FINANCIAL ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

I. Choose the correct option: **[15 x 2 = 30]**

(i) At the end of the accounting year the capital expenditures are shown in the:
- a. assets side of the Balance Sheet.
- b. liabilities side of the Balance Sheet
- c. debit side of the Profit and Loss A/c.
- d. credit side of the Profit and Loss A/c

(ii) Memorandum Joint Venture Account is prepared when
- a. the separate set of books is maintained for Joint Venture
- b. each Co-venture keeps records of all transactions.
- c. each Co-venture keeps records of their own transactions only.
- d. All of the above cases

(iii) On 1.1.2024 Mr. X took delivery from Mr. Y of 5 machines on a hire purchase system. ₹ 4,000 being paid on delivery and the balance in five instalments of ₹ 6,000 each, payable annually on 31st December. The vendor company charges 5% interest p.a. on yearly balances. The cash price of 5 machines was ₹ 30,000. Calculate the interest per annum _____________.
- a. ₹ 4000
- b. ₹. 3000
- c. ₹. 2000
- d. None of Above

(iv) In Hire Purchase system cash price plus interest is known as _________________.
- a. Capital value of asset
- b. Book value of asset
- c. Hire purchase price of asset
- d. Hire purchase charges

(v) Which of the following is true in respect of the pro-forma invoice?
- a. It is a document sent by the consignor to the consignee
- b. Only the details of the goods returned are recorded in this document.
- c. It acts as an evidence of the remittance of money on consignment basis.
- d. None of the above

(vi) Income & Expenditure A/c shows subscriptions ₹ 8,20,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹ 74,000 and subscription received in advance at the end of the year was ₹ 96,000. The figure of subscription received that would appear in Receipts & Payments A/c will be:

a. ₹ 798,000
b. ₹ 6,50,000
c. ₹ 9,50,000
d. ₹ 8,42,000

(vii) The Sacrifice ratio is used at the time of?
a. Admission of a partner
b. Retirement of a partner
c. Death of a partner
d. Dissolution of a partner

(viii) A and B are partners sharing profit an d losses in the ratio of 3: 2. C is coming as a new partner for 1/5th share of future profit. Calculate sacrificing ratio.
a. 3:2
b. 8:5
c. 2:3
d. 5:3

(ix) The Full form of GAAP?
a. Generally Accepted Accounting Principles
b. Generally Accepted Accountancy Principles
c. Globally Accepted Accounting Principle
d. Global Accounting Accepted Principles

(x) From the following details estimate the capital as on 31.03.2024, Capital as on 01.04.2023₹ 4,10,000. Drawings ₹ 40,000, Profit during the year ₹ 50,000
a. ₹ 4,10,000
b. ₹ 4,50,000
c. ₹ 4,20,000
d. ₹ 4,00,000

(xi) As on 31st March, 2024 debtors and additional bad debts are ₹ 8,00,000 and ₹ 10,000 respectively. If the provision for bad debts is made at 5% on debtors, then amount of such provision will be________________.
a. ₹ 40,000
b. ₹ 50,000
c. ₹ 39,500
d. ₹ 40,500

(xii) Which of the following is not a feature of Trial Balance?
a. It is a list of debit and credit balances which are extracted from various ledger accounts.
b. It does not prove arithmetical accuracy which can be determined by audit;
c. It is not an account. It is only a statement of account;
d. All the transactions are primarily recorded in this book; hence it is the primary book of entry.

(xiii) In a Cash Book Debit balance of ₹112 brought forward as credit balance of ₹121, while preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:
a. ₹112 to be added

b. ₹121 to be added
c. ₹ 233 to be added
d. ₹112 to be subtracted

(xiv) Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of.
a. Omission
b. Commission
c. Principle
d. Misposting

(xv) Shiva draws a bill on Sanat on 25th October, 2023 for 90 days, the maturity date of the bill will be.
a. 27th January, 2024
b. 26th January, 2024
c. 25th January, 2024
d. 28th January, 2024

Answer:

1.

i	ii	iii	iv	v	vi	vii	viii	ix	x
a	c	a	c	a	a	a	a	a	c
xi	xii	xiii	xiv	xv					
c	b	c	c	c					

Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

2. (a) On 1st April, 2021, Som Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years. On 1st January, 2022 repairs and renewals of ₹3,000 were carried out. On 1st October, 2023 this machine was sold for ₹50,000. Prepare Machinery Account for the 3 years. [7]

(b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.
(i) No adjustment entry was passed for an amount of ₹2,000 relating to outstanding rent.
(ii) Purchase book was overcast by ₹1,000.
(iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.

