

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004 – 2005 & thereafter)

SUBJECT CODE : CM/MC/FA34

B.Com. DEGREE EXAMINATION NOVEMBER 2007
COMMERCE
THIRD SEMESTER

COURSE : MAJOR – CORE
PAPER : FINANCIAL ACCOUNTING – II
TIME : 3 HOURS MAX. MARKS : 100

SECTION – A

ANSWER ALL QUESTIONS: (10 x 3 = 30)

1. What do you mean by Royalty?
2. Give 3 examples of expenses which cannot be allocated.
3. What is sacrificing Ratio?
4. Explain the meaning of Piecemeal distribution.
5. A,B,C are partners sharing profits and losses in the ratio of 3:2:1. C retires from the firm and A & B decide to continue the business sharing profits and losses in the ratio of 5:3. Goodwill of the firm is valued for Rs.12,000. No goodwill account is kept in new books. Pass journal entries.
6. Goods sent by HO in transit Rs.40,000. Depreciation of branch asset whose accounts are maintained by HO. Cash sent by branch in transit Rs.60,000. Depreciation of branch assets – Rs.20,000 the accounts are maintained by HO. Pass necessary entries in the books of HO.
7. If goods are transferred from department X to department Y at selling price which includes a profit of 25% on the cost. What will be the amount of stock reserve on such closing stock [valued at Rs.60,000] of Department Y.
8. Give the basis for allocating
 - (a) Canteen expenses
 - (b) Power and
 - (c) Depreciation.
9. X & Y shared profits in the ratio of 7:3. Z was admitted as a partner. X surrendered $\frac{1}{7}$ th of his share & Y $\frac{1}{3}$ rd of his share in favour of Z. Calculate new ratio & sacrificing ratio.
10. Write notes on Stock reserve.

SECTION – B

ANSWER ANY FIVE QUESTIONS:

(5 x 8 = 40)

11. A business concern was maintaining his account on calendar year basis. During 2005, he decided to admit his manager B as a partner with effect from 1-10-2005, on the following terms:
- Profits and losses to be shared in the ratio of 4:1 between A & B.
 - A's capital of Rs.2,60,000 on 1-10-2005 will carry interest @ 15% p.a. from the date.
 - The sum of Rs.2,000 paid as salary to B at the end of every month shall henceforth be treated as his drawings, subject to interest at 9% p.a.
 - The results of 2005 after charging managers salary for all 12 months were as under:
 - Net profit 1-1-2005 to 30-9-2005 Rs.70,000
 - Net profit 1-10-2005 to 31-12-2005 Rs.34,000
- You are required to prepare a profit and loss adjustment account and the partners capital accounts under the above circumstances.
12. A, B & C share profits and losses in the proportion of $\frac{1}{2}$, $\frac{1}{3}$ & $\frac{1}{6}$.

BALANCE SHEET

| Liabilities | Rs. | Assets | Rs. |
|--|----------|-----------------------------|----------|
| Creditors | 50,000 | Land and building | 70,000 |
| A's loan | 10,000 | Plant and machinery | 40,000 |
| Capital – A | 50,000 | Stock | 25,000 |
| Capital – B | 10,000 | Debtors | 20,000 |
| Capital – C | 40,000 | Cash | 5,000 |
| | 1,60,000 | | 1,60,000 |
| The partnership is dissolved and the assets are realized as follows: | | | |
| 1 st Realisation | 40,000 | 3 rd realisation | 54,000 |
| 2 nd Realisation | 30,000 | 4 th realisation | 1,000 |

Prepare a statement showing how the distribution should be made.

