HIGHER FINANCIAL ACCOUNTING-18UCO203

(K1 LEVEL QUESTIONS)

UNIT – I

1. When was the Indian partnership Act brought up ________

    a) 1932 b) 1972 c) 1949 d) 1956

2. Following is the difference between partnership deed and agreement_______

    a) Partnership deed is in the writing and partnership agreement is oral.

    b) Partnership deed is signed by all but partnership agreement is signed by majority of partners

    c) Partnership deed is registered in the court of law where as partnership agreement is not registered.

    d) All of the above

3. In the absence of any agreement, partners are liable to receive interest on their loan at

    a) 12% p.a. b) 10 % p.a. **c) 6% p.a.** d) 20 % p.a.

4. In the absence of an agreement partners are entitled to _______

    a) Salary b) Commission c**) Interest on loans and advances** d) Wages

5. Interest on capital will be paid to the partners if provided for in the agreement but only from_____

    a) Current year profits b) Reserves c) Goodwill d) Surplus

6. What would be the profit sharing ratio, if the partnership Act is complied with_____

    a) As per agreement b**) Equally** c) In capital Ratio d) Mutual sharing

7. Profit and loss appropriation account is prepared _________

    a) For proprietorship firm **b) For Partnership firm** c) For companies d) Both A&B

8. Is rent paid to a partner is appropriation of profits _______________

    a) Yes **b) No**

9. What balance does partner current account has __________

    a) Debit balance b) Credit balance c) Reserves **d) Either A or B**

10. What time would be taken into consideration it equal monthly amount is drawn as drawings at the beginning of each month**?**

a) 7 months b**) 6.5 months** c) 6months d) 8months

UNIT –II

1. Gaining ratio = __________

a) Old ratio- new ratio **b) New ratio – Old ratio** c) Sacrificing Ratio- new ratio

d) Profit sharing ratio

2. Treatment of goodwill on retirement of a partner is dealing with ______

a) AS-10 b) AS-14 c) AS-17 d) AS-11

3. It is the ratio at which the continuing partners take up retiring partner's share is called____**(K1)**

a) Sacrificing Ratio b) Profit sharing ratio c**) Gaining ratio** d) Old ratio

4. When the firm does not have sufficient amount to pay off the retiring partner, it can pay the amount in _________

a) Installment b) Lump sum c) Perceptual annuity d) Interest method

5.If the firm has sufficient cash, it can pay the amount to be given to the retiring partner. It is called______

a) Installment **b) Lump sum** c) Perceptual annuity d) Interest method

6. When one partner retires, the continuing partners may decide to admit a new partner, it is called________

a) Admission b) Retirement c**) Retirement cum Admission** d) Death of a Partner

7.The total amount due is divided by a number of equal installments and the installment amount plus interest is paid accordingly.

a) Equated installment method b)Annuity method **c) Decreasing Payment method**

d) Sales basis

8. The total amount due is divided into a number of equal installments in such a way that the amount of each installment including interest should always be equal_______ `

a) Equated installment method b) Annuity method c) Decreasing Payment method

d) Sales basis

9. The value is the value which is payable immediately to the insured on surrendering all rights of the policy to the company is known as______

a) Joint life policy b) Premium **c) Surrender value** d) Individual policy

10. The legal representatives of the deceased partner can receive, interest at the rate of ____

a) 10% p.a b) 13% p.a c) 14 % p.a **d) 6% p.a**

UNIT-III

1.Closing down the undertaking or suspending permanently the activities of a partnership business is called______

a) Dissolution of a firm b) Winding up c) Amalgamation d) External reconstruction

2. In "Dissolution" , "I" means_______

a) Insolvent b) Indemnity **c) Incapacity** d) Illegal

3. In "Dissolution", "L" means_______

a) Lunacy b) Loss c) Liability d) Legal

4. When the number of partners exceeds 20, is known as______

a) Dissolution by agreement b**) Compulsory dissolution** c) Voluntary dissolution

d) Dissolution by court

5.A firm may also get dissolved, on the completion of the venture agreed, is known as_____

a) Dissolution happening of certain events b) Dissolution by agreement c) Voluntary dissolution d) Dissolution by court

6. When a partner becomes of unsound mind, is known as ______

a) Happening of certain events Dissolution b) Dissolution by agreement c) Voluntary dissolution **d) Dissolution by court**

7.When a firm dissolved, the books of the firm are to be closed. This is done by preparing an account called______

a) Realisation Account b) Profit & loss account c) Balance sheet d) Trading account

8. When a partner becomes insolvent______

a) **Liabilities more than assets** b)Assets more than liabilities c) capital more than liabilities d) Reserves more than liabilities

9. The amount is payable to partners whose capitals are relatively in excess of their profit sharing ratio is calculated, is known as______

a) Proportionate capital method b) Fixed capital method c) Maximum loss method

d) Minimum loss method

10. At every stage of realization, it is presumed that there would be no further realization, it is also called_____

a) Proportionate capital method **b**) Fixed capital method **c) Maximum loss method**

d) Minimum loss method

UNIT –IV

1. A branch does not maintain its own set of books, is known as_____

a) Dependent branch b) Independent branch c) Head office d) Central office

2. Synthetic method is also known as ________

a) Creditors system **b) Debtors system** c) wholesale branch system d) Stock and debtors system

3. Analytical method is otherwise known as________

a) Creditors system b) Debtors system c) wholesale branch system d**) Stock and debtors system**

4. A branch which maintains its own set of books and has freedom to operate independently, is called________

a) Dependent branch b**) Independent branch** c) Head office d) Central office

5. At the time of annual closing, goods have been supplied by the head office to a branch office a few days before the close of the financial period, is _____

a) Goods in transit b) cash in transit c) whole sale branch d) None of the above

6. The branch has remitted some amount to the head office on the last few days before annual closing______

a) Goods in transit **b) cash in transit** c) whole sale branch d) None of the above

