No. of Pages - 10
No of Questions - 06

SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE PROGRAMME

YEAR I SEMESTER II – INTAKE VII (GROUP B)
END SEMESTER EXAMINATION – JULY 2017

AFM 10330 Intermediate Financial Accounting

Date	:	9th July 2017
Time	:	9.00 a.m. - 12.00 p.m.
Duration	:	Three (03) hours

Instructions to Candidates:

- Answer **ANY FIVE (05)** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

Question No. 01

L, M and S are partners of the firm LMS & Co., sharing profits and losses in the ratio of 5:3:2. Following is the Statement of Financial Position of the firm as at 31st March 2017:

Statement of Financial Position as at 31st March 2017			
	Rs.		**Rs.**
Partners' Capital Accounts		Building	1,050,000
L	450,000	Machinery	650,000
M	130,000	Furniture	215,000
S	170,000	Goodwill	100,000
		Investment	60,000
Long term loan	1,675,000		
		Stock	675,000
Bank overdraft	220,000	Trade debtors	695,000
Trade creditors	800,000		
	3,445,000		**3,445,000**

*Market value of the Investment is Rs.75,000.

It was decided that M would retire from the partnership on 01st April 2017 and Q would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the Retirement / Admission:

a. Goodwill to be valued at Rs.500,000, but the same will not appear as an asset in the books of the firm.
b. Building and machinery are to be revalued at Rs.1,000,000 and Rs.520,000 respectively.
c. Investment to be taken over by M at the market value.
d. Provision for doubtful debts to be maintained at 20% on sundry debtors.
e. The capital of the reconstituted firm will be Rs.10,00,000 to be contributed by the partners L, S and Q in their new profit sharing ratio of 2 :2 : 1.

f. Surplus funds if any will be used to pay the bank overdraft.
g. Amount due to retiring partner M will be transferred to his loan account.

Prepare:

i. Revaluation Account;
ii. Capital Accounts of the partners; and
iii. Statement of Financial Position of the firm after reconstitution.

(Total 20 Marks)

<u>Question No. 02</u>

A, B and C were in partnership, their respective shares being 1/2, 1/4, and 1/4. The following was their balance sheet on 31st December on which date they decided to dissolve the firm:

Liabilities	Rs.	Assets	Rs.
Creditors	30,000	Cash	18,000
Income tax payable	8,000	Stock	80,000
Loan from bank (Secured by pledge of Furniture)	60,000	Debtors	120,000
B's Loan	22,000	Furniture	72,000
Capital Accounts:		Motor Car	50,000
A	80,000		
B	80,000		
C	60,000		
	340,000		340,000

a. Bank could realize only Rs. 50,000 on disposal of furniture.
b. A sum of Rs. 8,000 was spent on motor car for getting better price.
c. Other assets were realized as follows :

	Rs.		Rs.
January	24,000	April	60,000
February	30,000	May	70,000
March	20,000		

The partners distributed the cash as and when available.

Required:

Show the distribution of cash by surplus capital method.

(Total 20 Marks)

<u>Question No.03</u>

Asanka, a Craftsman specialized in handcart wood designs, started up in business on 1st January 2015.

During the first year of trading, Asanka was so busy on designing various items, that he did not prepare detailed accounts. However, he maintained transaction records and at 31st December 2015 made a brief note of his financial position, which showed the following:

a. There were workshop fixtures that had cost Rs.4,000 on 1st January 2015 in Asanka's workshop. It was decided to write off the fixtures over four years.
b. A stock of materials with a cost of Rs.8,300.
c. Customers owed Rs.17,180 for sold handcraft items that had been accepted by the customers.
d. Suppliers were owed Rs.9,000.
e. There was a bank overdraft of Rs.960 and cash in hand of Rs.360.
f. Office expense creditors amounted to Rs.1,280.

Asanka felt depressed as he had just run into overdraft, and he felt that it was not worth producing financial accounts on 31st December 2015. However, encouraged by the Inland Revenue, he decided that he would continue with the basic records and prepare final accounts at 31st December 2016, when the position of the business should have improved.

On 31st December 2016 Asanka took the following records to his accountant:

a. Cash and bank analysis 1st January 2016 to 31st December 2016

Cash receipts		Rs.
Cash received from customers		137,240
Cash drawn from bank		51,500
Additional capital from Asanka on 30 September 2016		4,000
Cash payments		
i.	Supplies of materials, etc	78,060
ii.	Drawings by Asanka	15,000
iii.	Selling expenses	8,720
iv.	Office expenses	12,400
v.	Salesmen's salaries	20,700
vi.	Into bank	60,120
Cash in hand at 31st December 2016		560
Cheque payments		
i.	Selling expenses	11,680
ii.	Office expenses	8,200
iii.	Supplies of materials	7,200

b. At 31st December 2016, debtors, creditors and stock were:

Debtors	Rs.17,980
Creditors	Rs. 4,140
Stock of materials, etc.	Rs.10,980

The accountant obtained the following additional information at his interview with Asanka:

a. Bank charges of Rs.120 appeared in the bank statements, but were not included in the cash analysis
b. A private expense of Asanka of Rs.400 has been paid, but had been included as an office expense

Required:

i. Prepare a Statement of Financial Position as at 1st January 2016.

(05 Marks)

ii. Prepare a cash account and bank account for year ended 31st December 2016

(05 Marks)

iii. Prepare Income Statement for the year ended 31st December 2016 and a Statement of Financial Position as at 31st December 2016.

