

Financial Accounting

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Commerce SYBCom

Semester 3

University Exam

Mangalore University

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Credit Based Third Semester B.Com. Degree Examination
October / November 2007
COMMERCE
FINANCIAL ACCOUNTING - III

Time : 3 Hours

Max Marks: 120

Answer all the questions. Show working notes wherever necessary.

SECTION - A

Answer any FOUR. 6 marks each.

(4x6=24)

1. State any four difference between revaluation account and realisation account.
2. Jay and Ajay are partners sharing profits and losses in the ratio of 4:3. They admit Vijay as a partner. Jay contributes 1/3 of his share and Ajay contributes 1/6 of his share to Vijay. Calculate the new profit sharing ratio of the partners.
3. Write a note on sacrificing ratio and gain ratio.
4. Arun and Bawa are partners sharing profit losses in the ratio of 7/10 and 3/10. They admit Charlie and gave him 1/4 share in future profits which is contributed by them in the ratio of 3:2. Goodwill is to be raised in the books of the firm for Rs. 8,000 and is to be written off. Pass the necessary journal entries for the treatment of goodwill.
5. What are the adjustments to be made in the books of the firm at the time of admission of a new partner.
6. The balance sheet of Govind, Gopal and Gokul who were sharing profits and losses in the ratio of 3:2:1 stood as follows on 31.3.2007.

Liabilities	Rs.	Assets	Rs.
Capitals			
Govind	20,000	Debtors	15,000
Gopal	15,000	Less: RBD	500
Gokul	10,000	Stock	10,000
		Land & Buildings	20,500
	45,000		45,000

Gopal retired on the above date and the following adjustments have been agreed upon -

- 1) The stock be depreciated by 10%.
- 2) The RBD be brought up to 5% of debtors.
- 3) The Land & Buildings be appreciated by 20%.
- 4) That a provision for outstanding repairs will be made at Rs. 900.

Prepare revaluation A/c on the retirement of Gopal.

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SECTION - B

Answer any FOUR. 12 marks each.

(4x1)

7. A, B and C sharing profits and losses in the ratio of 5:3:2 took out a joint life policy Rs. 30,000, paying an annual premium of Rs. 2,000 starting from 15.5.2001. surrender value of the policy was as follows:

For 2001-Nil, For 2002 - Rs. 600

For 2003 - 1100, For 2004 - Rs. 2,000

B died on 15.11.2005 and the life insurance company paid the amount on 20.12.20

Prepare Joint Life Policy A/c and Joint Life Policy Reserve A/c.

8. Ram, Raheem and Robert carry on business sharing the profits in the ratio of $\frac{1}{2}$, and $\frac{1}{3}$ respectively. Capitals on 31.12.2006 were, Ram Rs. 20,000, Raheem Rs. 15,000 and Robert Rs. 10,000.

On 31.03.2007 Robert died and his executors claimed the following as per partnership deed.

- 1) The joint and several life policies against which premium are charged to profit and loss account are valued at 40% of the sum assured. The policies of the partners were - Ram Rs. 10,000, Raheem Rs. 7,500 and Robert Rs. 17,000.
- 2) Allow interest on capital at 6% p.a.
- 3) Calculate Robert's share of profits till the date of death on the basis of average profits of the preceding 3 years.
- 4) Calculate the goodwill of the firm at 2 years purchase of the average profits of the preceding 5 years. The annual profit or loss figures of preceding 5 years were - 2002 - Rs. 5,000, 2003 - Rs. 18,000, 2004 - Rs. 6,000 (Loss), 2005 - Rs. 9,000, 2006 - Rs. 12,000.

Prepare an account for presentation to the executors of Robert. Drawings till the date of death of Robert was Rs. 5,000.

9. Explain any four methods of treatment of goodwill on the admission of a partner.
10. Write a note on (a) order of payment on dissolution (b) joint and several life policies.
11. The following is the balance sheet of M, N and O as at 31.12.2006. The partners shared profits and losses in proportion to their capitals.

Liabilities	Rs.	Assets	Rs.
Creditors	12,000	Goodwill	8,000
Reserve Fund	8,000	Buildings	10,000
M's Capital	16,000	Stock	20,000
N's Capital	8,000	Debtors	10,000
O's Capital	8,000	Bank	4,000
	52,000		52,000

Contd... 3

N wishes to retire from 1.1.2007. The following revaluation of assets are made - Goodwill Rs. 10,000, Buildings - Rs. 12,000, Stock - Rs. 19,200.

A provision of 10% to be created on debtors.

Prepare the partners capital a/c and new balance sheet. The amount due to retiring partner should be treated as loan.

12. Raghu and Ravi are in partnership with 3:1 as their profit sharing ratio . The Balance Sheet of the firm is given below:

Liabilities	Rs.	Assets	Rs.
Creditors	14,000	Fixed Assets	21,000
Reserves	6,000	Stock	11,000
Capitals		Debtors	18,000
Raghu	24,000	Cash	2,000
Ravi	8,000		
	52,000		52,000

Nirlon Ltd. , agreed to takeover the whole business for Rs. 45,000 and pay Rs. 40,000 in shares and the balance in cash. Prepare necessary ledger accounts assuming that the shares are sold at 5% less.

SECTION - C

13. Teena and Meena are in partnership sharing profit and loss in the ratio of 3:2. On 1.4.2007 their balance sheet appeared as under.