7. Wastage, and other losses of goods due to normal or abnormal reasons are totally neglected, under _____method.

a) Shortage method b) Credit sales method c) Goods in transit d) cash in transit

8. ______ account deals with all goods received, returned and sold by the branch.

a) Head office b) Branch expenses account c) Branch debtors account **d) Branch stock account**

9. The process by which the consolidated balance sheet will be prepared is known as____

a) Incorporation of trail balance b) Branch trading A/C c) Branch final accounts d) Branch balance sheet

10. The balance in the branch account at the end of a particular represents the _____ at the branch.

a) Net assets b) Assets c) Fixed Assets d) Net Loss

UNIT –V

1._____ and _____ are responsible for bringing high value durable goods into the reach of middle class.

a) Cash Purchase & EMI b) Credit Purchase & Installment **c) Hire Purchase & Installment Systems** d) Installment System

2. When was the hire purchase act came on ________

a) 1972 b) 1982 c) 1992 d) 1962

3. From the below option given choose the important term in hire purchase_____

a) Price **b) Down payment** c) EMI d) Cash price

4. In hire purchase system, each installment is treated as____

a) Seller b) Buyer c) Agent d) Financier

5. In hire purchase system, each installment is treated as______

a) Interest charges b) Profit **c) Hire charges** d) EMI

6. The hirer has the option to return the goods before ______ installment is paid.

a)First **b) Last** c) Middle d) At any time

7. An advance or down payment is paid and possession as well as ownership in the goods is transferred to the _____

a) Buyer b) Seller c) Financier d) Agent

8. In installment purchase system, if buyer fails to pay any installment the seller can repossess the goods. State true or false.

a) True b**) False**

9. The hire purchase price is always greater than the cash price. State true or false.

a) True b) False

10. If the hire purchaser fails to make payment of any installment it is called____

a) Default b) Repossession c) Price d) Interest charges

HIGHER FINANCIAL ACCOUNTING – 18UCO203

(K2 LEVEL QUESTIONS)

UNIT -I

1) What do you understand by "admission" of a new partner?

A person who is entering the partnership firm is called admission of a partner.

2) What is "sacrificing ratio"?

The ratio in which the old partners have agreed to sacrifice their shares in favor of a new partner is called the sacrificing ratio.

3) What is "premium method" of dealing with goodwill on admission?

Premium Method. Under this **method**, when the incoming partner brings his share of **goodwill** in cash, the existing partners share it in the sacrificing ratio.

4) What is "revaluation method" of dealing with goodwill on admission?

Memorandum **revaluation method** is basically same as **revaluation method** with a minute variation. Under this **method** the **goodwill** is raised in the books of the firm by debiting **goodwill** account and crediting the old partner's capital accounts in the old profit sharing ratio same as the **revaluation method**

5) What do you understand by hidden goodwill?

Hidden goodwill. When the value of **goodwill** is not given in the question, it has to be calculated on the basis of total capital/net worth of the firm and profit sharing ratio

6) What is revaluation of assets and liabilities?

It is debited with the decrease in the value of **assets** and the increase in the value of **liabilities**. The balance of this account shows a gain or loss on **revaluation** which is transferred to the Existing partners' capital account in existing profit sharing ratio.

7) What is memorandum of revaluation account?

Memorandum Revaluation Account is prepared when at the time of admission/retirement the partnership firm does not want to change the values of assets and liabilities in the balance but wants to give its effect through partners' capital **accounts**.

8) What do you understand by adjustment of capital on admission?

Adjustment of Capital and Change in Profit Sharing Ratio among Existing Partners. One of the forms of reconstitution of the firm is Change in Profit Sharing Ratio among Existing Partners. The only change is the profit sharing ratio among existing partners.

9) What do you mean by super profit method?

Super profit is the excess of average **profits** over normal **profits**. Under this **method**, goodwill is calculated on the basis of **super profits**.

10) What do you mean by goodwill?

Goodwill is an intangible asset associated with the purchase of one company by another.

UNIT –II

1) What is retirement of a partner?

When one or more **partners** leave the firm and the remaining **partners** continue to do the business of the firm, it is known as **retirement** of a **partner**.

2) What is gaining ratio?

Gaining ratio is calculated at the time of retirement or death of a partner. It is the ratio in which the remaining partners acquire the outgoing partner's share of profit.

3) What is revaluation account?

If the account finally shows a credit balance then it indicates net gain and if there is a debit balance then it indicates the net loss. Profit or loss will be transferred to the capital accounts of the old partners in old ratio.

4) What is joint life policy?

A **Joint Life Policy** (JLP) is an **insurance policy** which is taken out by the partnership firm on the **joint lives** of all the partners. The amount of **policy** is payable by the **Insurance** Company either on the death or on maturity of **policy**, whichever is earlier.

5) What do you mean by surrender value?

It is the amount the policyholder will get from the life insurance company if he decides to exit the policy before maturity.

6)what is annuity method?

An annuity is a financial product that pays out a fixed stream of payments to an individual, primarily used as an income stream for retirees.

7) What is the formula for calculating profit on the basis of turnover?

(Sales - Expenses) ÷ Sales

8) What do you mean by lump sum amount?

A **lump sum** is a single **payment** of money, as opposed to a series of payments made over time (such as an annuity).

9) What are the items to be debited with deceased partner's capital account?

Profit and loss

Bank a/c

10) What are the items to be credited with deceased partner's capital account?

Goodwill, Reserves

UNIT –III

1) What dissolution of partnership?

When a new partner is admitted or when an existing partner retires or leaves the partnership, dissolution of partnership is said to take place.

2) What dissolution of partnership firm?

Dissolution of a **Partnership Firm**. For a **partnership firm** to cease to exist, it needs to be dissolved. The process, known as **dissolution** of a **partnership firm**, involves the sale or disposal of all assets of the **firm**, final settlement of all of its liabilities, and the settling of the accounts.

