

Sub: Accounts

Topics Branch Accounts/ Dissolution/amalgamation/
piecemeal distribution/ Redemption of preference
shares.

Test Code – N46

Branch :

Date:

(50 Marks)

Answer 1

Branch Debtors A/c (1 mark)

To Branch Stock A/c	1,16,000	By Branch Cash A/c (balancing figure)	74,000
		By Bad Debts (written off)	400
		By Balance c/d	41,600
	1,16,000		1,16,000

Goods Sent to Branch A/c(1 mark)

To Branch Adjustment A/c	20,000	By Branch Stock A/c	1,20,000
1,00,000 x $\frac{20}{100}$			
To Purchases/ Trading A/c	1,00,000		
	1,20,000		1,20,000

Branch Cash A/c(1 mark)

To Branch Debtors A/c	74,000	By Branch Expenses A/c	24,000
To H.O. A/c (cash remittance)	6,000	By H.O. (cash remittance)	86,000
To Branch Stock A/c		By Balance c/d	4,000
- Cash Sales (balancing figure)	34,000		
	1,14,000		1,14,000

Branch Stock A/c(1 mark)

To Goods sent to Branch A/c	1,20,000	By Branch Debtors A/c	1,16,000
To Branch Adjustment A/c	54,000	By Branch Cash A/c	34,000
(Excess profit over normal loading –balancing figure)		(Sales)	
		By Goods in Transit	12,000
		(1,20,000-1,08,000)	
		By Balance c/d	12,000
	1,74,000		1,74,000

Branch Expenses A/c(1 mark)

To Branch Cash A/c	24,000	By Branch P&L A/c	24,000
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Branch Adjustment A/c(1 mark)

To Stock Reserve A/c	2,000	By Goods sent to Branch A/c	20,000
To Goods in transit Reserve A/c	2,000	By Branch Stock A/c	54,000
To Branch P&L A/c (Balancing figure)	70,000		
	74,000		74,000

Branch P & L A/c(1 mark)

To Branch Expenses A/c	24,000	By Branch Adjustment A/c	70,000
To Bad Debts	400		
To Net Profit (transferred to General P&L A/c)	45,600		
	70,000		70,000

Working Notes: (1 mark)

- Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value.
Loading on closing stock = 1/6th of ` 12,000 = ` 2,000.
- Loading on goods sent to branch = 1/6th of ` 1,20,000 = ` 20,000.
- Loading on goods in transit = 1/6th of ` 12,000 = ` 2,000.

Answer 2

Statement showing distribution of cash amongst the partners (8 marks)

		Creditors	B's Loan	A (')	Capitals B (')	C (')
Balance Due		16,500	4,500	15,000	7,500	15,000
On 1st Instalment amount with the firm ` (275 + 18,650)	18,925					
Less: Dissolution expenses provided for	<u>(3,000)</u>					
	15,925					
Less: C's remuneration of 1% on assets realized (18,650 x 1%)	<u>(187)</u>					
	15,738					
Less: Payment made to creditors	<u>(15,738)</u>	<u>(15,738)</u>				
Balance due	Nil	762				
2nd instalment realized	17,320					
Less: C's remuneration of 1% on assets realized (17,320 x 1%)	<u>(173)</u>					
	17,147					
Less: Payment made to creditors	<u>(162)</u>	<u>(162)</u>				
Transferred to P&L A/c	16,985	600				
Less: Payment for B's loan A/c	<u>(4,500)</u>		<u>(4,500)</u>			
Amount available for distribution to partners	12,485		Nil			
Less: C's remuneration of 10% of the amount distributed to partners (12,485 x 10/110)	<u>(1,135)</u>					
Balance distributed to partners on the basis of HRCM	11,350					
Less: Paid to C (W.N.1)	<u>(3,750)</u>					<u>(3,750)</u>
	7,600					11,250
Less: Paid to A and C in 4:3 (W.N.1)	<u>(7,600)</u>			<u>(4,343)</u>		<u>(3,257)</u>
Balance due	Nil			10,657	7,500	7,993
Amount of 3rd instalment	10,000					
Less: C's remuneration of 1% on assets	<u>(100)</u>					

