Financial Accounting

2009 December

Commerce SYBCom

Semester 3

University Exam

Mangalore University

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BCMCMC 202

Credit Based Third Semester B.Com. Degree Examination, Nov./Dec. 2009
COMMERCE
Financial Accounting – III

Time : 3 Hours Max. Marks : 120

Instruction : Provide working notes wherever needed. Working notes carry marks.

SECTION – A

Answer **any four, 6 marks each** : (4×6=24)

1. What is Revalution Account ? Why is it prepared at the time of admission of a partner ?

2. Arjun and Sajan are partners sharing profits and losses in the ratio of 5 : 3.

   They admit Madan and give him $^1/_5{}^{th}$ share. Arjun and Sajan agree to share the remaining profits between themselves in the ratio of 2 : 1. Calculate the profit sacrifice ratio.

3. Define profit sacrifice ratio and profit gain ratio. What is the need for calculating these ratios ?

4. What is meant by piece meal distribution of cash on the dissolution of a partnership firm ?

5. D'Souza and Aravind are partners with capitals of Rs. 3,00,000 and Rs. 5,00,000. They share profits and losses in the ratio of 3 :5. They agree to admit Amir into partnership and give him $^1/_6{}^{th}$ share which he acquire $^1/_{24}{}^{th}$ from D'Souza and $^1/_8{}^{th}$ from Aravind. Amir to bring Rs. 4,00,000 for capital and Rs. 1,00,000 for goodwill. The goodwill amount is withdrawn by the old partners.

   Pass Journal entries to record the above transactions.

P.T.O.

6. The Balance Sheet of A B and C was as follows

Balance sheet 1-1-2008

Liabilities	Rs.	Assets		Rs.
Creditors	38,000	Cash at Bank		20,000
Capitals		Bills Receivable		60,000
A	6,00,000	Stock		1,20,000
B	6,00,000	Debtors	70,000	
B	6,50,000	Less RBD	2,000	68,000
		Furniture		1,20,000
		Plant		5,00,000
		Buildings		10,00,000
	18,88,000			**18,88,000**

The partners share profits and losses in the ratio of 5 : 3 : 2

A retired on the above date and the following adjustments have been agreed upo

1) The stock and furniture be depreciated by 5%

2) The RBD be brought up to 5% on debtors

3) The building be appreciated by 10%

4) That a provision for outstanding repair bill be made at Rs. 5,200.

Prepare Revaluation a/c on the retirement of A.

SECTION – B

Answer **any four, 12** marks **each** : (4×12=

7. Write a note on (a) order of payment on dissolution (b) Joint and several policies.

8. Akash, Vinay and Arun carried on business in partnership sharing profits in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively.

The balance sheet on 31-12-2008 showed their capitals to be Akash Rs. 1,50,000, Vinay Rs. 1,80,000 and Arun Rs. 1,00,000.

On 31st March 2009 Akash died and you are required to prepare an account to be presented to his executors having regard to the following facts :

1) Allow interest on capital at 9% p.a.

2) The firm has insured partners lives severally, Akash for Rs. 20,000. Vinay Rs. 15,000 and Arun Rs. 12,000.

   The premiums have been charged to profit and loss a/c and surrender value on 31-3-2009 amounted in each case to one half of the sum assured.

3) Akash's drawings to the date of death amounted to Rs. 28,000.

4) Akash's share of profit till the date of death is to be calculated on the basis of average profits of the last three years.

5) Goodwill is to be calculated on the basis of two years's purchase of the average profits of the last three years. The profits for the last three years were :

   2006 Rs. 30,000

   2007 Rs. 40,000

   2008 Rs. 48,000

9. Explain briefly various methods of treatment of goodwill on the admission of a partner.

10. The Balance Sheet of L & M as at 31-12-2008 was as follows :

Liabilities	Rs.	Assets	Rs.
Creditors	4,000	Cash at Bank	14,000
Reserve Fund	20,000	Debtors	35,000
L's capital	50,000	Furniture	20,000
M's Capital	30,000	Stock	20,000
		Goodwill	15,000
	1,04,000		**1,04,000**

'O' is admitted on 1-1-2009 for $\frac{1}{3}^{rd}$ share of profit. The following revaluation of assets are made.

Goodwill Rs. 10,000, stock Rs. 18,000 and Furniture Rs. 18,000.

A provision of 5% is to be created on debtors.

Prepare the partners capital A/c and the reconstituted Balance Sheet.

11. Ravi and Ganesh are in partnership with 3 : 2 as their profit sharing ratio. The Balance sheet as on 31-12-2008 was as under :

Liabilities	Rs.	Assets	Rs.
S. creditors	65,000	Plant and Machinery	2,60,000
Bills payable	22,000	Stock	1,30,000
Profit and loss A/c	43,000	Investments	52,000
Ravi's capital	2,00,000	Sundry debtors	38,000
Ganesh's capital	3,19,000	Buildings	1,69,000
	6,49,000		**6,49,000**

Raga Ltd. was formed to take over the business. The company took over all the assets and labilities except the investments at their book values and the purchase consideration of Rs. 5,50,000 was satisfied by the issue of Rs. 2,00,000 7% debentures of Raga Ltd. and the balance in fully paid shares of Rs. 100 each in Raga Ltd. The investments were taken over by Ganesh at book value. The shares in Raga Ltd. have been taken over by the partners equally and the final settlement being made in the form of debentures.