3) What is realization account?

Conversion of assets, goods, or services into cash or receivables through sale. Also called actualization.

4) Who is insolvent partner?

Related Terms. In legal terminology, the situation where the liabilities of a person or firm exceed its assets. In practice, however, **insolvency** is the situation where an entity cannot raise enough cash to meet its obligations, or to pay debts as they become due for payment.

5) What is garner vs. Murray?

The **Garner vs**. **Murray rule** is applicable in case of dissolution of Firm; the **rule** says that the loss on account of insolvency of a partner is a CAPITAL loss which should be borne by the solvent partners in the ratio of their capitals standing in the balance sheet on the date of dissolution of the firm.

6) What is fixed capital ratio?

A **ratio** used to calculate a business's ability to satisfy long-term debt. The value of the **fixed assets** is divided by the **equity capital**; a **ratio** greater than means that some of the **fixed assets** are financed by debt.

7) What are the modes of dissolution of a firm?

1**.** Dissolution by Agreement

2. Dissolution by Notice

3. Contingent Dissolution

4. Compulsory Dissolution

5. Dissolution by Court

8) What is fluctuating capital ratio?

Under this method as is apparent from the name, capital of each partner goes on changing from time to time. Each partner will have his separate capital account, which will be credited by his initial investment and any additional capital introduced during the year will also be credited to his capital account.

9) What is piece meal distribution?

Piecemeal Distribution. As and when money is received from sale of assets, it is used to pay liabilities. The liabilities are also paid in stages or gradually. The money, in short, is **distributed piecemeal –** in stages and not in a single shot.

10) What do you understand by capital ratio?

The Capital Ratio measures the amount of equity and debt funding.

UNIT –IV

1) What is a branch?

A branch of a business or other organization is one of the offices, shops, or groups which belong to it and which are located in different places.

2) What is a head office?

The principal office of a business organization, constituting the centre for administration and policymaking.

3) What is a dependent branch?

When the policies and administration of a **branch** are totally controlled by the head office, who also maintains its accounts, the **branch** is called a **dependent branch**.

4) What is stock and debtor system?

Stock and Debtors system is generally used when the goods are sent to the branch at. Pro-forma invoice price and the size of the branch is large. Under this system, the. Branch maintains a few central accounts to exercise greater control over the branch.

5) What are branch adjustment accounts?

Branch adjustment account is prepared with a view to ascertain the gross profit of the **branch**.

6) What is a whole sale branch?

The word **wholesale** simply means selling in **bulk** quantities and retail stands for selling merchandise in small quantities.

7) What is invoice price?

The actual **price** paid to the manufacturer or distributor by the end-customer retailer, which is known as the **invoice price**.

8) What are goods in transit?

Goods in transit refers to merchandise and other types of inventory that have left the shipping dock of the seller, but not yet reached the receiving dock of the buyer.

9) What is cash in transit?

Cash-in-transit (CIT) or **cash**/valuables-in-**transit** (CVIT) is the physical transfer of banknotes, coins, credit cards and items of value from one location to another.

10) What do you understand by incorporation journal entries?

An **accounting journal entry** is the method used to enter an **accounting** transaction into the **accounting** records of a business.

UNIT –V

1) What is hire purchase?

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments.

2) What is cash price?

The **cash price** is the actual amount of money that is exchanged when commodities are physically bought and sold on the **spot** market.

3) What is down payment?

A down payment is a type of payment made in cash during the onset of the purchase of an expensive good or service.

4) What is default?

The *c*ompany will have to restructure its debts to avoid default'

5) What is asset accrual method?

This **method** it is considered that the hire-purchase is the owner of the **asset** up to the value of the cash price paid by him in the form of down payment or the cash price paid included in various installments

6) What is complete repossession?

In accounting for hire purchases, it is a case where the hire vendor closes the hire purchaser's account in his books by transferring the balance of the hire purchaser account to the goods repossessed account; and the hire purchaser closes the hire vendor's account in his books by transferring the balance of the hire purchase assets account to the hire vendor account. AD

7) What is hire purchase system?

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments.

8) What is installment purchase system?

In accounting for hire purchases, it is a case where the hire vendor closes the hire purchaser's account in his books by transferring the balance of the hire purchaser account to the goods repossessed account; and the hire purchaser closes the hire vendor's account in his books by transferring the balance of the hire purchase assets account to the hire vendor account.

9) What do you mean by interest suspense account?

Interest in **suspense** is a particular kind of asset that may appear on a company's -- or even an individual's – balance sheet. It often denotes that a company has money due as the result of a loan, but that its borrower has not paid on the loan per an agreement.

10) What do you mean by shop stock?

A **stock** keeping unit (or SKU) is a number assigned to a product by a retail store to identify the price, product options and manufacturer of the merchandise. A SKU is used to track **inventory** in your retail store. They **are** very valuable in helping **you** maintain a profitable retail business.

HIGHER FINANCIAL ACCOUNTING -18UCO203

K3 LEVEL QUESTIONS

UNIT-I

1. A and B are partners in a business sharing profits in the ratio of 5:3. They decide to admit C into the firm giving him $1/6^{th}$ share. Calculate the new profit sharing ration and sacrificing ratio of the partners.

Ans: New Ratio25:15:08 and sacrificing ratio=5:3

2. Prem and Chandra share profits in the ratio of 7:3. Rama was admitted as a partner. Prem surrendered $1/7^{th}$ of his share and Chandra $1/3^{rd}$ of his share in favor of Rama. Calculate new ratio. **Ans: 6:2:2 or 3:1:1**

3. Calculate the amount of goodwill at three years purchase of last five years average profits. The profits were: I year – Rs-9,600; II year – Rs.14, 400; III year- Rs.20, 000; IV year- 6,000:
V year- Rs.10, 000.