realized (10,000 x 1%)	9,900					
Less: C's remuneration of 10% of the amount distributed to partners (9,900 x 10/110)	<u>(900)</u> 9,000					
Less: Paid to A and C in 4:3 for (` 8,750 – 7,600) (W.N.1)	<u>(1,150)</u> 7,850			<u>(657)</u> 10,000	- 7,500	<u>(493)</u> 7,500
Less: Paid to A, B and C in 4:3:3	<u>(7,850)</u>			<u>(3,140)</u>	<u>(2,355)</u>	<u>(2,355)</u>
Balance due	Nil			6,860	5,145	5,145
Amount of 4th and last instalment	7,000					
Less: C's remuneration of 1% on assets realized (7,000 x 1%)	<u>(70)</u> 6,930					
Less: C's remuneration of 10% of the amount distributed to partners (6,930 x 10/110)	<u>(630)</u> 6,300					
Less: Paid to A, B and C in 4:3:3	<u>(6,300)</u>			<u>(2,520)</u>	<u>(1,890)</u>	<u>(1,890)</u>
Loss suffered by partners				4,340	3,255	3,255

Working Note: (3 marks)

- (i) ` 275 added to the first instalment received on sale of assets represents the Cash in Bank
- (ii) The amount due to Creditors at the end of the utilization of First Instalment is ` 762/-. However, since the creditors were settled for ` 15,900/- only the balance 162/- were paid and the balance ` 600/- was transferred to the Profit & Loss Account.
- (iii)

Highest Relative Capital Basis

	A	B	C
Balance of Capital Accounts (A)	15,000	7,500	15,000
Profit sharing ratio	4	3	3
Capital Profit sharing ratio	3,750	2,500	5,000
Capital in profit sharing ratio taking B's Capital as base (B)	10,000	7,500	7,500
Excess of A's Capital and C's Capital (A-B)=(C)	5,000	Nil	7,500
Again repeating the process Profit sharing ratio	4		3
Capital Profit sharing ratio	1,250		2,500
Capital in profit sharing ratio taking A's Capital as base (D)	5,000		3,750
Excess of C's Capital (C-D)=(E)	Nil		3,750

Therefore, firstly ` 3,750 is to be paid to C then A and C to be paid in proportion of 4:3 upto ` 8,750 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in their profit sharing ratio 4:3:3 to all partners viz A, B and C.

Answer 3

Realisation Account (5 marks)

To Sundry assets A/c (transfer):		By Sundry creditors A/c		20,000
Premises	1,20,000	By Cash A/c (assets realised):		
Furniture	40,000	Premises	90,000	
Stock	1,00,000	Furniture	16,000	
Sundry Debtors	40,000	Stock	60,000	
To Cash A/c (creditors paid)	32,000	Debtors	<u>24,000</u>	1,90,000
To Cash A/c (expenses)	4,000	By Loss transferred to Capital		
		Accounts:		
		Neptune	54,000	
		Jupiter	36,000	
		Venus	18,000	
		Pluto	<u>18,000</u>	1,26,000
	3,36,000			3,36,000

Cash Account (4 marks)

To Balance b/d		8,000	By Realisation A/c (creditors)	32,000
To Realisation A/c (assets realised)		1,90,000	By Realisation A/c (expenses)	4,000
To Capital A/c (realization loss made good):			By Mortgage loan	80,000
Neptune	54,000		By Neptune's Capital A/c	1,18,857
Jupiter	36,000		By Jupiter's Capital A/c	73,143
Pluto	<u>18,000</u>	1,08,000		
To Pluto's Capital A/c		2,000		
		3,08,000		3,08,000

Partners' Capital Accounts

Particulars	Neptune	Jupiter	Venus	Pluto	Particulars	Neptune	Jupiter	Venus	Pluto
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d	–	–	10,000	12,000	By Balance b/d	1,00,000	60,000	–	–
To Realisation A/c (loss)	54,000	36,000	18,000	18,000	By General reserve A/c (3 : 2 : 1 : 1)	24,000	16,000	8,000	8,000
To Venus's Capital A/c (loss)	11,143	6,857	–	–	By Capital reserve A/c (3 : 2 : 1 : 1)	6,000	4,000	2,000	2,000
To Cash A/c	1,18,857	73,143	–	–	By Cash A/c (loss on realization)	54,000	36,000	–	18,000
					By Neptune's Capital A/c	–	–	11,143	–
					By Jupiter's Capital A/c	–	–	6,857	–
					By Cash A/c	–	–	–	2,000
	<u>1,84,000</u>	<u>1,16,000</u>	<u>28,000</u>	<u>30,000</u>		<u>1,84,000</u>	<u>1,16,000</u>	<u>28,000</u>	<u>30,000</u>

