INTERMEDIATE EXAMINATION

June 2024

P–6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Where necessary, candidate may make appropriate assumptions and clearly state them in the respective answer.
All working notes must form part of the answer.

Answer to Question No. 1 *in section A is compulsory, further answer* any five *from* Question No. 2 *to* Question No. 8 *in section B.*

Section-A

1. Choose the correct option from the four alternatives given: 2×15=30

(i) Select the correct equation:

(A) Owners Equity = Assets + Liabilities

(B) Owners Equity + Outside Liabilities = Total Assets

(C) Assets + Owner Equity = Outside Liabilities

(D) Outside Equity + Profit = Total Assets

(ii) Cash In Hand A/c may have.

(A) Only debit balance

(B) Only credit balance

(C) Debt or Credit balance

(D) All of the above

(iii) Fundamental accounting assumptions are

(A) going concern, consistency and accrual.

(B) going concern, money measurement and prudence.

(C) going concern, business entity and accounting period.

(D) going concern, matching and consistency.

(iv) Choose the correct statement:

(A) Errors of principle do not affect agreement of trial balance.

(B) Compensating errors affect trial balance.

(C) One side error does not affect trial balance.

(D) Error of casting is an error of principle.

(v) Calculate sales from the following details:

Opening Stock	₹ 4,000
Cost of Goods sold	₹ 30,000
Closing Stock	₹ 2,000
Direct Expenses	₹ 5,000
Gross Profit	₹ 1,500

(A) ₹ 28,000
(B) ₹ 31,500
(C) ₹ 32,000
(D) ₹ 33,000

(vi) Mr. P issued Cheques worth ₹ 15,000 in March, 2024, out of which ₹ 10,000 only were presented for payment by 31st March, 2024. While reconciling bank and cash book balance as on 31st March, 2024, how much would be added to balance as per Cash Book to arrive at balance as per Pass Book?
(A) ₹ 15,000
(B) ₹ 10,000
(C) ₹ 5,000
(D) ₹ 7,500

(vii) A second hand car purchased for ₹ 2,00,000 (excluding initial repair cost of ₹ 50,000) is sold for ₹ 1,00,000 after 2 years. If depreciation is charged at the rate 20% on WDV, profit or loss on sale of car is
(A) Profit ₹ 28,000
(B) Profit ₹ 60,000
(C) Loss ₹ 60,000
(D) Loss ₹ 28,000

(viii) X drew a bill of exchange on Y for ₹ 20,000 payable after 3 months. On the due date, Y could not make the payment and requested to renew a fresh bill for another 3 months at 12% interest. The amount of fresh bill would be
(A) ₹ 20,600
(B) ₹ 22,400
(C) ₹ 21,200
(D) ₹ 20,300

(ix) Choose the odd one:
(A) Premium method
(B) Revaluation method
(C) Without raising goodwill account
(D) Revaluation of unrecorded asset

(x) Operating lease is a_____________.

(A) Revocable Contract

(B) Non-Revocable Contract

(C) Operating Contract

(D) None of the above

(xi) State which of the following statement is false:

(A) Salvage of stock means stock saved during accident.

(B) Unusual items and defective items are separate under insurance claim.

(C) Defective items means goods which cannot fetch the usual rate of gross profit.

(D) Average clause is applicable in case of under insurance.

(xii) A, B and C are three Partners sharing profits and losses in the ratio of 3 : 2 : 1. B retires from the firm .What is the gaining ratio of the remaining partner?

(A) 3 : 1

(B) 1 : 2

(C) 2 : 1

(D) 1 : 3

(xiii) Goods are transferred from Department X to department Y at a price so as to include a profit of 33·33% on cost. If the value of closing stock of department Y is ₹ 18,000 then amount of stock reserve on closing stock will be

(A) ₹ 6,000

(B) ₹ 4,500

(C) ₹ 9,000

(D) None of the above

(xiv) Income statement of a Charitable Institution is known as

(A) Profit and Loss Account

(B) Receipts & Payments Account

(C) Income & Expenditure A/c

(D) Statements of Affairs

(xv) Contingent Liabilities would appear

(A) on the Liabilities Side.

(B) on the Assets Side.

(C) as a note to Balance Sheet.

(D) None of the above

SECTION-B

Answer any 5 out of 7 Questions.