Ans: Goodwill= Rs.36, 000

4. A firm earns Rs.1, 20,000 as its annual profits, the rate of normal profit being 10%. The assets of the firm amount to Rs.14, 40,000 and liabilities to Rs.4, 80,000. Find out the value of goodwill by capitalization method.

Ans: Rs.2, 40,000

5. A and B are partners sharing profits in the ratio of 3:2. They admit C into partnership. C pays a premium of Rs. 1,000 for ¼ th share of profit. No goodwill account appears in the books. They withdraw the amount of goodwill. Journalize.

Ans: A-600 Rs; B-400 Rs

UNIT-II

1. A, B & C were partners in a firm, sharing profits and losses in the ratio of 3:2:5. C retires and on that date the firm's goodwill is valued at Rs.80, 000.Pass necessary journal entry to adjust goodwill at the time retirement.

Ans: A-24,000 Rs; B-16,000 Rs

2. P, Q, R and S are partners in a firm sharing profits in the ration of 2:1:2:1. On the retirement of R, the firm's goodwill was valued at Rs.45, 000. P, Q and S decided to share the future profits equally. Pass journal entry for goodwill.

Ans: P-0/6; Q-1/6; R-1/6

3. Bim, Gim and Nim are partners sharing profits in the ratio of 2:3:5. Goodwill appears in their books at a value of Rs.60, 000. Bim Retires and on the day of Bim's retirement goodwill is valued at Rs.30, 000.Gim and Nim decided to share the future profits equally. Pass the necessary journal entries for goodwill.

Ans: Gim-2/10; Nim-0/10

4. X, Y and Z are partners sharing profit in the ratio of 1:2:3. Z retires and his capital, after making adjustments for reserves and profits' on revaluation, stands at Rs.44, 000. X and Y agreed to pay him Rs.50, 000 in full settlement of his claim. Give journal entry for goodwill if the new profit sharing ratio is decided at1:3.

Ans: 1:5

5. H, M and N are partners sharing profits in the proportion of 5:3:3. Goodwill does not appear in the books, but it is agreed to be worth Rs.1, 50,000. S retires from the firm and K and R decide to share future profits in their old ratio of 3:2. Pass journal entry for goodwill.

Ans: 3:2

UNIT-III

1. Explain in detail rule laid down in 'Garner vs. Murray' case.

2. P, Q and R share profits in proportion of 1/2.,1/4,and 1/4. On that date of dissolution their balance sheet was as follows:

Liabilities	**Rs**	**Assets**	**Rs**
Creditors	14,000	Sundry assets	40,000
P's capital	10,000		
Q's capital	10,000		
R,s capital	6,000		
Total	**40,000**	**Total**	**40,000**

The assets realized Rs.35,500. Creditors were paid in full. Realization expenses amounted to Rs.1, 500. Close the books of the firm. **ANS: 35,500**

3. R, S and M are partners sharing profits and losses as 2:2:1. Their balance sheet as at 30-06-1991 was as follows:

Liabilities	**Rs**	**Assets**	**Rs**
Creditors	4,000	Bank	5,000
Capitals: R S M	 10,000 4,000 2,000	Debtors	4,000
Reserve fund	5,000	Stock	5,000
		Fixtures	2,000
		Machinery	9,000
Total	**25,000**	**Total**	**25,000**

They decided to dissolve the business. The following are the amounts are realized. Machinery Rs.8, 500; furniture Rs.1, 500; Stock Rs.7, 000; and debtors Rs.3,700. Creditors allowed a discount of 2% and R agreed to bear all realization expenses. For these service, R is paid Rs.120. Actual expenses amounted to Rs.900 which was withdrawn by him from the firm. There was an unrecorded asset of Rs.500 which was taken over by S and Rs.400. Pass journal entry and prepare revaluation account, capital accounts and bank account.

ANS: 25,700

4. Ram, Rahim and Suresh shares in the profit in the ratio 3:2:1. On 31.12.1992, balance sheet was as follows:

Liabilities	**Rs**	**Assets**	**Rs**
Creditors	12,000	Machinery	25,000
General reserve	3,000	Stock	11,000
Capital: Ram Rahim Suresh	 20,000 15,000 10,000	Debtors	9,500
		Goodwill	13,000
		Cash	1,500
Total	**60,000**	**Total**	**60,000**

On the above date, the firm was dissolved. The assets except cash realized Rs.60, 000. The creditors were settled at Rs.11, 500. Dissolution expenses amounted to Rs.800. Give the necessary ledger accounts.

5. A, B and C are in partnership sharing profits and losses in the proportion of 4:3:2. Their balance sheet on Dec.31 1996 stood as follows:

Liabilities	Rs	Assets	Rs
Capital accounts: A: 4,000 B: 2,000 C: 500	6,500	Land & buildings	5,500
Creditors	3,500	Stock in trade	2,000
		Debtors	1,000
		Cash in hand	1,500
Total	**10,000**	**Total**	**10,000**

They agree to dissolve partnership as from 31st Dec.1996. "A" agrees to take over the stock at a valuation of Rs.1, 500 and the debtors at a valuation of Rs.700 (no cash passes). The land and building are sold at auction for Rs.2, 700. Close the books of the firm.

ANS: 4,500 Rs.

UNIT-IV

1. Loyal shoe company opened a branch at Madras on 01-01-1989. From the following particulars, prepare the Madras Branch account for the years 1989 and 1990.

Particulars	1989 Rs.	1990 Rs.
Goods sent to Madras branch	15,000	45,000
Cash sent to branch for:		
Rent	1,800	1,800
Salaries	3,000	5,000
Other expenses	1,200	1,600
Cash received from the Branch	24,000	60,000

Stock on 31st December	2,300	5,800
Petty cash in hand on 31st December	40	30

Profit – 1989- 5,340 Rs: 1990-10,090 Rs

2. The following information's relates to Madurai branch.

Particulars	Rs	Rs
Stock on 01.01.1994		11,200
Branch debtors on 01.01.1994		6,300
Goods sent to branch		51,000
Cash sent to branch for:		
Rent	1,500	
Salaries	3,000	
Petty cash	500	5,000
Sales at branch :		
Cash	25,000	
Credit	39,000	64,000
Cash received from debtors		41,200
Stock on 31-12-1994		13,600

Prepare branch account for the year 1994.

