2021

FINANCIAL ACCOUNTING - II — HONOURS

Paper : CC-3.1Ch

Full Marks : 80

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

Answer ***any four*** questions.

1. APZ Ltd. has a branch at Patna. Goods are invoiced from head office to branch at cost plus 50%. Branch sells goods at the invoice price. Branch remits all cash received to the head office and all branch expenses are paid by the head office. Branch does not maintain complete set of books of accounts.

From the following information relating to Patna branch, prepare a Patna Branch A/c for the year ending 31/12/2021 in the books of head office : 10

Particulars	₹
Stock at invoice price on 01.01.2021	78,000
Debtors on 01.01.2021	43,500
Goods sent to branch at invoice price	2,70,000
Goods returned by Debtors at branch	7,500
Abnormal Loss at invoice price	15,000
Cash sales	12,000
Credit sales	1,92,000
Shortages in stock at invoice price [considered normal]	1,200
Expenses at Branch	32,950
Discount allowed to Debtors	1,750
Debtors on 31.12.2021	35,750

2. On 01.01.2019 P. Basu purchased a machine from Sinha & Co. on hire purchase basis whose cash price was ₹ 59,040. Payment was to be made in four equal annual instalments of ₹ 25,000 at the end of each year. First instalment was paid on 31.12.2019. Interest is charged @ 25% per annum and is included in the annual instalment. As per the agreement there was no down payment.

P. Basu paid the first and second instalment but could not pay the third instalment. As a result of such default in payment, Sinha & Co. repossessed the machine.

P. Basu is providing depreciation on machinery at 20% per annum on written down value method. P. Basu closes his books of accounts every year on 31st December.

In the books of P. Basu, show Machinery Account and Sinha & Co. Account for the year 2019, 2020 and 2021. 5+5

3. During the year ended 31st December 2021, Apex Ltd. entered into the following transactions:

25.04.2021 : Purchased 8000 equity shares of ₹ 10 each in PQ Ltd. for ₹ 2,00,000

15.06.2021 : PQ Ltd. made a bonus issue of 1 equity share for every 2 shares held.

01.07.2021 : Received dividend @ 40% on shares in PQ Ltd. for the year ended 31st March 2021.

01.09.2021 : Apex Ltd. sold all the bonus shares received for ₹ 30 each.

Show 'Investment in Equity shares in PQ Ltd. Account' in the books of Apex Ltd. assuming investments are current investments. Assume that average cost method is followed. 10

4. (a) State the objectives of preparation of departmental accounts.

(b) Discuss the major differences between synthetic method and analytical method of branch accounting. 6+4

5. A Company has two departments— Cloth Department and Tailoring Department. Cloth Department sells goods to Tailoring Department at usual selling price. From the following particulars, prepare a Departmental Trading and Profit & Loss Account for the year ended 31st March, 2021 :

	Cloth Department (₹)	**Tailoring Department (₹)**
Stock on 01.04.2020	10,80,000	1,44,000
Purchases	61,20,000	90,000
Manufacturing Expenses	—	2,16,000
Sales	72,00,000	14,40,000
Selling Expenses	90,000	36,000
Transfer from Cloth Dept. to Tailoring Dept.	9,00,000	—
Stock on 31.03.2021	18,00,000	2,70,000

The stock in Tailoring Department is assumed to consist 80% cloth and 20% other expenses. General expenses of the business for the year are ₹ 4,14,000. Gross profit earned by Cloth Department during the year was 30% on sales. 10

6. Tamal and Kartick are partners in a firm who wished to dissolve their partnership firm. AB Ltd. agreed to purchase the business of the firm as on 31st March, 2021. The Balance Sheet of the firm on that date was as follows :

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts :			
Tamal	1,52,000	Land & Building	94,000
Kartick	1,16,000	Plant & Machinery	56,000
General Reserve	60,000	Furniture & Fixtures	14,000
Sundry Creditors	74,000	Stock-in-trade	1,24,000
Outstanding Expenses	6,000	Sundry Debtors	1,10,000
		Cash	10,000
	4,08,000		**4,08,000**

The company agreed to takeover the liabilities and all the assets with the exception of cash balance. The agreed price being ₹ 3,60,000 to be satisfied as one-third in cash and two-third by the issue of fully paid equity shares of ₹ 10 each at a premium of ₹ 2.50 per share. The company made the following revaluation of the Assets taken over while considering them in the books : Land and Building ₹ 1,24,000, Plan and Machinery ₹ 50,000, Furniture and Fixtures ₹ 10,000, Stock-in-trade ₹ 1,16,000, Sundry Debtors ₹ 1,00,000.

