1 Aaira and Benul are in partnership buying and selling goods on credit.

The partnership agreement states the following.

- Salaries will be paid: Aaira £5 000 per annum and Benul £12 000 per annum.
- Interest on capital will be allowed at the rate of 6% per annum on closing balances.
- There will be no interest charged on drawings.
- Profits and losses will be shared: Aaira three fifths and Benul two fifths.

The following balances were available from the books of account on 31 December 2024.

	£
5% bank loan	60 000
Allowance for irrecoverable debts	1 400
Bank loan interest paid	1 800
Capital accounts	
Aaira	50 000
Benul	25 000
Carriage inwards	5 500
Cash and bank	8 400 Dr
Computer training expenses	8 900
Current accounts	
Aaira	3 250 Dr
Benul	650 Cr
Delivery vehicle expenses	18 700
Discount allowed	4 100
Drawings – excluding salaries	
Aaira	7 500
Benul	8 000
Electricity and water	6 200
General expenses	7 300
Inventory – 1 January 2024	52 000
Irrecoverable debts	1 500
Non-current assets – at cost	
Delivery vehicles	72 000
Computer equipment	40 000
Fixtures and fittings	20 000
Non-current assets – provisions for depreciation	
Delivery vehicles	20 000
Computer equipment	12 000
Fixtures and fittings	13 200
Purchases	200 000
Rent and rates	14 500
Revenue	425 000
Salaries	75 000
Trade payables	28 000
Trade receivables	41 000
Wages	39 600

Additional information at 31 December 2024

(1) Inventory, £62 500

(2) Electricity, £900, was owing and water, £600, was prepaid.

(3) General expenses of £400 were prepaid.

(4) Salaries included the salaries paid to Aaira and Benul in full.

(5) The 5% bank loan was taken out on 1 January 2024 and will be repaid in five equal instalments on 1 January each year, starting on 1 January 2025.

(6) Fixtures and fittings costing £3 000 purchased by cheque on 20 December 2024 had not been recorded in the books.

(7) Depreciation is charged on all non-current assets owned at the end of the year as follows:

- delivery vehicles at 25% per annum using the straight-line method
- computer equipment at 25% per annum using the reducing balance method
- fixtures and fittings at 10% per annum using the straight-line method.

(8) £3 000 worth of trade receivables are considered irrecoverable and are to be written off.

(9) The allowance for irrecoverable debts is to be maintained at 5% of remaining trade receivables.

Required

(a) Prepare, for Aaira and Benul, the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2024, including an appropriation section.

(20)

(b) Prepare the:

(i) current accounts of Aaira and Benul for the year ended 31 December 2024

(5)

(ii) Statement of Financial Position at 31 December 2024.

(18)

Aaira and Benul have had the opportunity to purchase their business premises.
They need to select one of two methods to fund the purchase.
The funding methods are to:

- borrow an 8% bank loan for 10 years

OR

- admit a new partner sharing profits and losses equally.
  The new partner would bring in all the funds to finance the purchase.

(c) Evaluate whether the 8% bank loan **or** the admission of a new partner would be the best method of funding the purchase of the business premises.

(12)

(Total for Question 1 = 55 marks)