Financial Accounting

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51

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(Credit Based Semester Scheme)

COMMERCE

FINANCIAL ACCOUNTING - III

Time : 3 Hours

Max.Marks: 120

SECTION-A

Note: Answer any FOUR questions. **4x6=24**

1. What do you mean by capital deficiency ? How is it dealt with ?
2. State the circumstances under which a partnership firm get dissolved.
3. Seetha, Geetha and Neetha are partners sharing profits and losses in the ratio of 4:3:2. Geetha retires from the firm. The new profit sharing proportion of Seetha and Neetha is 5/8 and 3/8.

   Calculate the gain ratio.
4. Arathi, Bharathi and Ramani are partners in a firm sharing profits in the ratio of 4:3:2. Bharathi retires from the firm. Goodwill of the firm is valued at Rs. 36,000.

   Pass entries for goodwill created and written off on retirement.
5. Balance Sheet of Amar and Akbar who share profits in the ratio of 3:1 is as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	40,000	Cash	40,000
Capitals:		B/R	6,000
Amar	90,000	Debtors	32,000
Akbar	50,000	Stock	40,000
		Fixtures	10,000
		Buildings	52,000
	1,80,000		1,80,000

Antony is admitted as a partner for ⅕ share on the following terms:

a) That stock and fixtures be appreciated by 10%.

b) That buildings be increased by 20%.

c) That a provision of 5% created on debtors and B/R.

d) That a provision of Rs. 2,300 be made for outstanding bills.

e) That a reserve of 3% be created on creditors.

Prepare Revaluation A/c.

6. Rakesh and Ramesh are equal partners with capital of Rs. 50,000 each. Suresh is admitted for ⅓ share who brings Rs. 60,000 as capital. Ascertain the hidden goodwill.

Contd... 2

SECTION-B

Note: Answer any FOUR questions. 4x12=4

7. State the different methods of treatment of goodwill on admission of a partner.

8. State the meaning of joint life policy and individual life policies.

9. Ram, Rahim and Robert carry on business sharing profits in the ratio of 3:2:1. Capitals as on 31st March, 2007 are:

Ram	-	Rs. 20,000
Rahim	-	Rs. 15,000
Robert	-	Rs. 10,000

One 30th June, 2007 Robert died and his executors claim the following as per Partnership deed:

(i) The joint life policies against which premia are charged to profit and loss A/c. are valued at 40% of the sum accused. The policies of the partners ar : Ram - Rs. 10,000 ; Rahim - Rs. 7,500 and Robert - Rs. 17,000.

(ii) Allow interest on capital at 6% p.a.

(iii) Calculate Robert's share of profit till the date of death on the basis of average profits of the preceding three years.

(iv) Calculate goodwill of the firm at two years' purchase of the average profits of the preceding five years.

The annual profit or loss figures of preceding 5 years were:

2007	-	Rs. 9,000
2006	-	Rs. 18,000
2005	-	Rs. 6,000 [loss]
2004	-	Rs. 9,000
2003	-	Rs. 12,000

Drawings till the date of death of Robert Rs. 5,000.
Prepare Robert's Executor's A/c.

10. Arun, Ashok and Anand were partners sharing profits in the ratio of 4:3:3. Their Balance Sheet on 31st March, 2008 was as under:

Liabilities	Rs.	Assets		Rs.
Capitals:		Buildings		18,000
Arun	16,000	Plant		14,000
Ashok	12,000	Furniture		4,000
Anand	10,000	Stock		10,000
Reserves	5,000	Debtors	7,000	
Bills Payable	2,000	Less: RBD	1,000	6,000
Creditors	8,000	Cash		1,000
	53,000			53,000

Contd... 3

Ashok retires on that date on the following terms:

a) The goodwill of the firm is to be valued at Rs. 7,000.

b) Stock and Buildings are to be appreciated by 10%.

c) Plant and Furniture are to be depreciated by 10%.

d) Provision for bad debts is no more necessary.

e) It is decided to write off goodwill.

f) Amount payable to Ashok is transferred to his loan account.

11. A, B and C sharing profits and losses in the ratio of 5:3:2 took out a joint life policy for Rs. 60,000 paying an annual premium of Rs. 3,000 starting from 1.1.2003. The surrender value of the policy was as follows :
 2003 - Nil, 2004 - Rs. 4,000, 2005 - Rs. 1,000 and 2006 - Rs. 1,800.
 B died on 15.11.2007 and LIC paid the amount on 15.12.2007.
 Prepare joint life policy account and joint life policy reserve A/c.

