



MS – 430

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**II Semester B.B.M. Examination, May/June 2014
(Semester Scheme) (Repeaters) (Prior to 2011-12)
BUSINESS MANAGEMENT
Paper – 2.4 : Financial Accounting**

Time : 3 Hours

Max. Marks : 90

Instruction: Answers should be written in **English** only.

SECTION – A

Answer **any 10** sub-questions of the following. **Each** sub-question carries **2** marks :
(10×2=20)

1. a) Define partnership.
- b) What is fixed capital system ?
- c) What is meant by sale of a firm to a limited company ?
- d) What is meant by purchase consideration ?
- e) Pass journal entry for the receipt of purchase consideration in the form of shares and cash in the books of the firm.
- f) State any two rights of an hire purchaser.
- g) What is installment purchase system ?
- h) What is interest suspense account ?
- i) What is dead rent ?
- j) What is Royalty ?
- k) Find out sales when cost of goods sold = ₹ 6,40,000 and gross profit ratio is 20% on sales.
- l) What is salvage value ?

P.T.O.



SECTION – B

Answer any 5 questions. Each question carries 5 marks :

(5×5=25)

2. On 1st April 2011, the ABC company bought a machine from HMT Ltd. on hire purchase system. The cash price was ₹ 26,350 and payment was to be made as follows :

₹ 10,000 on signing of the agreement and the balance in 3 yearly installment of ₹ 6,000 each, 5% interest is charged by the hire vendor.

Calculate the interest for each year.

3. A and B commenced their business with capital investment of ₹ 30,000 and ₹ 25,000 respectively on 1-1-2013. They agreed to share profits in the ratio of their opening capitals. The partnership deed provides that Mr. A is entitled for a salary of ₹ 4,000 per year. Interest on capitals is to be allowed at 6% p.a. Their drawings during the year were : A – ₹ 5,000 and B – ₹ 4,500, interest on the same being ₹ 250 and ₹ 150 respectively. The profit for the year ending 31st December 2013, amounted to ₹ 17,600 before the above mentioned adjustments.

Prepare the Profit and Loss Appropriation Account.

4. Calculate the purchase consideration from the following details :

The purchasing company has agreed to issue 8000 equity shares of ₹ 10 each at market price of ₹ 17, 500 8% preference shares of ₹ 100 each at 10% premium, 1000 P-shares of ₹ 50 each at 10% discount and pay cash equal to 10% of total purchase consideration.

5. The Karnataka Minerals Ltd. acquired a lease from a landlord for the purpose of extracting ore. It was agreed that the company should, pay ₹ 12 per ton of coal raised subject to a minimum rent of ₹ 36,000 a year and that the shortworking could be recouped in the first 3 years. The output raised for the first 4 years was :

Year	Production (tons)
2010	1750
2011	2750
2012	3750
2013	4750

Prepare Royalty Analytical Table.



6. Fire occurred in the premises of Jwalamalini Enterprises on 30-9-2013 and stock of the value of ₹ 1,01,000 was salvaged and the books of accounts were saved.

The following information is given :

	₹
Purchases from 1-4-2013 to 30-9-2013	2,40,000
Sales from 1-4-2013 to 30-9-2013	3,60,000
Stock on 31-3-2013	3,40,000

The rate of gross profit = 32%

Stock on 31-3-2013 was over-valued by ₹ 20,000. Calculate the fire claim to be made.

7. Anand and Bishan carrying on business in partnership decided to dissolve the firm and sells off the business to 'C' Company Ltd. on 31-3-2014 when the firms position is as under :

Liabilities	₹	Assets	₹
Capitals :		Land	40,000
A	33,000	Furniture	3,320
B	17,000	Stock	15,380
Creditors	22,250	Debtors	8,430
		Cash	5,120
	72,250		72,250

The agreement with the company is as follows :

- a) Land to be purchased at ₹ 50,000.
- b) Furniture and stock are taken at 10% below book values.
- c) Goodwill of the firm is valued at ₹ 7,500.
- d) Debtors are taken at ₹ 8,000 but the creditors at Balance Sheet figure.
- e) The P.C. is to be discharged by the purchasing company in fully paid equity shares of ₹ 10 each.

Calculate the amount of purchase consideration.