3. Manian ltd., of Calcutta has a branch at Patna. Goods are invoiced to the Patna branch, the selling price being cost plus 25%

The Patna branch keeps its own sale ledger and transmits all cash received to Calcutta. All expenses paid from Calcutta. From the following details prepare the Patna branch a/c for the year 1989. Rs.

Stock(1.1.89)(invoice price)	1,250
Stock(31.12.89)(invoice price)	1,500
Debtors(1.1.89)	700
Debtors(31.12.89)	900
Cash sales for the year	5,400
Credit sales for the year	3,500
Goods invoiced from Calcutta	9,100
Rent	400
Wages	340
Sundry expenses	80

4. Show what entries would be passed by head office to record the following transaction in the books on 31st December, the date of annual closing?
(i) Goods amounting rs.1500 transferred from Chennai branch to Trichy branch under instruction from head office.
(ii) Depreciation of rs.1000 on Chennai branch fixed assets when such accounts are opened in the head office books. Rs.
(iii) A remittance of rs.9000 made by the thichy branch to head office on 26th December and received by the head office on 4th January.
(iv) Goods amounting to rs.15000 sent by head office to thichy branch on 20th December and received by the latter on 15th January.

5. Good Luck limited open a branch on 1.1.95 at Calcutta. The following information is supplied to you. Prepare branch a/c.

Goods sent to branch	50000
Sales: cash rs.20000 and credit rs.36000	56000
Cash received from debtors	32000
Discount allowed to them	600
Cash sent to branch for expenses	7000
Stock on 31.12.95	8000
Debtors on 31.12.95	3400

UNIT-V

1. On 1-1-86, X purchased machinery on hire purchase system. The payment is to made Rs.4, 000 Down (on signing of the contact) and Rs.4, 000 annually for three years. The cash price of the Machinery is Rs.14, 900 and the Rate of interest is 5%. Calculate the interest in each year's

Installment.

2. Mr. X purchased a machine on hire purchase system Rs.3000 being paid on delivery and

The balance in five installments of Rs.6000 each, payable annually on 31st December. The

Cash price of the machine wasRs.30, 000. Calculate the amount for interest for each year.

3. X purchased a machine under hire purchase system. According to the terms of the

Agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid

In four installments of Rs.25, 000 each plus interest. The cash price was Rs.1, 40,000. Interest

is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and

The installment amount.

4. Arul purchased machinery under the hire purchase system from Mr.Balu. The cash price Of the machinery was Rs.15, 000.The payment for the purchase is to be as follows: On signing The agreement Rs.3, 000; end of the first year Rs.5, 000; end of the second year Rs.5, 000; end Of the third year Rs.5, 000. Calculate the amount of interest included in each installment.

5. Mr.Anbu purchased a machine by hire purchase system forRs.30, 000 to be paid as follow

	Rs.
Down payment	5,000
At the end of the first year	7,000
At the end of the second year	6.500
At the end of third year	6,000
At the end of the fourth year	5,500

Interest is charged on the value at 10% p.a. At what the value should the machine be capitalized?

HIGHER FINANCIAL ACCOUNTING -18UCO203

K4 LEVEL QUESTIONS

UNIT –I

1)Ramu and Gopu are partners sharing profits in the ratio 2:1. Following is the balance sheet of the firm as on 31.3.2011

Liabilities	**Rs.**	**Assets**		**Rs.**
Wages due	5000	Cash in hand		22000
Sundry creditors	48000	Cash at bank		2000
Capital A/C		Debtors	30000	
Ramu	60000	Less: Provision	2000	28000
gopu	35000	Bills receivable		12000
		Stock		18000
		Investments		12000
		Furniture		4000
		Buildings		50000
	148000			148000

On 1.4.2011 somu was admitted as a partner somu brings in Rs.25000 as capital for $1/4^{th}$ share in profits.

i) Provision for doubtful debts be increased to Rs. 3500

ii) Furniture to be reduced to Rs. 3500

iii) Buildings are increased by Rs. 10000

iv) An investment of Rs. 1500 not recorded in the books, now brought into account.

v) A contingent liability of Rs. 800 has become a certain liability. It has been agreedamong the partners that assets and liabilities are to be shown at old values

2) Neenu and Beenu were partners sharing equally. Their balance sheet as on 31^{th} march 2011 was an under:

Liabilities	**Rs.**	**Rs.**	**assets**	**Rs.**	**Rs.**
Creditors		100000	Cash in hand		24000
Bills payable		30000	Cash at bank		30000

Outstanding expenses		6000	Debtors	40000	
Capital A/c's:			Less: PBDD	1000	39000
Neenu	120000		Stock		40000
Beenu	80000	200000	Furniture		20000
			Machinery		36000
			Land & buildings		147000
		336000			336000

On that date, they agreed to admit Seenu as a partner on the following terms :

a) Seenu will get 1/5thshare in profits and he will bring in Rs.40000 as his capital and Rs. 10000 as his share of goodwill.

b) Goodwill brought in by seenu will be withdrawn by neenu and beenu

c) The provision for doubtful debts should be brought upto 5% on debtors.

d) Machinery be depreciated by Rs. 4000 and furniture by 12%

e) Stock be valued at Rs.46000

f) Land and building be appreciated by 20%

g) Investments of Rs.4000 which did not appear in books, should be duly recorded

Pass journals entries; prepare revaluation a/c, capital a/c, and balance sheet of a new firm.

