.

Farah  
Current account

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
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[7]

Farah's partner, Salma, wanted to take further drawings.

**REQUIRED**

- (c) State **two** reasons why Salma should **not** take more drawings.

- 1 .....
- .....
- 2 .....
- .....

[2]





Farah and each brother would receive a salary of \$15 000 each year.

**(d)** Advise Farah and Salma whether or not they should make the above changes. Justify your answer with advantages and disadvantages to them of making these changes.

[5]

[Total: 20]

Question	Answer	Marks																																																
2(a)	<div>Farah and Salma</div> <div>Appropriation Account for the year ended 28 February 2025</div> <table><tr><td></td><td>\$</td><td>\$</td></tr><tr><td>Profit for the year</td><td></td><td>38 175</td></tr><tr><td>Add Interest on drawings Farah</td><td>*95 (1)</td><td></td></tr><tr><td>Salma</td><td>**210 (1)</td><td>305</td></tr><tr><td></td><td></td><td><u>38 480</u></td></tr><tr><td>Less</td><td></td><td></td></tr><tr><td>Interest on capital: Farah</td><td>1 040 }</td><td></td></tr><tr><td>Salma</td><td>1 500 } (1)</td><td></td></tr><tr><td></td><td><u>2 540</u></td><td></td></tr><tr><td>Salary – Farah</td><td>11 200 (1)</td><td>13 740</td></tr><tr><td></td><td></td><td><u>24 740</u></td></tr><tr><td>Profit share: Farah (30% × 24 740)</td><td>7 422 (1) OF</td><td></td></tr><tr><td>Salma (70% × 24 740)</td><td>17 318 (1) OF</td><td>24 740</td></tr><tr><td></td><td></td><td><u>24 740</u></td></tr></table> <div>(Farah (14 250 × 4% × 2/12) =95* Salma (14 250 × 4% × 2/12) + (5 750 × 4% × 6/12) = 210**</div>		\$	\$	Profit for the year		38 175	Add Interest on drawings Farah	*95 (1)		Salma	**210 (1)	305			<u>38 480</u>	Less			Interest on capital: Farah	1 040 }		Salma	1 500 } (1)			<u>2 540</u>		Salary – Farah	11 200 (1)	13 740			<u>24 740</u>	Profit share: Farah (30% × 24 740)	7 422 (1) OF		Salma (70% × 24 740)	17 318 (1) OF	24 740			<u>24 740</u>	6						
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Question	Answer	Marks
2(c)	<p>There may be insufficient money in the bank / reduces liquidity (1)  There may be a limit on drawings (stated in the partnership agreement) (1)  May damage the relationship between the partners (1)  Salma would have to pay interest on drawings (1)  <b>Accept other valid points</b></p> <p><b>Max (2)</b></p>	2
2(d)	<p><b>Advantages of converting to a limited company</b>  Easier to raise capital / finance / loans (1)  Shareholders have limited liability (1)  Workload / responsibility is shared (1)  Profit may increase (1)  Farah receives an increase in salary (1)  Limited company has continuity of existence / there is separate legal identity (1)  <b>Accept other valid points</b></p> <p><b>Max (3)</b></p> <p><b>Disadvantages of converting to a limited company</b>  Farah and Salma would lose control (1)  The brothers may have no business experience (1)  Increased legal and administrative costs (1)  Cash / profit may be reduced to pay salaries/dividends (1)  The investment may not be sufficient to fund the expansion (1)  <b>Accept other valid points</b></p> <p><b>Max (3)</b></p> <p><b>Overall Advantages and Disadvantages: Max (4)</b></p> <p><b>Recommendation (1)</b></p>	5