13. A head office in Delhi has branch in Rohtak to which goods are invoiced by HO at cost plus 25%. All cash received by the branch is daily remitted to HO. All expenses are paid from Delhi. From the following particulars, show how the branch account will appear in HO books [entries to be made at Invoice prices]:

| Particulars | Rs. | Rs. |
|--------------------------------------|--------|--------|
| Stock on 1-7-2005 (at invoice price) | | 12,500 |
| Debtors on 1-7-2005 | | 12,000 |
| Goods invoiced from Delhi | | 40,000 |
| Remittance to Delhi – Cash sales | 16,000 | |
| - Collection from Drs | 29,500 | 45,500 |

| | | |
|---------------------------------------|--------|--------|
| Goods returned to Delhi | | 2,400 |
| Cheques received from Delhi: | | |
| Wages & salaries | 12,000 | |
| Rent & rates etc., | 4,000 | |
| Sundry expenses | 1,200 | 17,200 |
| Stock on 31-3-2006 (at invoice price) | | 16,000 |
| Debtors on 31-3-2006 | | 25,000 |

14. A & B sharing profits in the ratio of 3:2 took out a joint life policy on 1-1-2004 of Rs.20,000 for 20 years paying annual premium of Rs.1,000. The surrender values were 2004 – NIL; 2005 – 200; 2006 – 550; 2007 – 970. B died on 8th March 2007 and claim was received on 30th April. Show accounts when premium paid is treated as an asset and reserve is maintained.
15. A HO sends goods to its branch at 25% less than the list price. Goods are sold to customers at cost plus 60%. From the following particulars, ascertain the profit made by HO and by Branch.

| Particulars | HO | Branch |
|----------------------|---------------------|---------------------|
| Opening stock | 50,000 [Cost price] | 30,000 [inv. Price] |
| Purchases | 1,50,000 | NIL |
| Goods sent to branch | 1,08,000 | NIL |
| Sales | 1,60,000 | 80,000 |
| Expenses | 10,000 | 6,000 |

16. A colliery company worked coal under a lease which provided for the payment of royalties at 50 paise per tonne with Minimum rent of Rs.17,000 p.a. Each years excess of minimum rent over the actual royalties was recoverable during the subsequent 3 years. The least however stipulated that if in any year the normal rent was not attained due to strike, the minimum rent was to be regarded as having been reduced proportionately having regard to the length of the stoppage. The output for the year ended was as follows:

| | | | |
|------------|--------|----------|--------|
| 31-12-2000 | 4,000 | 31-12-01 | 28,000 |
| 31-12-02 | 30,000 | 31-12-03 | 46,000 |
| 31-12-04 | 30,000 | 31-12-05 | 50,000 |

During the year 2004, there was a stoppage (due to strike) lasting for 3 months. Prepare Royalty account & short working account in the books of colliery co.

17. Yule, the proprietor of a departmental store, decided to calculate separate profits for his first two departments X & Y for the month ending 31-1-2002. Stock on 31-1-2002, could not be valued for certain unavoidable reasons but his rates of gross profits [without reference to direct expenses] on sales for the two departments are 40% and 30%. The following figures are given:

| Particulars | Dept X | Dept Y |
|-----------------|--------|--------|
| Stock 1-1-2002 | 9,000 | 8,400 |
| Sales | 42,000 | 36,000 |
| Purchases | 27,000 | 21,600 |
| Direct expenses | 5,490 | 8,520 |

Indirect expenses for the whole business [containing five departments] are Rs.10,800 which are to be charged in proportion to departmental sales except as to 1/6th, which is to be divided equally. Sales for the remaining three departments were Rs.1,02,000. Prepare a statement showing profits for the two departments.

SECTION – C

ANSWER ANY TWO QUESTIONS:

(2 x 15 = 30)

18. The following is the Trail balance of Mysore branch, as at 31-3-2005:

| Debit | | Credit | |
|--------------------|--------|----------------------|--------|
| Madras head office | 3,420 | Sales | 40,000 |
| 01-04-2004 – Stock | 5,820 | Goods supplied to Ho | 4,000 |
| Purchases | 17,000 | Creditors | 1,800 |
| Goods recd from HO | 9,800 | | |
| Salaries | 1,200 | | |
| Debtors | 4,000 | | |
| Rent | 900 | | |
| Office exp | 500 | | |
| Cash | 1,760 | | |
| Furniture | 1,400 | | |
| | 45,800 | | 45,800 |

Stock on hand on 31-3-2005 was valued at Rs.2,700. The branch account in the HO books on 31-3-2005 stood at Rs.280 (Dr.). On 18 March 2005, the HO forwarded goods of the value of Rs.2,500 to branch which was received on 4th April 2005. Similarly a cash remittance of Rs.1,200 by the branch on 19th March 2005 was received by HO on 1st April 2005.