(10 Marks)

(Total 20 Marks)

Question No. 04

A, B and C are running a hardware shop sharing profits equally. Their financial position is as under:

Balance Sheet as at March 31, 2017			
Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Accounts Payable	40,000	Land and Building	100,000
Bank Loan	14,000	Office Equipment	10,000
B's Loan	40,000	Stock	80,000
Joint Life Policy Reserve	36,000	Accounts Receivable	60,000
Capital Accounts:		Joint Life Policy	36,000
A	54,000	Bank	12,000
B	68,000		
C	46,000		
	298,000		**298,000**

Partners agreed to dissolve the firm on that date. You are given the following information regarding dissolution:

a. The Joint Life Policy was surrendered to the insurance company. The company paid a sum of Rs. 23,000 after deducting an amount of Rs. 13,000 towards loan and interest thereon, taken by B against the policy.

b. Office equipment was accepted by an Accounts Payable (creditors) for Rs. 14,000.
c. Bankers accepted stock worth Rs. 10,000 and the balance in cash.
d. The firm purchased 200 convertible debentures of a leasing company in 2015. After sometime the investment was treated as bad and was written off. These debentures were found to be having a market value of Rs. 16,000 and were accepted by a creditor at this value.
e. Assets realized in the following manner :

Land and Buildings	Rs. 400,000
Stock	Rs. 60,000
Accounts Receivable	Rs. 40,000

f. All the liabilities were paid off. Accounts Payable allowed a discount of Rs. 400.
g. Realization expenses amounted to Rs. 3,600.

Required:

Prepare the realization account, bank account and capital accounts of the partners.

(Total 20 Marks)

Question No. 05

Chathu and Madu are in partnership. Their partnership agreement provides that:

1. Madu has a partnership salary of Rs.10,000 per month
2. Interest on capital is 10% per annum
3. Interest on drawings is charged
4. Residual profits / losses are shared 3:2 respectively.

The partners have never kept full accounting records but provided the following information:

Cash book summary for the year ended 31st December 2016

	Rs.		Rs.
Balance b/d	20,810	Trade payables	295 910
Trade receivables	440,490	Wages	63,150
Cash sales	532,460	Purchase of machine	9,000
Rent received	7,000	General expenses	56,670
Drawings – Chathu	35,660		

The assets and liabilities were:

		1st January 2016	31st December 2016
		Rs.	Rs.
Fixed capital account –	Chathu	Cr.?	Cr.?
Fixed capital account –	Madu	Cr.?	Cr.?
Current account –	Chathu	Cr 30,200	Cr ?
Current account –	Madu	Cr 9,800	Cr ?
Machinery (Net Book Value)		147 000	145 000
Motor vehicle (Net Book Value)		160,000	150,000
Inventory		14 000	13 470
Trade receivables		3,170	1,830
Trade payables		4,870	5,160
Wages accrued		610	930
Rent receivable		500	–
Rent prepaid		–	600

Additional information:

a. During the year, an old machine which had cost Rs.10 000 was traded in for Rs.3000 in part exchange for a new machine costing Rs.12 000. The old machine had been depreciated by Rs.6000 over its lifetime.
b. Interest on drawings for the year amounted to:
   Chathu – Rs.2300
   Madu – Rs.1000
c. Partners have contribute their capital equally to the business.
d. At the end of the year Ranga admitted to the business with 1/6th share of profit and he contributed capital of Rs.100,000 including his share of goodwill of 12,000. Partners decide to record goodwill through capital accounts.

Required:

i. Prepare the Income Statement (trading and profit and loss account) **and** Appropriation account for Chathu and Madu for the year ended 31st December 2016.

(10 Marks)

ii. Prepare the partners' Current accounts and Capital Accounts (in columnar format) for the year ended 31st December 2016.

(10 Marks)

(Total 20 Marks)

<u>Question No. 06</u>

Kamal and Nisha are partners in a brick-manufacturing business sharing profits and losses equally. Each partner is entitled to a salary of Rs. 240 000 per annum. The draft Manufacturing account and the capital accounts for the year ended 31st March 2016, which were prepared by the trainee account clerk are shown below.

Manufacturing Account

	Rs.'000		**Rs.'000**
Opening finished stock (50000 bricks)	400	Sales (600 000 bricks)	7,200
Wages	1,500	Closing finished stock (80 000 bricks)	620
Materials	4,000	Net loss	20
Electricity-factory	250		
Transport charges-material	50		
Depreciation on machinery	80		
Factory rent	300		
Supervisor's salary	120		
Partner's salary	480		
Administrative salaries	140		
Selling expenses	520		
	7,840		7,840

Partners' Personal accounts

	Kamal	Nisha		Kamal	Nisha
Cash drawings	60	40	Balance -01.04.2015	600	400
Loss	10	10	Partners salaries	240	240
Balance-31.03.2016	770	590			
	840	640		840	640
			Balance B/F	770	590

Additional information:

a. The opening stock of bricks has been completely sold during the year
b. Though the closing stock of bricks is to be valued at cost of production, it has not been valued correctly.
c. Salaries of the partners have not been drawn by them during the year.

Required:

i. Prepare manufacturing, trading, profit and loss and appropriation account for the year ended 31^{st} March 2016.

(14 Marks)

ii. On 01^{st} April 2016 Nisha disappeared taking the entire stock of bricks and cash as at that date. Kamal decided to continue the business as a sole proprietorship bearing all losses from Nisha. Cash balance as at 01^{st} April 2015 was Rs. 10 000. All transactions were in cash if not mentioned otherwise.

Required:

Calculate cash taken by Nisha and prepare Capital accounts recording the above transactions.

(06 Marks)

(Total 20 Marks)