3) On 30.6.2009 the balance sheet of A & B who share profit and loss in the ratio of 3:2 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	90000	Cash at bank	40000
Capital		Debtors	55000
A	100000	Bills receivable	10000
B	75000	Stock	57500
		Furniture	37500
		Plant	45000
		Goodwill	20000
	265000		265000

On 1.7.2009, they agreed to admit K on the following terms:

1) That new profit sharing ratio shall be 2:2:1

2) That k is to bring his capital of Rs. 50,000 in cash and to pay for his goodwill in the firm. Goodwill for this purpose is to be valued at 2 years purchase of average of 4 years profit. The profits for the previous 4 years ending June 30 every year are as under:
   Rs.25000; Rs.22500;Rs.25000;Rs.27500
3) That the other assets be revalued as under:
   Plant Rs. 52500; Furniture Rs.32000; Stock Rs.63000; Debtors Rs.50000
4) That the values of assets except cash and bank shall remain unchanged. Give necessary journal entries and prepare memorandum revaluation A/c and balance sheet of newly constituted firm.
5) That the goodwill in balance sheet was purchased a few years ago while buying the business of a sole trader.

4. A and B are partners sharing profits in the ratio of 3:2. They admit C into partnership. C pays a premium of Rs. 1,000 for ¼ th share of profit. No goodwill account appears in the books. They withdraw the amount of goodwill. Journalize.

5. The following was the balance sheet of Ram, Laxman and Kannan who were equal partners on 1st march 2003

Liabilities	**Rs.**	**Assets**	**Rs.**
Bills payable	6600	Cash	1200
Creditors	12200	Debtors	21000
Capital A/cs		Stock	22800
Ram	33600	Furniture	4800
Laxman	25200	Buildings	39000
Kannan	12000		
	89400		89400

They agreed to take Krishnan into partnership and give him 1/4th share in the profits on the following terms:

1) That Krishnan should during in Rs. 18000 for goodwill and Rs.30000 as capital.
2) That one half of the goodwill shall be withdrawn by the old partners.
3) That stock and furniture be depreciated by 10%.
4) That a provision of 5% on debtors be created against bills discounted

5) That a liability for Rs.2160 be created against bills discounted.
6) That the value of the building have appreciated, the building should be valued at Rs.54000
7) That the value of liabilities and assets other than cash are not altered

Give the entries necessary to give effect to the above arrangement, prepare the memorandum profit & loss adjustment A/c, and opening balance sheet of the new firm.

UNIT –II

1. K, L and M were partners sharing profits in the ratio of 5:3:2. They had taken a joint life policy of the face value of Rs. 25000. On 31.3.3011, it's surrender value was Rs. 5000. On this date, Balance sheet of the firm stood as **under**

Liabilities	**Rs.**	**Assets**	**Rs.**
Sundry creditors	6000	Fixed assets	50000
Expenses outstanding	1000	Stock	15000
Reserve	5000	Book debts	12000
Capitals		Cash at bank	3000
K	25000		
L	20000		
M	23000		
	80000		80000

On this date, L decided to retire and for the purpose:

1) Goodwill was valued at Rs.25000
2) Fixed assets were valued at Rs.60000
3) Stock was considered as worth Rs. 12000

L was to be paid through cash bought in by K and M in such a way as to make their capital proportionate to their new profit sharing ratio which was to be K=3/5 and M=2/5. Joint life policy is not to appear in the Balance sheet.

Pass journal entries and prepare Revaluation A/c, capital A/c and balance sheet

2.Kin, Min and Tin are partners sharing profits and losses equally. Their Balance sheet as on 31.03.2011 is:

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Creditors		47000	Cash		36000
General reserve		30000	Debtors	84000	
Capital A/c:			Less: PBDD	6000	78000
Kin:	82000		Stock		19000
Min:	82000		Fixture		42000
Tin:	90000	254000	Furniture		56000
			Machinery		100000
		331000			331000

Tin died on 1st April 2011 and the following agreement was to be put into effect :

i) Goodwill was valued at Rs.60000 and Tin was to be credited with his share.

ii) Assets were revalued: Machinery to Rs.117000; Furniture to Rs.46000 Stock to Rs. 15000

iii) Rs.21000 was to be paid away to the tin's executors on 1st April 2011. Pass journal entries and prepare revaluation a/c capital a/cs and balance sheet of new firm.

3.A,B and C are partners sharing profits and losses in the ratio of 2:2:1. On 1stJanuary 2008, the took out a joint life policy of Rs. 200000. Annual premium of Rs.10000 was payable on 1st January each year. Last premium was paid on 1st January 2011. B died on 1st March 2011, and policy money was received on 31st March 2011. The surrender value of policy as on 31stDecember each year were as follows:

2008 – Nil; 2009 – Rs.2000; 2010 - Rs.5000. Show necessary accounts as on 31st December each year were assuming that:

- The premium is charge to profit & loss account every year.
- The premium is debited to joint policy account and the balance of the joint life policy account is adjusted every year to its surrender value.
- The premium is debited to joint life policy account and a sum equal to premium is debited to profit & loss appropriation account and credited to joint life policy reserve.

4. A, B and C were in partnership sharing profits equally. C died on 31.3.2004. The Balance sheet as on 31.3.2003 is given under:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	15600	Cash	4000
General Reserve	6000	Debtors	18000
Investment Fluctuation Fund	2100	Stock	28000
Provision for bad debts	1800	Investment(at cost)	8000
A's Capital	30000	Freehold property	30000
B's Capital	25000	Goodwill	13500
C's Capital	21000		
	101500		101500

On the date of death it was found that

a) Freehold property was worth Rs.57000
b) Debtors were all good
c) Stock was valued at Rs. 25000
d) Investments valued at Rs. 7500and was taken over by A.
e) A liability for workmen compensation for Rs. 3000 was to be provided
f) Goodwill was to be valued at one year's purchase of average profit of last 5 years.
g) C's Share of profit up to the date of death was to be calculated on the basis of last year's profit. The profit for 5 years were: 1999 Rs.11500; 2000 Rs.12500; 2001 Rs.8000; 2002 Rs.10000; 2003 Rs.12000. Prepare Revaluation account, Capital account of C and Balance sheet of remaining partners.