Pass the journal entries necessary to incorporate the above figures showing the result of the trading by the branch separately in the HO books and the Mysore branch account in the Madras Head office books as it would appear finally.

19. The following balances were extracted from the books of Mr. Vijay Raghavan. You are required to prepare departmental trading account and profit and loss account for the year ended 31-3-2005, after adjusting the unrealized department profit, if any:

| Particulars | Dept A | Dept B |
|---------------|-----------|-----------|
| Opening Stock | 50,000 | 40,000 |
| Sales | 10,00,000 | 15,00,000 |
| Purchases | 6,50,000 | 9,10,000 |

General expenses incurred for both the departments were Rs.1,25,000 and you are also supplied with the following information:

- Closing stock of department A Rs.1,00,000 including goods from department B for Rs.20,000 at cost to department A.
- Closing stock of department B Rs.2,00,000 including goods from department A for Rs.30,000 at cost to department B.
- Opening stock of department A and department B include goods of the value of Rs.10,000, Rs.15,000 taken from department B and department A respectively at cost to transferee departments.
- The gross profit is uniform from year to year.

20. M/s.A,B,C & co., is a partnership concern with three partners A,B & C sharing profits and losses of the firm in the ratio of 4:2:2. The Balance sheet of the firm as on 31-3-2005 is given below.

| Liabilities | | Assets | |
|------------------------|----------|------------------------|----------|
| A Capital | 1,14,000 | Fixed asset | 1,10,000 |
| B Capital | 49,000 | Furniture and fittings | 82,400 |
| C Capital | 52,000 | Drawing a/c – B | 34,800 |
| Creditor | 1,28,000 | Debtors | 1,81,000 |
| Provision for expenses | 32,600 | Cash | 14,300 |
| Loan from bank | 81,000 | Bank | 22,800 |
| | | Prepaid expense | 11,300 |
| | 4,56,600 | | 4,56,600 |

It was agreed between partners that B will retire and D will join the partnership with effect from 1-4-2005. For the purpose of reconstitution of the firm as above, the partners agreed to the following agreement:

- 1 A,C,D will share the profits and losses of the firm in the ratio of 3:2:1 and their capital will be in the same ratio in which they share the profits. It was also agreed that the total capital of the partners would be Rs.2,40,000.
 - 2 To determine the share of outgoing partner, goodwill of the firm is valued at RS.1,80,000 and it was agreed that the amount of goodwill shall not appear as an asset in the books of the partnership, after its reconstitution.
 - 3 Fixed assets and furniture are revalued at Rs.1,70,000 and Rs.91,000 respectively at the time of reconstitution. 7% of sundry debtors is considered bad and doubtful and hence the amount is to be written off.
 - 4 Out of the amount payable to B on account of his retirement, a sum of Rs.40,000 will be paid in cash and the balance amount, if any, is to be retained as his loan to the firm.
 - 5 D will bring the necessary cash. A & C will retain any surplus in their capital accounts as loan to the firm.
- Prepare (i) Revaluation account (ii) capital accounts (iii) Balance sheet of the firm after its reconstitution and (iv) Bank account.
21. Mehfoz owned the patent of a safety lock Rao & company acquired the rights to manufacture and sell locks for six years on the following terms:
- a) Rao & Co., to pay mehfoz a royalty of Rs.5 for each lock sold with a minimum annual payment of Rs.50,000.
 - b) If in any year the royalty calculated on locks sold amounted to less than Rs.50,000, Rao & Co., is to have the right to deduct the deficiency from the royalty payable in excess of that sum in the two following years.
 - c) The number of locks sold was as follows:

| | | |
|----------|---|--------|
| 31-12-02 | - | 8,000 |
| 31-12-03 | - | 9,000 |
| 31-12-04 | - | 11,000 |
| 31-12-05 | - | 19,000 |
- You are required to prepare necessary ledger accounts to record the above royalty transactions in the books of Rao & Co., which are closed annually on 31st December.

