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**DMI-ST. EUGENE UNIVERSITY
DEGREE EXAMINATION – DECEMBER – 2022**

SEM: VI 551 AC 63 ADVANCED FINANCIAL ACCOUNTING

Time: 3 Hours

Max. Marks: 100

Answer any Five questions (5 x 20 = 100 Marks)

1. a) A and B started business with capitals of K500, 000 and K300,000 on 1st April, 1991.

B is entitled to a salary of K4,000 per month. Interest is allowed on capitals 15% per annum and is charged on drawings 10% half yearly.

Profits are to be distributed equally after the above adjustments.

During the year, A withdrew K80,000 and D withdraw K100,000.

The profits for the year before the above adjustments came to K300,000 assuming capital to be fixed,

Prepare Profit and loss appropriation account for the year ended 31st March, 1992 and Accounts relating to partners. **[4marks]**

b) From the following balance sheet of X and Y, calculate interest on capital at 5% p.a for the year ending 31st December, 1991.

Balance sheet

| Liabilities | K | Assets | K |
|--|--------|---------------|--------|
| X capital | 10,000 | Assets | 21,000 |
| Y capital | 8,000 | Drawings X | 1,000 |
| Profits and loss appropriate account 1991 | 4,000 | | |
| | 22,000 | | 22,000 |

During the year 1991 X's drawing were K1,000 and Y's drawing K3,000 profit during the year 1991 was K6,000. **[4marks]**

c) Explain the difference between "Partner's capital accounts" and "Partner's current accounts". **[4marks]**

d) Explain the problems accountants tackle at the time of admission of a partner into a partnership business. **[8marks]**

2. a) Distinguish between “dissolution of the partnership” and “dissolution of the firm”.

(4 Marks)

b) Elucidate atleast four(4)main distinctions between “Realization account” and “Revaluation account”. **(4 Marks)**

c) What do you mean by dissolution of a firm? Give the entries needed to close the books of the firm upon its dissolution. **(4 Marks)**

d) State the case of “Garner Vs Murray” in regards to insolvency of a partner of and discuss the argument by the accountants against the case. **(8 Marks)**

3. a) Define Farm Accounting. **(4 Marks)**

b) The following information is given for Bulimi Farms for the year ended 31/12/2020.

| | Particulars | Amount (K) |
|---------------------------------|-------------|------------|
| To opening stock: | Seeds | 5,000 |
| | Fertilizer | 7,000 |
| | Grains | 20,000 |
| | Livestock | 80,000 |
| To purchases: | Seeds | 8,000 |
| | Fertilizer | 4,000 |
| | Live stock | 12,000 |
| To sales: | Grain | 80,000 |
| | Live stock | 6,000 |
| | Vegetables | 12,000 |
| To wages | K15,000 | |
| To insurance premium | K9,000 | |
| To land revenue | K7,000 | |
| To government subsidy | K1,000 | |
| To grain given in lieu of wages | K3,000 | |
| To goods taken for personal use | K5,000 | |

To goods given for charity K2,000

Rent and taxes K3,000

Irrigation expenses K6,000

Closing stock: Grain K10,000, Vegetables K5,000, Live-stock K70,000

Requirements

Prepare Farm Account in the book of Tuzini Farms. **(16 Marks)**

4. a) A ship was chartered from Lagos to Accra on 31st December. The accounts were closed after the arrival of the ship. The details for the voyage to Accra and back were:

| | \$ | | \$ |
|----------------------|-------|---------|-------|
| Store consumed | 7000 | Freight | 90000 |
| Coal consumed | 15000 | | |
| Depreciation | 6000 | | |
| Port charges | 3000 | | |
| Salaries of crew | 8000 | | |
| Insurance of ship | 10000 | | |
| Insurance of freight | 5000 | | |
| Address commission | 5% | | |
| Fuel | 1050 | | |

\$40,000 freight was received on return with 10% primage. **(10 Marks)**

b) How is Primage calculated in a Voyage Accounting? **(5 Marks)**

c) State the objectives of Voyage Accounting. **(5 Marks)**

5. a) Define Insolvent Account. **(2 Marks)**

b) Explain the Garner vs. Murray decision. **(6 Marks)**

c) Mr. Phiri. Of Kabwe District, finding himself unable to meet his creditors has to prepare a statement of Affairs for which the following particulars are available.