Pass the journal entries to close the books of the firm.

12. X, Y and Z sharing profits in the ratio of 2:2:1, took out a joint life policy for Rs. 75,000 on 15th April 2003 by paying an annual premium of Rs. 3,000. The accounts were closed on 31st Dec. every year. Following were the Surrender values of the policy 2003 Nil, 2004 Rs. 500, 2005 Rs. 1200, 2006 Rs. 2,300, 2007 Rs. 3,500.

X died on 2nd March 2007 and the claim was received on 15th March 2007.

Show joint life policy a/c and Joint life policy Reserve A/c.

SECTION – C

Answer **any two, 24 marks each:** **(2×24=48)**

13. The Balance Sheet of Nidhi and Nikitha was as under on 1st Jan. 2007 :

Liabilities	**Rs.**	**Assets**	**Rs.**
S. creditors	30,000	Cash at Bank	20,000
Reserve	60,000	Bills receivable	20,000
Capital :		Stock	1,20,000
Nidhi	3,60,000	Debtors	70,000
Nikitha	4,00,000	Furniture	1,20,000
		Plant	5,00,000
	8,50,000		**8,50,000**

The partners shared profits and losses in the ratio of 3:2. They admitted Lekha as a partner and was given $\frac{1}{5}^{th}$ share on the following terms :

1) She should bring Rs. 2,00,000 as her capital.
2) Goodwill of the firm be valued at Rs. 60,000.
3) Stock and furniture to be depreciated by 10%
4) A provision of 10% on debtors be created.
5) An amount of Rs. 2,500 included in creditors is not likely to be claimed.
6) A provision of Rs. 2,000 be created against reserve for doubtful bills.
7) The capitals of Nidhi and Nikitha be adjusted according to new profit sharing ratio based on the capital of new partner.
8) Excess or shortage of capital arising out of adjustment are to be transferred to the newly opened current accounts.

Prepare Revaluation A/c, Goodwill A/c partner's capital A/cs and Balance sheet of the newly constituted firm.

14. A, B and C were in partnership sharing profits and losses in the ratio of 3:2:1. On 31-3-2007, their Balance Sheet stood as follows :

Liabilities	Rs.	Assets	Rs.
Creditors	1,50,500	Premises	3,50,000
Bank overdraft	88,000	Plant	5,50,000
Capitals:		Stock	86,400
A	2,60,000	Debtors	1,00,000
B	3,00,000		
C	1,20,000		
Current A/cs			
A	50,500		
B	65,400		
C	52,000		
	10,86,400		**10,86,400**

All the partners decided to dissolve the partnership with effect from 31-3-2007

The assets were realised as under :

Premises	Rs. 3,70,000
Plant	Rs. 3,50,000
Debtors	Rs. 90,800

Stock was realised at book value less 5% realisation expenses amounted to Rs. 25,000.

The Bank overdraft is discharged and the creditors are paid in full and a liability for discounted bill dishonoured to the extent of Rs. 12,500 was also paid.

Write up

1) Realisation A/c

2) Capital A/cs and

3) Bank A/c.

15. Amar and Bhuvan were carrying on business in partnership sharing profits and losses equally. It was agreed that Amar should retire from the firm on 31-3-2008 and that Chandan should join Bhuvan from 1-4-2008 and should be entitled to $\frac{1}{3}^{rd}$ profits. The balance sheet of Amar and Bhuvan was as follows :

Liabilities	Rs.	Assets	Rs.
Creditors	29,500	Cash at Bank	33,000
Capitals		Debtors	48,000
Amar	1,02,000	Stock	33,000
Bhuvan	84,500	Furniture	12,000
		Building	60,000
		Goodwill	30,000
	2,16,000		**2,16,000**

On 31-3-2007 Goodwill was valued at Rs. 60,000, Buildings at Rs. 1,00,000 and stock at Rs. 30,000. It was agreed that enough money should be introduced to enable Amar to be paid out and leave Rs. 30,000 Cash by way of working capital. Bhuvan and Chandan were to provide such sums as would make their capitals proportionate to their shares of profits.

Prepare revaluation A/c. Partners' capital A/cs and the Balance Sheet of Bhuvan and Chandan.

16. A business known as Karnataka enterprises was sold to Himalaya Co., Ltd. when their Balance Sheet appeared as under. Profit sharing ratio was 3:2.

Liabilities	Rs.	Assets	Rs.
Capital		Cash in hand	18,000
Karthik	3,00,000	Closing Stock	1,48,000
Naveen	2,00,000	Plant & Machinery	3,40,000
Creditors	2,00,000	Investments	82,000
Bank overdraft	20,000	Sundry debtors	1,60,000
Reserve Fund	28,000		
	7,48,000		**7,48,000**

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The business was sold on the following conditions :

1) The company was to take over the whole concern except cash and investments at 10% less than the book value.

2) The creditors were taken over at book value.

3) Naveen agreed to pay bank overdraft with an interest of Rs. 600.

4) The Himalaya Co., Ltd. agreed to pay Rs. 20,000 towards goodwill.

5) The purchase price was paid half in cash and the remaining half in fully paid Rs. 10 shares of the company.

The firm sold its own investments and the shares at 5% less.

The realisation expenses amounted to Rs. 2,000.

Prepare realisation A/c, Partners' capital A/cs and Bank A/c.