(iv) **₹600 paid for purchase of stationary has been debited to Purchase A/c.**
(v) **Sales books was overcast by₹ 1,000.**
(vi) **₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.**

Show the effect of the above errors in Profit and Loss Account & Balance Sheet.

[7]

Answer:
2.(a)

In the books of Som Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.2021	To, Bank A/c	66,000	31.03.2022	By, Depreciation A/c	5,000
	To, Bank A/c	14,000		By, Balance c/d	75,000
		80,000			80,000
01.04.2022	To, Balance b/d	75,000	31.03.2023	By, Depreciation A/c	5,000
				By, Balance c/d	70,000
		75,000			75,000
				By, Depreciation A/c	2,500
01.04.2023	To, Balance b/d	70,000	01.10.2023	By, Bank A/c (sale)	50,000
				By, Profit & Loss A/c (Loss)	17,500
		70,000			70,000

Working Note:
1.Total Cost = ₹66,000 + ₹ 5,000 + ₹ 7,000 + ₹ 1,000 + ₹ 500 + ₹500 = ₹80,000

2. Depreciation = Total Cost - Scrap Value / Expected life ==₹80,000 - ₹5,000 / 15=₹5,000

The amount spent on repairs and renewals on 1st January, 2022 is of revenue nature and hence, does not form part of the cost of asset.

2.(b)

Effects of the errors in profit and loss A/c and Balance Sheet

Profit & Loss A/c	Balance Sheet
(a) Profit was overstated by ₹2,000	(a) Capital was also overstated by ₹2,000& outstanding Liability was understated by ₹2,000.
(b) Gross profit was under stated by ₹1,000 & also the Net Profit.	(b) Capital was understated by ₹1,000.
(c) Net Profit was overstated by ₹4,000.	(c) Machinery was overstated by ` 4,000 & so the Capital A/c was also overstated by ₹4,000.
(d) No effect on Net Profit.	(d) No effect in Balance Sheet.
(e) Gross Profit and Net Profit were overstated by ₹1,000.	(e) Capital was overstated by ₹1,000.
(f) Gross Profit & Net Profit were overstated by ₹5,000.	(f) Capital & Sundry Debtors were overstated by ₹5,000.

Adjusting Entry: Adjusting Entries are passed in the journal to bring into the books of accounts certain unrecorded items like closing stock, depreciation on fixed assets, etc. These are needed at the time of preparing the final accounts.

E.g. Depreciation A/c Dr.
To, Fixed Assets A/c

3.(a) X draws a bill for ₹ 1,200 and Y accepts the same for mutual accommodation in the ratio of 4:2. X discounts the bill for ₹ 1,110 and remits 1/3rd of the proceeds to B.
Before the due date, Y draws another bill for ₹ 1,800 on X in order to provide funds to meet the first bill. The second bill is discounted for ₹ 1,740 by Y and a sum of ₹ 360 is remitted to X after meeting the first bill. The second bill is duly met. Show journal entries in the books of both X and Y.

[7]

3.(b) ER Logistics acquired a delivery van on hire purchase on 01.04.2023 from Mahavir Enterprises. The terms were as follows:

Particulars	Amount (₹)
Hire Purchase Price	180,000
Down Payment	30,000
1st instalment payable after 1 year	50,000
2nd instalment after 2 years	50,000
3rd instalment after 3 years	30,000
4th instalment after 4 years	20,000

Cash price of van ₹1,50,000. You are required to calculate Total Interest and Interest included in each instalment. [7]

Answer:

3.(a)

In the books of X
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c Dr. To, Y A/c (Being on 1st bill drawn on Y for mutual accommodation)		1,200	1,200
	Bank A/c Dr. Discount on Bills A/c Dr. To, Bills Receivable A/c (Being the bill discounted with the banker for ₹1,110)		1,110 90	1,200
	Y A/c ₹ 1,200 × $\frac{1}{3}$ Dr. To, Bank A/c To, Discount on Bills A/c ₹ 90 × $\frac{1}{3}$ (Being 1/3rd of the proceeds remitted to Y – the loss on discount shared proportionately)		400	370 30
	Y A/c Dr. To, Bills Payable A/c (Being the bill drawn on X by Y)		1,800	1,800
	Bank A/c Dr. Discount on Bills A/c Dr. To, Y A/c ₹ 1,200 × $\frac{1}{3}$ (Being the net amount remitted to X by Y)		360 40	400
	Bank A/c Dr. To, Y A/c (Being the balance amount of the 2nd bill remitted by Y)		600	600
	Bills Payable A/c Dr. To, Bank A/c (Being the 2nd bill honoured at maturity)		1,800	1,800