5 marks

Answer 4

Balance Sheet of M/s PQR & Co. as at 31st March, 2009

Liabilities		₹	Assets		₹
Capitals:			Building (₹ 1,00,000 + ₹ 60,000)		1,60,000
P	5,52,000		Plant & machinery (₹ 2,50,000 + ₹ 2,00,000)		4,50,000
Q	3,68,000		Office equipment (₹ 20,000 + ₹ 6,000)		26,000
R	<u>1,84,000</u>	11,04,000	Stock-in-trade (₹ 1,44,000 + ₹ 1,68,000)		3,12,000
Sundry creditors (1,20,000 + 1,16,000)		2,36,000	Sundry debtors (₹ 1,60,000 + ₹ 2,00,000)	3,60,000	
Bank overdraft		80,000	Less: Provision for doubtful debts (₹ 12,000 + ₹ 26,000)	<u>(38,000)</u>	3,22,000
			Bank balance (₹ 30,000 + ₹ 90,000)		1,20,000
			Cash in hand		30,000*
		<u>14,20,000</u>			<u>14,20,000</u>

3 marks

**In the books of P & Co.
Partners' Capital Accounts**

<i>Particulars</i>	<i>P</i> ₹	<i>Q</i> ₹	<i>Particulars</i>	<i>P</i> ₹	<i>Q</i> ₹
To Capital A/cs – M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c (W.N.4)	2,11,500	70,500
	4,89,000	2,43,000		4,89,000	2,43,000

2 marks

**In the books of R & Co.
Partners' Capital Accounts**

<i>Particulars</i>	<i>Q</i> ₹	<i>R</i> ₹	<i>Particulars</i>	<i>Q</i> ₹	<i>R</i> ₹
To Capital A/cs – M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.5)	68,000	34,000
	3,68,000	1,84,000		3,68,000	1,84,000

2 marks

Working Note: (1 marks)

1. Computation of purchase considerations

	<i>P & Co.</i> ₹	<i>R & Co.</i> ₹
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & machinery	2,50,000	2,00,000

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2. Computation of proportionate capital

	₹
M/s PQR & Co. (Purchase Consideration) (₹ 7,32,000+ ₹ 5,52,000)	12,84,000
Less: Goodwill adjustment	<u>(1,80,000)</u>
Total capital of new firm (Distributed in ratio 3:2:1)	<u>11,04,000</u>
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

3. Computation of Capital Adjustments

	P	Q	R	Total
	₹	₹	₹	₹
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less: Goodwill written off in the ratio of 3:2:1	<u>(90,000)</u>	<u>(60,000)</u>	<u>(30,000)</u>	<u>(1,80,000)</u>
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000
Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

4. In the books of P & Co.
Realisation Account

	₹		₹
To Building	50,000	By Creditors	1,20,000
To Plant & machinery	1,50,000	By Bank overdraft	80,000
To Office equipment	20,000	By M/s PQR & Co.	7,32,000
To Stock-in-trade	1,20,000	(purchase consideration)	
To Sundry debtors	1,60,000	(W.N.1)	
To Bank balance	30,000		

5. In the books of R & Co.
Realisation Account

	₹		₹
To Building	60,000	By Creditors	1,16,000
To Plant & machinery	1,60,000	By Due to P & Co.	1,00,000
To Office equipment	6,000	By M/s PQR & Co.	5,52,000
To Stock-in-trade	1,40,000	(purchase consideration)	
To Sundry debtors	2,00,000	(W.N.1)	
To Bank balance	90,000		
To Cash in hand	10,000		
To Partners' capital A/cs			
Q	68,000		
R	34,000		
	<u>7,68,000</u>		<u>7,68,000</u>

Note: The adjustments in the Capital Accounts of P, Q and R (both for Goodwill and the amounts paid to Q by P and R) can be shown in their Capital Accounts in the Books of P & Co and R & Co respectively. In such a case the Capital Account of the partners carried to PQR & Co will be the same amounts as shown in the Balance Sheet of PQR & Co.

Answer 5

Nominal value of preference shares		₹ 5,00,000
Maximum possible redemption out of profits		₹ 3,00,000
Minimum proceeds of fresh issue		₹ 5,00,000 - 3,00,000 = ₹ 2,00,000
Proceed of one share	=	₹ 9
Minimum number of shares	=	$\frac{2,00,000}{9} = 22,222.22$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares. **(6 marks)**