8. The Hindustan Publishing Co. acquired printing machine, the cash price being ₹ 27,300. ₹ 6,000 was to be paid immediately and the balance in four equal annual instalments of ₹ 6,000 each. The vendors charge interest at 5 percent. Depreciation has to be provided at 10%. Prepare Interest Suspense A/c. Calculation should be part of the answer.
9. Bring out the features of Hire Purchase System.

SECTION – C

Answer **any 3** questions from the following. **Each** carries **15** marks : **(3×15=45)**

10. From the following trial balance, of M/S Nayak and Shastry who share profits and losses equally, prepare the Trading and Profit and Loss Account and Balance Sheet as at 31st December 2013.

Particulars	Debit (₹)	Credit (₹)
Nayak's capital	–	20,000
Shastry's capital	–	20,000
Nayak's drawings	4,000	–
Shastry's drawings	4,000	–
Machinery	20,000	–
Buildings	32,000	–
Debtors	10,000	–
Trade expenses	300	–
Stock on 1-1-2013	8,000	–
Salary	4,000	–
Rent for 11 months	2,200	–
Bad debts	500	–



Discounts	460	560
Returns	760	1,600
Sales	—	78,000
Purchases	40,000	—
Commission	—	260
Furniture	2,000	—
Reserve for doubtful debts	—	800
Wages	7,000	—
Carriage	500	—
Overdraft	—	3,000
Creditors	—	12,000
Cash	500	—
	1,36,220	1,36,220

Adjustments :

- 1) Allow interest on capital and drawings at 5% and 4% respectively.
- 2) Depreciation on machinery and furniture at 10% and 5% respectively.
- 3) Interest on overdraft outstanding ₹ 450.
- 4) Closing stock was valued at ₹ 25,000.

11. The Balance Sheet of A, B and C stood as follows as on 31-12-2013.

Liabilities	₹	Assets	₹
Creditors	20,000	Cash	9,000
Bills payable	5,000	Stock	26,000
Capital Accounts :		Machinery	19,000
A	24,000	Furniture	10,000
B	24,000	Debtor	25,000
C	14,000	Less : Reserve <u>2,000</u>	23,000
	87,000		87,000



It was decided to sell the business to PQR Co Ltd. The company agreeing to allot 7,500 fully paid shares of ₹ 10 each and ₹ 1,800 in cash in full satisfaction of the purchase consideration. The company assumed all liabilities except the bills payable and took over all assets except cash. The expenses amounted to ₹ 800 which were paid by the firm itself. The partners shared profits and losses in 1/2, 1/3 and 1/6 respectively.

Prepare the

- a) Realization A/c
- b) Cash A/c and
- c) Partners Capital A/cs. showing the final settlement among the partners.

12. Mr. Ajith has patent of safety locks. He gave the right of manufacture and sale of locks to National Traders for 14 years on the following terms :

Royalty will be @ ₹ 5 on each lock sold and minimum rent is ₹ 1,00,000 per year. Accounts are closed on 31st December every year. Sales of locks are as follows :

Year	2010	2011	2012	2013
No. of locks sold	16,000	18,000	22,000	36,000

If the amount of royalty is less than minimum rent, the shortworkings can be recouped in the following two years. Prepare,

- a) Royalty A/c
- b) Shortworkings A/c and
- c) Landlord A/c.

13. National Trading Company hired Motor van on hire purchase system over a term of 2 years starting on 1st January 2012. The installments of ₹ 8,000 each are payable half yearly. The present cash value of the motor van is ₹ 29,740 and motor company charges interest at the rate of 6% p.a. working on half yearly rest. The company has decided to write off 10% depreciation annually on Diminishing Balance Method every year ending on 31st December.

Draft necessary journal entries in the books of National Trading Company.



14. A fire occurred in the premises of a firm on 1-7-2013. From the following information, calculate the claim to be made by the firm :

	₹
Stock on 1-1-2012	63,000
Purchases for the year ending 31-12-2012	4,17,500
Sales for the year ending 31-12-2012	5,00,000
Wages for the year ending 31-12-2012	20,000
Salary for the year ending 31-12-2012	10,000
Stock on 31-12-2012	81,000
Purchases from 1-1-2013 to the date of fire	2,00,000
Sales from 1-1-2013 to the date of fire	3,00,000
Stock salvaged	10,000
Value of policy	30,000

There is an average clause in the policy. The firm had the practice of valuing stock at 20% above cost price. However, during 2012 the policy was changed and stock on 31-12-2012 was valued at 10% less than the cost.