12. On 31st March, 2008, the Balance Sheet of Red, White and Green showed the following position:

Liabilities	Rs.	Assets	Rs.
Creditors	10,000	Bank	200
Bills payable	3,200	Debtors	16,000
Reserve	9,000	Stock	25,000
Capitals:		Bills Receivable	5,000
Red	21,000	Machinery	15,000
White	13,000		
Green	5,000		
	61,200		61,200

The firm was dissolved. Assets realised Rs. 31,000. Realisation expenses came to Rs. 600. The partners share profits and losses equally.
Prepare necessary ledger accounts to close the books of the firm.

SECTION-C

Note: Answer any TWO questions. **2x24=48**

13. Arun and Kiran were working as equal partners as on 31st March, 2008. Arun decided to retire and in his place Nikhil was to be admitted to the firm, being Arun's son, on 1st April, 2008, for 2/5 share in profits. The Balance Sheet of Arun and Kiran was as follows on 31.03.2008:

Liabilities	Rs.	Assets	Rs.
Bank O.D.	6,000	Debtors	32,500
Creditors	24,000	Stock	70,000
Capitals:		Machinery	92,500
Arun	75,000	Goodwill	10,000
Kiran	1,00,000		
	2,05,000		2,05,000

Contd... 4

At the time of Arun's retirement, the firm's goodwill was valued at Rs. 40,000. Stock was written upto Rs. 80,0000. Rs. 2,500 of the debtors were considered bad and a Reserve of 5% for doubtful debts is necessary. Machinery is written down to Rs. 80,000.

Nikhil was admitted on the condition that enough money should be introduced to enable Arun to be paid out, and leave Rs. 5,000 cash at bank, in the manner as would make their capital proportionate to their share of profit. Arun agreed to make Nikhil a gift by transfer from his capital account 60% of the amount which Nikhil had to provide. Kiran and Nikhil decided to write off goodwill.

Show necessary ledger accounts and prepare Balance Sheet of Kiran and Nikhil.

14. Rakesh, Vishal and Vishesh were partners sharing profits and losses in the ratio of 3:2:1. On 31st March, 2008 their Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	30,000	Cash at Bank	9,500
Bills Payable	5,000	Stock	15,500
Rakesh's Loan	6,000	Debtors	32,000
Reserve Fund	12,000	Furniture	5,000
Profit & Loss A/c.	6,000	Machinery	21,000
Capitals:		Drawings:	
Rakesh	20,000	Rakesh	4,000
Vishal	15,000	Vishal	1,000
		Vishesh's capital	6,000
	94,000		94,000

The firm was dissolved. The assets realised as follows:

Stock - Rs. 12,200
Debtors - Rs. 30,100
Furniture - Rs. 4,200

Plant and Machinery taken over by Rakesh at Rs. 18,000. A contingent liability for Bills Receivable discounted materialised to the extent of Rs. 600. Realisation expenses amounted to Rs. 6000. Vishesh is insolvent but his estate pays Rs. 1,900.

Prepare necessary accounts to close the books of the firm.

15. A, B and C are partners who share profits in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2007 was as under:

Liabilities	Rs.	Assets	Rs.
Capitals:		Sundry Assets	2,00,000
A	30,000		
B	50,000		
C	50,000		
Creditors	70,000		
	2,00,000		2,00,000

Contd... 5

The firm was dissolved and assets realised as follows:

First realisation	Rs. 50,000
Second realisation	Rs. 30,000
Third realisation	Rs. 60,000
Fourth realisation	Rs. 30,000
Final realisation	Rs. 15,000

Prepare a statement showing piece-meal distribution of cash under proportionate capital method.

16. Finalox Ltd., was formed to acquire the business of Ajay and Abhay who share profits in the ratio of 2:1. The balance sheet on the date of acquisition was follows:

Liabilities	Rs.	Assets	Rs.
Bills Payable	14,400	Property	80,000
Creditors	43,200	Machinery	40,000
Mrs. Ajay's loan	6,400	Stock	48,000
Capitals:		Debtors	46,400
Ajay	1,28,000	Bills Receivable	12,800
Abhay	80,000	Investments	9,600
		Cash at Bank	19,200
		Goodwill	16,000
	2,72,000		**2,72,000**

It was agreed by the company to take over the assets at book values with the exception of property and stock which are taken over at Rs. 90,000 and Rs. 40,000 respectively and the value of goodwill is fixed at Rs. 57,600. The investments are retained by the firm and sold for Rs. 8,000. They also discharge the loan of Mrs. Ajay. The company takes over the remaining liabilities. Cash at bank is retained by the firm.

The purchase consideration is discharged by the issue of 20,000 Equity shares of Rs. 10/- each and the balance in cash. Shares were distributed among the partners in profit sharing ratio.

Prepare necessary ledger accounts in the books of the firm.

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