Each question carries 14 marks. 14×5=70

2. (a) On 31st March, 2023 in the Trial Balance of Singhania Brothers, balance of the Machinery Account appears as ₹ 19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at ₹ 4,50,000 was disposed of on 30th November, 2022 in exchange of new machinery costing ₹ 3,50,000.

   You are required to calculate:

   (i) Total depreciation to be charged in the Profit and Loss Account

   (ii) Profit or loss on exchange of machine

   (iii) Book value of machinery in Balance Sheet as on 31.03.2023 7

   (b) The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. In order to close the books, the accountant placed the difference for ₹ 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected.

   (i) ₹ 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.

   (ii) Credit Sale of ₹ 6,550 was posted to the credit of the customer's account as ₹ 5,650.

   (iii) Machine purchased on 1st October, 2022 for ₹ 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.

   (iv) Sales book was overcast by ₹ 10,000 in February 2023.

   Give Journal entries to rectify the errors and prepare Suspense Account. 7

3. (a) Kush of Kanpur sent to Jatin of jaipur, a consignment of 400 electric sewing machine costing each ₹ 24,000 (invoice price ₹ 30,000). Kush paid freight and insurance of ₹ 96,000. Jatin spent ₹ 31,200 for clearance and the selling expenses were ₹ 1,500 per sewing machines as and when the sale was made by Jatin. In transit 10 sewing machines were stolen for which the insurance company paid ₹ 1,85,000 in full settlement to Kush. Jatin sold 210 sewing machines at ₹ 32,000 per sewing machine and 130 sewing machines at ₹ 35,000 per sewing machine. Jatin was entitled to a commission of 5% on total sales value plus one-forth of the amount by which the gross sale proceeds less total commission thereon exceeded the invoice price. The final amount due was settled.

   You are required to show the Consignment Account, Jatin's Account and Loss in Transit account in the book of Kush. 7

(b) Mr. Rana purchases a car on Hire Purchase system on 01.01.2021. The Total cash price of the car is ₹ 4,50,000 payable ₹ 90,000 down and three instalments of ₹ 1,70,000, ₹ 1,50,000 and ₹ 1,08,460 payable at the end of 1st, 2nd and 3rd respectively. Interest is charged at 10% p.a.

You are required to calculate interest paid with each instalment. 7

4. Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash in Hand	--	1,000
Bank Balance	74,000 (Cr)	40,000 (Dr)
Sundry debtors	5,30,000	8,80,000
Sundry Creditors	1,50,000	1,95,000
Stock	1,70,000	1,90,000
Investments	1,20,000	1,35,000
Plant	2,00,000	2,00,000
Furniture	14,000	14,000

Sohan had withdrawn ₹ 3 lakh during the year, and he introduced fresh capital of ₹ 65,000 on 1st October, 2022. A provision to 5% on Sundry debtors is necessary. Write off depreciation on plant at the rate of 15% per annum and on furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain Sohan's profit or loss for the year ended 31st March 2023. 14

5. X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm's Balance Sheet on 31st March, 2023 was as follows:

Liabilities	Amount in (₹)	Assets		Amount in (₹)
Creditors	4,25,000	Cash in Hand		17,000
Bills Payable	1,35,000	Cash at Bank		2,48,000
General Reserve	5,10,000	Debtors	8,70,000	
Capital A/c		Less : Provision for Bad debt	30,000	8,40,000
X	9,70,000	Bills Receivable		1,65,000
Y	7,40,000	Stock in trade		3,15,000
Z	3,80,000	Investments (Market Value ₹ 4,10,000)		3,75,000
		Furniture		4,20,000
		Land & Building		7,80,000
	31,60,000			31,60,000

Y retired on 1st April, 2023 and it was agreed that he should be paid all his dues in full on that date. For this purpose, goodwill was to be calculated on the basis of 4 years' purchase of super profit method.

Other informations are given below:

(i) Average capital employed in the business ₹ 26,10,000.

(ii) Net trading profit of the firm for past 3 years ₹ 6,30,000; ₹ 5,40,000; ₹ 6,75,000.

(iii) Rate of interest expected from capital having regard to the risk involved —10%.

(iv) Fair Remuneration to the partners for their services — ₹ 1,20,000 per annum.

(v) Stock and furniture to be depreciated by 10%.

(vi) A provision of 5% on debtors to be created for doubtful debts and a provision for liability of ₹ 18,000 to be created against bill discounted.

(vii) The value of land and building is appreciated by ₹ 2,35,000 and investment is to be taken at its market value.

