1 Azlina and Siti are in partnership retailing clothing. Their partnership agreement states that:

- The agreed capital is: Azlina £50 000 and Siti £25 000.
- Profits and losses will be shared equally.
- Salaries will be paid: £5 000 per annum to Azlina and £5 000 per annum to Siti.
- Interest on capital is allowed at the rate of 5% per annum.
- There will be no interest charged on drawings.
- Azlina made a loan to the business of £20 000 on 1 January 2014. Interest is payable at the rate of 8% per annum. The loan is repayable in full on 31 December 2016.

The following balances were extracted from the books on 31 March 2016:

		£
Capital accounts 1 April 2015:		
	Azlina	50 000
	Siti	25 000
Current accounts 1 April 2015:		
	Azlina	400 Dr
	Siti	200 Cr
Drawings (excluding salaries paid):		
	Azlina	4 000
	Siti	1 500
Non-current assets (at cost):		
Freehold premises		128 000
Delivery vehicles		12 000
Fixtures and fittings		14 000
Provisions for depreciation:		
Delivery vehicles		8 400
Fixtures and fittings		5 600
Loans:		
8% Loan from Azlina		20 000
5% Bank loan (repayable 1 January 2018)		40 000
Inventory 1 April 2015		19 500
Trade receivables		7 500
Trade payables		9 800
Bank overdraft		9 520
Revenue		117 300
Purchases		54 000
Purchase returns		1 700
Commission receivable		900
Rates		4 750
Wages and salaries		24 500
Electricity and water		8 150
Sundry expenses		10 300
Allowance (Provision) for doubtful debts		180

Additional information at 31 March 2016

(1) Inventory £13 800

(2) Wages and salaries include the salaries paid in full to the partners.

(3) Rates £250 were prepaid and electricity £600 was owing.

(4) No interest has been paid on the 8% loan from Azlina or the 5% bank loan for the year.

(5) Depreciation is to be charged as follows:

- no depreciation on the freehold premises
- delivery vehicles at the rate of 25% per annum reducing balance
- fixtures and fittings at the rate of 10% per annum straight line.

(6) The allowance (provision) for doubtful debts is to be maintained at 4% of trade receivables.

Required

(a) Prepare for the partnership the:

(i) Statement of Profit or Loss and Other Comprehensive Income (including an appropriation section) for the year ended 31 March 2016

(18)

(ii) Current accounts of the partners for the year ended 31 March 2016

(6)

(iii) Statement of Financial Position at 31 March 2016.

(14)

The business premises of Azlina and Siti are located in a retail area that is growing in popularity with shoppers. Azlina and Siti have plans to take advantage of this popularity by expanding their business in the next financial year. They propose to:

(1) Undertake building work to expand the sales area available.

(2) Substantially increase the level of inventory in the business.

(3) Redecorate the premises.

(4) Employ an additional sales assistant.

(5) Purchase an electronic bar code system for inventory.

(b) State whether **each** of the above proposals is **capital expenditure** or **revenue expenditure**.

(5)

To finance the expansion of the business Azlina and Siti will have to obtain finance in the form of additional bank loans.

(c) Evaluate whether Azlina and Siti should expand their business.

(12)

(Total for Question 1 = 55 marks)