

**EMG 211-3 Financial Accounting in Management**

Total marks for part C: 50 marks

Answer all the questions

1. (a). State what are the common reasons for which the life of an existing partnership may come to an end and discuss the types of dissolution.

(04 Marks)

- (b). Malini, Nalini and Kamini are in a partnership, sharing profit and losses in the ratio of 5:3:2 respectively. It is decided to dissolve the firm on 01<sup>st</sup> January 2008 on which date the partnership trial balance was as follows.

	Rs.	Rs.
Capital Accounts		
- Malini		120,000
- Nalini		90,000
- Kamini		60,000
Loan Account – Nalini		20,000
Machinery & Equipments (net)	189,000	
Furniture & Fittings (net)	30,000	
Inventory	52,000	
Debtors	66,000	
Creditors		53,000
Cash	6,000	
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	<u>343,000</u>	<u>343,000</u>

All cash received, less an amount retained to provide for future expenses, is to be distributed to the partners at the end of each month. A summary of dissolution transactions is as follows.

January 2008

- I. Rs. 51,000/= was collected from debtors, the balance is uncollectible.
- II. Rs. 38,000/= was received for the entire inventory.
- III. Rs. 2,000/= realization expenses were paid.
- IV. Rs. 50,000/= was paid to creditors for the full settlement.
- V. Rs. 10,000/= was retained in the business at the end of the month for anticipated expenses.

February 2008

- VI. All furniture & fittings was disposed at its net book value.
- VII. Rs. 4,000/= realization expenses were paid and the balance was retained in the business.

March 2008

- VIII. Rs. 146,000/= was received on sale of all items of machinery & equipments.
- IX. Rs. 5,000/= realization expenses were paid.
- X. No cash was retained in the business.

You are required to prepare the statement of cash distribution based on maximum possible loss method.

(10 Marks)  
(Total 14 Marks)

2. Aruna and Waruna have been in partnership sharing profit and losses in the ratio of 3:2 and each partner was entitled to a monthly nominal salary of Rs.2,500 and the interest on capital at 8% per annum. They decided to admit Karuna as a partner on 31<sup>st</sup> March 2008 and to bring a capital of Rs.100,000. The new profit and loss sharing ratio is 3:2:1 between Aruna, Waruna and Karuna respectively.

In view of the above changes in the ownership, the partners agreed to make the following adjustments in the partnership books as at 31<sup>st</sup> March 2008.

- a). Re-value the assets as follows.
- I. Buildings to be increased to Rs. 120,000.
  - II. Plant and Machinery to be reduced to Rs. 140,000.
  - III. Land value to be increased by Rs.150,000.
  - IV. Valuer to be paid Rs. 7,000 as his valuation charges.
  - V. The provision for doubtful debts to be increased to 6%.
- b). According to the partnership agreement, on the admission of a new partner the value of the goodwill is to be taken to the amount equal to three times of the average annual profit of the five previous years ending prior to the financial year in which the new partner is admitted.

The profit and losses of the previous years were:

2002/03	150,000
2003/04	60,000
2004/05	(90,000)
2005/06	40,000
2006/07	200,000

The partners also decided that an account for goodwill should not be opened in the partnership books.

- c). It was subsequently discovered that the books had not been kept on a strict accruals basis and the following items had been recorded as and when they were paid.

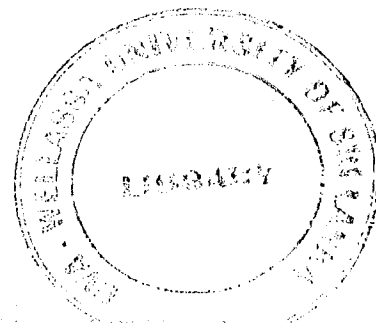
	At 31.03.2005	At 31.03.2006	At 31.03.2007
	Rs.	Rs.	Rs.
Accrued expenses	3,000	2,000	4,000
Prepaid expenses	1,000	3,000	2,000

In addition to the above, an arithmetical error in valuing the stock on 31.03.2006 had resulted in its under valuation by Rs.5,000.

The partners also agreed that for all purposes, including Karuna's admission, suitable adjustments should be made in respect of the above.

The accountant of the firm has prepared the following trial balance as at 31<sup>st</sup> March 2008.

	Rs.	Rs.
Capital Accounts		
Aruna		300,000
Waruna		150,000
Karuna		100,000
Current Accounts		
Aruna		70,000
Waruna		50,000
Purchases	1,400,000	
Direct wages	650,000	
Sales		2,750,000
Stocks as at 01.04.2007	450,000	
Drawings		
Aruna	40,000	
Waruna	50,000	
Provision for doubtful debts		15,000
Loan – Aruna		100,000
Land	550,000	
Buildings	100,000	
Plant & Machinery	180,000	
Administration expenses	350,000	
Electricity	33,000	
Telephone	18,000	
Selling and distribution expenses	170,000	
14% Bank loan interest paid	50,000	
14% Bank Loan 01.10.2007		1,000,000
Trade Debtors & Creditors	400,000	70,000
Cash in hand and at bank	164,000	
	<u>4,605,000</u>	<u>4,605,000</u>



You are given the following additional information.

- a) The stock at 31.03.2008 valued at cost of Rs. 550,000/=.
- b) 14% bank loan has to be repaid in half-yearly installments of Rs. 100,000/= each, commencing from 31<sup>st</sup> March 2008. The first installment was paid on 15<sup>th</sup> April 2008.
- c) Accrued electricity and telephone bills for the month of March 2008 are estimated at Rs.2,500/= and Rs.1,500/= respectively.
- d) Aruna has granted a loan facility of Rs.100,000/= to the business on 01<sup>st</sup> October 2007.

You are required to prepare:

- I. The revaluation account. (06 Marks)
  - II. Trading, Profit and Loss account for the year ended 31<sup>st</sup> March 2008. (12 Marks)
  - III. Partners Capital and Current accounts in columnar form for the year ended 31<sup>st</sup> March 2008. (08 Marks)
  - IV. The Balance Sheet on that date. (10 Marks)
- (Total 36 Marks)