(viii) Due to revaluation, the value of assets and liability are not to be altered.

(ix) In order to meet Y's obligation, X and Z bring in additional capital of ₹ 3,50,000 and ₹ 7,20,000 respectively.

(x) The Profit or Loss sharing ratio of X and Y in new firm will be 5 : 3.

You are required to:-

(a) Calculate value of goodwill and show its treatment.

(b) Calculate profit or loss on revaluation of Assets and Liabilities and show its adjustment among the partners.

(c) Show the balances of Partners' Capital account after Y's retirement.

(d) Prepare firm's balance sheet after retirement of Y. 14

6. (a) The Ranu stores of Jaipur has a retail branch at Kota. The goods are invoiced to the branch at selling price which is obtained by adding 50% on cost price. All expenses are paid by head office. The particular are as follows:

Particulars	₹
Balance as on 1st April, 2022	
-Stock at Invoice price	1,20,000
-Debtors	43,200
Goods Sent to Branch (Invoice Price)	18,00,000
Goods returned by Branch (Invoice Price)	24,000
Cash Sales	72,000
Credit Sales	16,32,000
Goods returned by Debtors	12,000
Cash received from Debtors	15,60,000
Discount allowed to Debtors	12,000
Bad Debt	2,400
Branch Expenses paid by Head Office : Rent	19,200
: Salaries	1,01,000
: Misc Expenses	6,000
Balance as on 31st March, 2023	
-Stock at Invoice Price	1,99,200
-Debtors	88,800

You are required to prepare Branch Stock account, Branch Debtors Account. Goods sent to Branch Account, Branch Expenses Account, Branch Adjustment Account, Branch Stock Reserve Account and in the books of Head Office. 7

(b) From the following information ascertain consequential loss claim: 7

1. Financial year ends on 31st March, with sales of ₹ 25,00,000.
2. Date of fire 1st September following.
3. Period of interruption — 1st September to 1st February, next year.
4. Indemnity period — 6 months.
5. Net Profit ₹ 2,75,000 plus insured standing charges ₹ 3,00,000.
6. Uninsured Standing Charges ₹ 50,000.
7. Sum Insured ₹ 6,16,000.
8. Standard Turnover for corresponding months (1st September to 1st February in the year preceding the fire ₹ 7,50,000.
9. Turnover in period of interruption ₹ 2,25,000.
10. Annual Turnover (i.e 12 months preceding the fire) ₹ 28,00,000.
11. Incurred additional expenses amounting to ₹ 50,000 with a saving of insured standing charges ₹ 14,000.
12. Reduced turnover avoided through additional expenses ₹ 1,50,000.
13. Special Circumstances clause stipulated:
    (i) Increase in turnover (standard and annual) 10%
    (ii) Increase in rate of gross profit 2%

7. (a) Rukamani Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹ 60 crores during the accounting year ended on 31st March, 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the board of directors, showed a deficit of ₹ 15 crores. The board in consultation with the Managing Director decided on the following :

(i) Value year-end inventory at works cost (₹ 75 crores) instead of the hitherto followed method of valuation of inventory at prime cost (₹ 45 crores).

(ii) Not to provide for "after sale expenses" during the warranty period. Till the last year, provision at 2% of sale used to be made under the concept of "matching of cost against revenue" and actual expenses used to be charged against the provision. The Board now decided to account for the expenses as and when actually incurred. Sales during the year ₹ 900 crores.

(iii) Provide for permanent fall in the value of investments, on which fall had taken place over the past 5 years, the provision being ₹ 15 crores.

As Chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2022-2023. 7

(b) What is the objective of Accounting Standard 10? As per AS 10 which are included in bearer plant and which are not? 7

8. (a) State the provisions of Accounting Standard 12, relating to presentation of Government Grants in Financial Statements. 5

(b) On 31st December, 2022, Sundry Debtors and provision for doubtful debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2023, ₹ 3,000 are bad and written off on 30-09-2023. An amount of ₹ 400 was received on account of a Debt which was written off as bad debt last year on 31-12-2023. The debtors left was verified and it was found that Sundry Debtors on 31st December 2023 stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful Debt A/c, assuming that the same % should be maintained for provision for doubtful debts as it was on 31-12-2022.

Show also Profit & Loss Account (abstract) for the year ended 31-12-2023 and Balance Sheet (abstract) as on that date. 5

(c) What do you mean by piecemeal distribution? Explain it. 4
