



(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	\$

[7]

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

**REQUIRED**

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

1. -----  
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2. -----  
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[2]



Question	Answer	Marks																																																																																
2(a)	<p style="text-align: center;">Farah and Salma Appropriation Account for the year ended 28 February 2025</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;">38 175</td> <td></td> </tr> <tr> <td>Add Interest on drawings</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Farah</td> <td style="text-align: right;">*95</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Salma</td> <td style="text-align: right;">**210</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">305</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">38 480</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Interest on capital:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Farah</td> <td style="text-align: right;">1 040</td> <td style="text-align: right;">}</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Salma</td> <td style="text-align: right;">1 500</td> <td style="text-align: right;">} (1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">2 540</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Salary – Farah</td> <td style="text-align: right; border-top: 1px solid black;">11 200</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">13 740</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">24 740</td> <td></td> </tr> <tr> <td>Profit share:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Farah (30% × 24 740)</td> <td style="text-align: right;">7 422</td> <td style="text-align: right;">(1) OF</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Salma (70% × 24 740)</td> <td style="text-align: right; border-top: 1px solid black;">17 318</td> <td style="text-align: right;">(1) OF</td> <td style="text-align: right; border-top: 1px solid black;">24 740</td> <td></td> </tr> </table> <p>(Farah (14 250 × 4% × 2/12) =95* Salma (14 250 × 4% × 2/12) + (5 750 × 4% × 6/12) = 210**</p>		\$		\$		Profit for the year			38 175		Add Interest on drawings					Farah	*95	(1)			Salma	**210	(1)	305					38 480		Less					Interest on capital:					Farah	1 040	}			Salma	1 500	} (1)				2 540				Salary – Farah	11 200	(1)	13 740					24 740		Profit share:					Farah (30% × 24 740)	7 422	(1) OF			Salma (70% × 24 740)	17 318	(1) OF	24 740		6
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2(c)	<p>There may be insufficient money in the bank / reduces liquidity (1)</p> <p>There may be a limit on drawings (stated in the partnership agreement) (1)</p> <p>May damage the relationship between the partners (1)</p> <p>Salma would have to pay interest on drawings (1)</p> <p><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></p> <p>Easier to raise capital / finance / loans (1)</p> <p>Shareholders have limited liability (1)</p> <p>Workload / responsibility is shared (1)</p> <p>Profit may increase (1)</p> <p>Farah receives an increase in salary (1)</p> <p>Limited company has continuity of existence / there is separate legal identity (1)</p> <p><b>Accept other valid points</b></p> <p><b>Max (3)</b></p> <p><b>Disadvantages of converting to a limited company</b></p> <p>Farah and Salma would lose control (1)</p> <p>The brothers may have no business experience (1)</p> <p>Increased legal and administrative costs (1)</p> <p>Cash / profit may be reduced to pay salaries/dividends (1)</p> <p>The investment may not be sufficient to fund the expansion (1)</p> <p><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