5. X, Y and Z are partners sharing profit in the ratio of 1:2:3. Z retires and his capital, after making adjustments for reserves and profits' on revaluation, stands at Rs.44, 000. X and Y agreed to pay him Rs.50, 000 in full settlement of his claim. Give journal entry for goodwill if the new profit sharing ratio is decided at1:3.

UNIT –III

1. The following was the Balance Sheet of A and B on 31.12.83

Liabilities	Rs.	Assets	Rs.

Sundry creditors	38000	Capital at Bank	11500
Mrs. A’s loan	10000	Stock-in trade	6000
B’s loan	15000	Debtors 20000	
Reserve Fund	5000	Less: 1000	19000
A’s Capital	10000	Fixture & Fittings	4000
B’s Capital	8000	Plant & Machinery	28000
		Investment	10000
		P &L A/c	7500
	86000		86000

The firm was dissolved on 31.12.83 and the following was the result:

1) A took over the investment at an agreed value of Rs.8000 and agreed to pay off the loan to Mrs. A
2) The assets realized as follows:
   Stock Rs.5000, debtors Rs.18500, Fixture&Fittings Rs.4500 and Plant and Machinery Rs. 25000
3) The expenses were Rs. 1100
4) The Sundry Creditors were paid 2 1/3 % discounts.

A and B shared profits & losses in the ratio of 3:2. Journalize the entries to be made on dissolution.

2.A, B and C sharing profits and losses equally upon dissolution of their partnership on 31st December 1997 on which date of balance sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Goodwill	40000
A: 100000		Furniture & fittings	50000
B: 60000	160000	Investment	36000
Loan from Mrs. A	30000	Joint life policy	42000
Life policy fund	42000	Stock	40000
Investment fluctuation fund	15000	debtors	25000
Creditors	40000	Cash at Bank	16000
		Current A/c - C	38000

	287000		287000

The life policy is surrendered for Rs. 36,000. The investments are taken over by A agrees to discharge his wife's loan. B decides to continue the business and takes up stock of Rs. 26000 and debtors and amounting to Rs. 12000 at Rs.8000 and also agrees to pay Rs.30000 for goodwill. Furniture &fittings are sold for Rs. 54000. The remaining debtors realize Rs.7200. The expenses of realization amount to Rs.2400. It is found that an investment not recorded in the books is worth Rs.4000. The same is taken over by one of the creditors at 90% of its value.

Show the necessary ledger accounts in the firm on dissolution.

3. A, B and C are partners sharing profits and losses in the ratio of 3:2:1 respectively. The firm was dissolved on 31.12.95 on which date its balance sheet was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Accounts: A	45000	Plant & Machinery	28500
B	5000	Stock	25000
C	5000	Sundry Debtors	25000
A's Current A/c	750	Cash at Bank	1500
Sundry Creditors	20000	B's Current A/c	1000
Bills Payable	3500	C's Current A/c	2500
A's loan	5000	Profit & Loss A/c	750
	84250		84250

Plant & machinery realized for Rs.20000; Stock realized Rs. 15000. Debtors realized Rs. 21000; Goodwill was sold for Rs.300. the dissolution expenses amounted to Rs.600. C is insolvent and a dividend o 50paise in the rupee is received from his private estate.

Pass journal entries and prepare ledger accounts to close the books of the books of the firm applying the rule in Garner vs Murray.

4. Ram, Rahim and Suresh shares in the profit in the ratio 3:2:1. On 31.12.1992, balance sheet was as follows:

Liabilities	**Rs**	**Assets**	**Rs**
Creditors	12,000	Machinery	25,000
General reserve	3,000	Stock	11,000
Capital: Ram	 20,000	Debtors	9,500

Rahim Suresh	15,000 10,000		
		Goodwill	13,000
		Cash	1,500
Total	**60,000**	**Total**	**60,000**

On the above date, the firm was dissolved. The assets except cash realized Rs.60, 000. The creditors were settled at Rs.11, 500. Dissolution expenses amounted to Rs.800. Give the necessary ledger accounts.

5. Red, White and blue are in partnership. The following is their balance sheet as at 31.12.85 on which date, they dissolved partnership. They share profits in the ratio 5:3:2

Liabilities	**Rs.**	**Assets**	**Rs.**
Capitals: Red	50000	Premises	40000
White	15000	Plant	30000
Blue	45000	Stocks	30000
Creditors	40000	Debtors	60000
Red's loan	10000		
	160000		160000

It was agreed to repay the amounts due to the partners as and when they were realized, via:

1.2.86=30000 RS

1.4.86=73000 RS

1.6.86=47000 RS

Prepare statement showing how the distribution to the partners should be made.

UNIT –IV

1. A head office sends goods to its branch at 25% less than the list price. Goods are sold to customers at cost plus at 60%. From the following particulars ascertain the profit made by the head office and by the branch.

	Head Office Rs.	Branch Rs.
Opening Stock at Cost (at invoice price in case of branch)	50000	30000

Purchases	150000	-------
Goods sent to branch	108000	------
Sales	160000	80000
Expenses	10000	6000

2. A limited company with its head office at madras has a branch office in Kanchipuram which obtains supplies partly from head office at cost and partly from outside suppliers. The branch kept separate set of books. On 30.6.1994, the following trial balances are extracted.