Liabilities	Rs.	Assets	Rs.
Creditors	40,000	Fixed Assets	90,000
General Reserve	22,000	Stock	60,000
Capitals		Debtors	54,000
Teena	80,000	Less: RBD	<u>4,000</u>
Meena	60,000	Cash	2,000
	2,02,000		2,02,000

On the above data, Neena is admitted as the new partner for 1/5 share in the profits of the firm. The terms are -

1. Goodwill of the firm is fixed at Rs. 60,000. Goodwill Account to be raised and written off.
2. Fixed Assets are revalued at Rs. 1,00,000 and Reserve for Bad Debts is to be increased to Rs. 5,000.
3. That a liability of Rs. 900 be created against bills dishonoured.
4. Accrued income not appearing in the books Rs. 1,000.

Contd... 4

5. Sumathi, an old customer whose account was written off as bad, has promised to pay Rs. 1500 in settlement of her full debt.
6. Neena brings necessary amount of cash and stock worth Rs. 4,000 and debtors amounting Rs. 6,000 as her capital.
7. The total capital of new firm is fixed at Rs. 1,00,000 and the partners agreed to provide capital in the new profit sharing ratio.
8. Excess or shortage of capital arising out of adjustment are to be transferred to the newly opened current A/c.

Prepare the necessary ledger account and the balance sheet of the new firm.

14. A, B, C & D are partners sharing profit and loss in the ratio of 3:3:2:2. Following is their balance sheet as on 31.3.2007.

Liabilities	Rs.	Assets	Rs.
S. Creditors	46,500	Cash at Bank	6,000
General Reserve	10,000	S. Debtors	48,000
Mrs. A's Loan A/c.	15,000	Less RBD	1500
C's Loan A/c.	5,000	Stock	30,000
Capital A/cs.		Furniture	12,000
A	60,000	Trade Marks	13,000
B	45,000	Profit and Loss A/c.	8,000
		Capital Accounts	
		C	48,000
		D	18,000
	1,81,500		1,81,500

On 1.4.07, the firm was dissolved and B was appointed to realise the assets and to pay the liabilities. He was entitled to receive 5% commission on the assets realised. He was to bear all the expenses of realisation personally.

Assets are realised as follows:

S. Debtors 45,000, Stock 24,000, Furniture Rs. 3,000.

Shares worth Rs. 4,000 which was not shown in the Balance Sheet was given to Mrs. A towards her loan and the balance was paid in cash.

Creditors were paid and a total discount of Rs. 500 was allowed by creditors. In addition one bill for Rs. 700 under discount was dishonoured and had to be taken up by the firm.

The lives of the partners were insured severally for Rs. 40,000, Rs. 25,000, Rs. 20,000 and Rs. 24,000 respectively, the premium of which was charged to profit and loss account. On the date of dissolution, the surrender value of each policy was 30% of the sum assured.

Prepare Realisation Account, partners capital account and Bank Account.

Contd... 5

15. Arun, Varun and Kiran were partners in the firm sharing profit and loss in the ratio of 3:2:1 respectively. Due to extreme competition it was decided to dissolve the partnership firm on 1.1.2007 on which date the Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Capital	1,13,100	Fixed Assets	1,79,800
Varun	35,400	Investments	5,400
Kiran	<u>31,500</u>	Stock	97,700
Current A/cs.		Debtors	56,400
Arun	26,400	Cash at Bank	29,700
Kiran	<u>6,000</u>	Varun Current A/c.	18,000
General Reserve	1,08,000		
C's Loan A/c.	15,000		
Creditors	51,600		
	3,87,000		3,87,000

The assets were realised as follows:

April 15, 2007 - Rs. 51,900, April 29 - Rs. 1,39,500, June 2nd - Rs. 18,000, June 25th - Rs. 6,300, August 6th - Rs. 96,000.

Dissolution expenses amounted to Rs. 9,600 and were paid on June 2nd 2007.

The partners decided that after creditors were paid for Rs. 50,400 (in full settlement of their claims) and C's loan all cash received should be distributed as and when realised.

You are required to show a statement showing the distribution of cash.

16. Following is the balance sheet of King, Queen and Joker as on 31.03.2007.

Capitals		Plant & Machinery	84,000
King	40,000	Buildings	45,000
Queen	60,000	Vehicles	6,400
Joker	<u>10,000</u>	S. Drs.	46,000
Current A/cs.		Stock in trade	42,000
King	32,000	Bank	3,600
Queen	<u>36,000</u>	Current A/c.	
General Reserve	9,000	Joker	15,600
Trade Creditors	35,200		
Provision for payment of Excise duty	16,800		
Creditors for expenses	3,600		
	2,42,600		2,42,600

Contd... 6

The firm accepts an offer to sell to AB Co. Ltd., takeover the following assets only at the values given below:

Plant and Machinery	6,000
Buildings	89,000
Stock	36,000

Besides it also agreed to pay Rs. 10,000 for goodwill.

The firm realises its sundry debtors for Rs. 40,000 and vehicles for Rs. 10,000. Expenses of firm towards realisation amounted to Rs. 1,000.

The liability for excise duty was finally discharged at Rs. 20,000. Trade creditors were paid Rs. 29,000 in full settlement of amount due to them.

The shares were sold at a discount of 10%.

Prepare realisation A/c, Capital A/cs, Bank A/c and Shares A/c in the books of the firm.

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