



Worksheet 8: Developing advantages and disadvantages answers

- 1 Hamid and Jamila have been in partnership for several years and do not have a partnership agreement. They do not maintain full accounting records. Analyse one advantage and one disadvantage to Hamid and Jamila of not maintaining full accounting records.

Advantage	Disadvantage
<i>As this is a partnership business the partners not only have to share the profit or losses but must pay interest on capital and charge interest on drawings and loans etc, so maintaining the full accounting records will ensure the correct split of the profits, interest on capital etc which will avoid any conflicts among Hamid and Jamila.</i>	<i>Maintaining full accounting records will require someone with specialist skills which will increase the costs hence will reduce the profit share of each partner. Incurring these costs will be necessary as both Hamid and Jamila have survived without maintaining full accounting records as they both have been in partnership for several years.</i>

- 2 Hamid and Jamila have been advised that their business could be improved if they were to keep full accounting records. They are considering two options.

Option 1: To employ a part-time book-keeper at a salary of \$5000 per year.

Option 2: To purchase a new computerised accounting package to maintain all the financial records. This will cost \$12 000 and will be written off over 5 years.

Hamid has said he will loan \$12 000 to the business but will require interest of 5% per year on the loan. Analyse one advantage and one disadvantage of using a computerised accounting package to maintain all financial records.

Advantage	Disadvantage
<i>The use of a computerised accounting package to maintain full accounting records will improve the reliability and efficiency of the business data as the reports can be produced and large amount of data can be analysed quickly.</i>	<i>The use of a computerised accounting package to maintain full accounting records will still require the business to employ a member of staff as operating this accounting package is a specialist skill which will increase costs leading to a decrease in profits and a reduced profit share for Hamid and Jamila.</i>



- 3 Sergio's bank manager has asked him to repay the overdraft within the next three months. Sergio has identified two possible options.

Option 1: Miguel, a close friend, would provide Sergio with a loan of \$10 000 repayable in five annual instalments of \$2500.

Option 2: Sergio could take a seven-year bank loan from another bank for \$16 000. This bank would require annual interest of \$1000 and security for the loan.

Analyse one advantage and one disadvantage of taking a seven-year bank loan from another bank to pay his overdraft within the next three months.

Advantage	Disadvantage
<i>The loan will be repayable over seven years compared to the loan taken from the friend Miguel which is repayable in five annual instalments so it will give Sergio longer time to plan and earn money to repay capital and interest which will reduce pressure on him.</i>	<i>The seven-year loan will require assets as a security. Sergio could lose his business if he fails to repay as the bank may take his assets as he has unlimited liability.</i>