	H.O		B.O	
Particulars	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Share capital	-	30000	-	-
Fixed assets	16000	-	8000	-
Profit & Loss A/c on 1.7.93	-	4000	-	-
Opening stock at cost	14000	-	1900	-
Debtors & creditors	17000	10000	1500	2050
Cash	3000	-	1000	
Purchase and sales	120000	140000	6750	20500
Sundry expenses	15000	-	2050	-
Goods from head office to branch	-	12000	11500	-
Current A/c on 30.6.94	11500	-	-	10500
	196000	196000	32900	32900

The difference between the balances in the H.O and branch current A/c is due to goods and cash being in transit at the close of the year. Fixed assets are to be depreciated at 10%. Stocks on 30.6.94 were: H.O Rs.10000; and branch Rs.2100. prepare Kanchipuram branch trading and P&L A/c. and company's trading and P&L A/c and its combined balance sheet, P&L A/c.

3.The head office of a business and its branch kept their own books and each prepares it own P&L A/c. the following are the balances appearing on the two sets of the books as on 31st Dec. 1994 after ascertainment of profits and after making all adjustments except those referred to below:

H.O **B.O**

	Dr.	Cr.	Dr.	Cr.
Capital	-	100000	-	-
Fixed assets	36000	-	16000	-
Stock	34200	-	10740	-
Debtors and creditors	7820	3960	4840	1920
Cash	10740	-	1420	-
P&L	-	14660	-	3060
Branch A/c	29860	-	-	-
H.O A/c	-	-	-	28020
	118620	118620	33000	33000

Set out the balance sheet of the business as on 31st December1994 and the journal entries necessary (in both sets of book) to record the adjustments dealing with the following:

1) On 31st December, the branch had spent a cheque for Rs.1000 to the head office, not received by them nor credited to the branch till next month.
2) Goods valued at Rs.440 has been forwarded by the H.O to the branch and invoiced on 30th December, 1994, but were not received by the branch nor dealt within their books till next month.
3) It was agreed that the branch should be charged with Rs.300 for administrative service, rendered by the head office during the year.
4) Stock stolen in transit from the head office to the branch and charged to the branch by H.O but not credited to the head office in the branch books as the branch manager declined to admit any liability Rs. 400(not covered any insurance)
5) Depreciation of branch assets, of which accounts are maintained by the head office, not provided for Rs.250
6) The balance of profit shown by the branch is to be transferred to the H.O books

4.Delhi H.O supplies goods to its branch at Kanpur at invoice price at which is cost plus 50%. All cash received by the branch is remitted to Delhi and all branch expenses are paid by the head office. From the following particulars related to Kanpur for the year 1988, prepare branch a/c in the books of head office.

Stock with branch on 1-1-88(at invoice price)	60000

Branch debtors on 1-1-88	12000
Petty cash balance on 1-1-88	100
Goods returned from head office(at invoice price)	186000
Goods returned to head office	3000
Cash sales less returns	84000
Cash received from debtors	90000
Discount allowed to debtors	2400
Expenses (cash paid by head office)	
Rent 2400	
Salaries 24000	
Petty cash 1000	27400
Cash sales	104000
Stock with branch on 31-12-88 (at invoice price)	54000
Petty cash balance on 31-12-88	100

5. Show what entries would be passed by head office to record the following transaction in the books on 31st December, the date of annual closing?

(i) Goods amounting rs.1500 transferred from Chennai branch to Trichy branch under instruction from head office.

(ii) Depreciation of rs.1000 on Chennai branch fixed assets when such accounts are opened in the head office books. Rs.

(iii) A remittance of rs.9000 made by the thichy branch to head office on 26th December and received by the head office on 4th January.

(iv) Goods amounting to rs.15000 sent by head office to thichy branch on 20th December and received by the latter on 15th January.

UNIT –V

1. On 1st January 1996 Baba & Co purchased a machine on hire purchase basis, the total amount payable being Rs.42700. Payment was to be made Rs. 11400, Rs. 10900, and Rs. 8400 commencing from 30th June 1996. The vendor charged interest @10%p.a., calculated on half-yearly rests.

- ✓ Baba & Co. close their books on 30th June and provide depreciation @10% p.a. on reducing balance method
- ✓ Determine the cash price of the machine and show the relevant accounts in the books of Baba & Co

2. Knight purchased a truck for Rs. 160000 from S.Waugh on 1-1-93 payment to be made Rs.40000 down and Rs.46000 at the end of first year, Rs.44000 at the end of second year and Rs. 42000 at the end of the end of third year. Interest was charged at 5%. Knight depreciates the truck at 10% p.a. on written down value method.

Knight, after having paid down payment and first

Installment at the end of the first year, could not pay second installment. The seller took possession of the truck, and after spending Rs. 4000 on repairs of the asset, sods it away for Rs.91500

3. On 1.1.90 national transport company purchased from Metro Motors five trucks costing Rs.40000 each on the hire purchase system. It was agreed that Rs. 50000 should be paid immediately and the balance in three installments of Rs.60000 each at end of each year. The metro motors charges interest @10% pa. The buyer depreciates truck at 20% pa. On the diminishing balance method. The buyer paid cash down and 2 installments but failed to pay the last installment. Consequently, the metro motors repossessed three trucks leaving two trucks with the buyer and adjusting the value of 3 trucks against the amount due. The trucks repossessed were valued on the basis o 30% depreciation pa. on the written down value. The trucks repossessed were sold by metro motors for Rs.60000 after necessary repairs amounting to Rs.10000. Open the necessary ledger accounts in the books of both the parties.

4. X purchased a machine under hire purchase system. According to the terms of the Agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid In four installments of Rs.25, 000 each plus interest. The cash price was Rs.1, 40,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and The installment amount.

5. On 1.1.93, a firm purchased a truck on installment system. The cash price of the truck was Rs.11175 and payment was to be made as follows:

Rs.3000 was to be paid on signing of the agreement and balance in three installments of Rs.3000 each at the end of each year. Interest at5% is charged by the vendor. The firm has decided to write off 10% annually on the diminishing balance of the cash price.

Give journal entries and ledger A/c in the books of the purchaser and hire vendor.