-Leasehold property k100, 000 estimated to realize at k90, 000.

-plant & machinery k40,000 estimated to realize k30,000

-stock in trade k20,000 estimated to realize k14,000

-Book debts k60,000, doubtful k5,000 estimated to realize 50%; bad k14,000

-bills in hand k3,750

-life policy for k25,000 whose surrender value is k5,000 held by the insurance company against a loan of k2,000.

-household furniture k3,600; household debts k2,900.

-Bills Discounted k6,000; k2,000 likely to be dishonored.

-Loan on mortgage of leasehold k50,000; cash in hand k100.

-Bank overdraft secured by personal guarantee of Phiri's brother and second mortgage on leasehold k50,000.

-unsecured creditors k150,000. Loan from N, k2500 secured by a second charge on life policy. Ground rent on leasehold for three months accrued;k250

He could not pay his office clerks' (two in number) salaries for six months, k1,500 and also rates and taxes amounting to k1,500. **(12 Marks)**

6. a) A and B are partners sharing profit and losses in the proportion of 7:5.

They agree to admit C, their manager, into partnership who is to get $\frac{1}{6}$ share in the business.

C brings in k10,000 for his capital and k3600 for the $\frac{1}{6}$ share of goodwill, which he acquires $\frac{1}{24}$ th from A and $\frac{1}{8}$ share from B

The profit for thr first year of the new partnership amounts to 24,000.

Make the necessary Journal entries in connection with C's admission and apportion the profit between the partners. **[4marks]**

b) A,B, C have been sharing profit and losses in the ratio of 4:2:1. B retires and A and C take B's share equally.

i. X, Y and Z have been sharing profit and loss in the ratio of 8:5:3. X retires, Y takes $\frac{3}{16}$ from X and Z takes $\frac{5}{16}$ from X. Calculate "New ratio" and "Gaining ratio" in both cases. **[4marks]**

c) A firm earned net profits during the last five years as follows:

| | |
|--------|------|
| Year 1 | 7000 |
| " 2 | 6500 |
| " 3 | 8000 |
| " 4 | 7500 |
| " 5 | 6000 |

The capital investment of the firm is k40000. A fair return on capital in the market is 12%.

Find out the value of goodwill of the business, if it is based on three year's purchase of average super profits of the past five(5) years. **[4marks]**

d) A firm has two partners X and Y sharing profits in the ratio of 3:2. They admit Z into the firm on 1st January, 2003, when the Balance Sheet of the firm was as follows:

| Liabilities | k | Asset | k |
|---------------|--------|------------|--------|
| X's capital | 300,00 | F/Asset | 360,00 |
| Y's capital | 0 | Investment | 0 |
| Reserve | 100,00 | Debtors | 90,000 |
| Creditors | 0 | Stock | 40,000 |
| Bills payable | 75,000 | Cash | 60,000 |
| | 70,000 | | 20,000 |
| | 25,000 | | |
| | 570,00 | | 570,00 |
| | 0 | | 0 |

Terms of Admission are as follows:

i. Z is to bring k200,000 as his capital for a 3rd share in future profit and k35000 as his share of goodwill.

ii. Value of Fixed Asset and stock are to be reduced by 20% and k10000 respectively.

iii. Capital of the partners shall be proportionate to their profit sharing ratio, taking Z's capital as base.

Excess capital is to be withdrawn in cash by the partner concerned and the deficiency is to be made up by bringing in cash. Prepare Partner's capital accounts and Balance Sheet of the firm after the above adjustments. **(8 Marks)**

7. a) What do you understand by Piece meal Distribution? Explain the different methods of making such distribution. **(4 Marks)**

b) Write down the order of payments under piecemeal distribution of cash. **(4 Marks)**

c) State the treatment of unrecorded assets and liabilities on the dissolution date of a partnership business. **(4 Marks)**

d) Explain at least five (5) steps involved in the "Proportionate capital method" upon dissolution of a partnership firm. **(4 Marks)**