Pass journal entries (without narration) to record the acquisition of the business in the books of AB Ltd. 10

7. PQ Ltd. was incorporated on 01.08.2020 to takeover the business of Mr. P. Das with effect from 01.04.2020; certificate for commencement of business was, however, received on 01.10.2020. Profit & Loss Account of Mr. P. Das for the year ended 31.03.2021 was as follows :

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Office salaries	42,000	Gross Profit	2,40,000
Office Rent	19,200		
Audit Fees	1,200		
Director's Fees	2,000		
Office Expenses	36,000		
Commission on sales	8,000		
Preliminary Expenses	1,400		
Debenture Interest	3,200		
Interest on Capital	3,600		
Insurance	4,200		
Net Profit	1,19,200		
	2,40,000		**2,40,000**

Additional Information **:**

Sales for the year were evenly up to the date of certificate of commencement, thereafter sales were increased evenly by 2/3rd GP rate was also uniform.

Office rent was paid @ ₹ 16,800 p.a. up to 30.09.2020 and thereafter @ ₹ 21,600 p.a.

Show the amount of pre and post incorporation profit from the above mention information. 10

8. (a) Mention the differences between Hire Purchase and Installment Purchase System.

(b) State the purposes of preparing Branch Adjustment Account. 7+3

Group - B

Answer ***any two*** questions.

9. (a) M, B and A are equal partners in a firm. The balances of their capital accounts are ₹ 30,000; ₹ 25,000 and ₹ 20,000 respectively. In arriving at these figures, the profits for the year ended 31st December 2021 of ₹ 45,000 had already been credited to partners in their profit sharing ratio. Their drawings during the year were as follows : M – ₹ 5,000, B – ₹ 4,000 and A – ₹ 3,000

Subsequently the following omissions were noticed and it was decided to bring them into account :

(i) Interest on capital @ 10% per annum

(ii) Interest on drawings M – ₹ 250, B – ₹ 200 and A – ₹ 150

(iii) A was entitled for a salary of ₹ 1,500 per month.

Make the necessary corrections through a single journal entry. Show your workings clearly.

(b) A and B are partners sharing profits and losses in the ratio of 5 : 4. They admit C into partnership for $\frac{1}{5}$th of the share in the profits which is given as $\frac{2}{15}$th by A and $\frac{1}{15}$th by B. C brings ₹ 3,00,000 as capital and 1,20,000 as premium. Goodwill account appears in the books at ₹ 3,30,000.

Give necessary journal entries in the books of the firm at the time of C's admission in the firm after determining the new profit sharing ratio. 10+10

10. R, S and K were partners in a firm sharing profits and losses in the ratio 5 : 3 : 2. On March 31, 2020, their Balance Sheet was as follows :

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Sundry Creditors		2,00,000	Plant & Equipments	40,000
R's Loan		80,000	Stock	2,60,000
S's Loan		60,000	Debtors	3,20,000
Capitals :			Cash at bank	20,000
R	1,50,000			
S	1,20,000			
K	30,000	3,00,000		
		6,40,000		**6,40,000**

The firm was dissolved on 1st April, 2020. The assests realized were as follows :

2020	**Stock (₹)**	**Debtors (₹)**	**Plant & Equipments (₹)**	**Expenses (₹)**
April 30	60,000	50,000	15,000	5,000
June 30	60,000	50,000	—	8,000
July 31	80,000	1,50,000	20,000	15,000
August 31	50,000	20,000	—	5,000

Cash received was paid to the rightful claimants at the end of each month.

Prepare a statement showing the distribution of cash (following Surplus Capital Method). 20

11. Anil, Bimal and Chayan are partners in a partnership firm sharing profits & losses equally. The balance sheet of the firm as on 31st December, 2020 was as follows :

Balance Sheet as on 31st December, 2020

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts :		—	Land & Buildings	1,40,000
Anil	80,000		Plant & Machinery	1,20,000
Bimal	1,00,000		Furniture	20,000
Chayan	1,20,000		Stock	42,000
		3,00,000	Sundry Debtors	80,000
General Reserve		48,000	Bank	16,000
Sundry Creditors		40,000		
Bills Payable		30,000		
		4,18,000		**4,18,000**

Anil retires from the business on 31.12.2020 as per the following terms and conditions. Bimal and Chayan will continue the business sharing profits & losses in the new ratio of 3 : 2.

(i) The value of Machinery and Furniture are to be depreciated by 15% and 10% respectively.

(ii) The value of Building is to be increased to ₹ 1,80,000 and the value of stock is to be increased by ₹ 14,000.

(iii) A provision of ₹ 4,000 is to be made for doubtful debts.

(iv) Goodwill of the firm is to be valued at ₹ 90,000

(v) Bimal and Chayan have to adjust their capitals in the new profit sharing ratio and bring in cash to pay off Anil leaving a bank balance of ₹ 40,000 for working capital.

(vi) The goodwill account is to be closed after retirement of Anil.

Prepare Revaluation Account, Partners' Capital Account and the Balance Sheet of the new firm. 4+12+4

12. (a) Mention the circumstances under which a firm may be dissolved.

(b) Mention two methods for distribution of assets on dissolution of a partnership firm.

(b) What do you mean by 'Garner vs. Murray' rule in case of insolvency of a partner? 8+4+8