In the books of Y

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X A/c To, Bills Payable A/c		1,200	1,200

	(Being a bill drawn on Y by X for mutual accommodation)			
	Bank A/c Dr. Discount on Bills A/c To, X A/c (Being 1/3rd of the proceed received and the loss on disco shared proportionately)		370 30	400
	Bills Receivable A/c Dr. To, X A/c (Being the bill drawn on X)		1,800	1,800
	Bank A/c Dr. Discount on Bills A/c (Bal. fig.) Dr. To, Bills Receivable A/c (Being the bill discounted with the banker for ₹ 1,740)		1,740 60	1,800
	X A/c Dr. To, Bank A/c To, Discount on Bills A/c (Being 1/3rd of the proceeds remitted to X – the loss on discount shared proportionately)		400	360 40
	Bills Payable A/c Dr. To, Bank A/c (Being the 1st bill honoured at maturity)		1,200	1,200
	X A/c Dr. To, Bank A/c (Being the balance amount of the 2nd bill remitted to X)		600	600

Note: Before the due date of the 1st bill, X was to remit ₹ 800 to Y to enable him to honour the bill. But X was not in a position to remit the required amount. He accepted a bill of ₹ 1800 drawn by Y. Y discounted the bill for ₹ 1,740 and remitted to X ₹ 360 after adjusting ₹ 800 in respect of the 1st bill. Therefore, X enjoyed (360+800) ₹ 1,160 out of ₹ 1,740. X's share of discount will be: ₹ 60/1,740 × ₹ 1,160 = ₹ 40

3. (b)

Calculation of total Interest and Interest included in each instalment
Hire Purchase Price (HPP) = Down Payment + instalments
= 30,000 + 50,000 + 50,000 + 30,000 + 20,000
= 1,80,000
Total Interest = 1,80,000 – 1,50,000 = 30,000
Computation of IRR (considering two guessed rates of 6% and 12%)

Year	Cash Flow	DF@ 6%	PV	DF@ 12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease = $6\% + \frac{1{,}62{,}500 - 1{,}50{,}000}{1{,}62500 - 1{,}48{,}600} \times (12-6) = 11.39\%.$

Thus, repayment schedule and interest would be as under:

Installment no	Principal at beginning	Interest included In each installment	Gross amount	Installment	Principal at end
Cash down	1,50,000		1,50,000	30,000	1,20,000
1	1,20,000	13,668	1,33,668	50,000	83,668
2	83,668	9,530	93,198	50,000	43,198
3	43,198	4920	48,118	30,000	18,118.25
4	18,118.25	2063	20,182	20,000	182*
1. * the difference is on account of approximations.					

4. X, a sole trader furnishes you with the following bank summary for the year ended December 31, 2023

Particulars	**₹**	**₹**
Balance on December 31, 2022		**11,000**
Add: Deposits:	**1,25,000**	
Cash [out of cash sales]	**3,50,000**	
Collection from Credit Customers	**36,000**	
Income from Personal Investment		**5,11,000**
		5,22,000
Deduct: Cash Withdrawn from:		
Personal Drawings	**20,000**	
Shop Expenses	**40,000**	**60,000**
		4,62,000
Cheques issued to Suppliers of		
Goods	**3,50,000**	
Services	**40,000**	
Cheques issued for Personal Purposes	**55,000**	
Bank Charges	**500**	**4,45,500**

Balance on December 31, 2023		**16,500**

X informs you that he had the following Assets and Liabilities in addition to the Bank Balance described on December 31, the extracts of which are as under:

Asset & Liabilities	**2023 (₹)**	**2022 (₹)**
Assets:		
Cash Balance	**7,000**	**4,000**
Amounts due from Customers	**37,000**	**27,500**
Unsold Inventory at Cost	**13,000**	**10,000**
Prepaid Expenses	**3,000**	**2,000**
	60,000	**43,500**
Liabilities:		
Creditors for Goods	**23,000**	**28,000**
Creditors for Services	**2,500**	**1,500**
	25,500	**29,500**

He also informs you that:

A. He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.

B. He had allowed cash discount of 5,000 to his credit customers for prompt payment; he was allowed cash discount 7,000 by his suppliers of goods for prompt payment.

C. Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.

X ask you to show his capital account and prepare:
(i) Receipt and payment account for the year ended December 31, 2023
(ii) Trading and Profit & Loss account for the year ended December 31, 2023
(iii) Balance Sheet as on December 31, 2023 **[14]**

Answer:

Books of X
Receipt and Payment Accounts for the year ended Dec. 31, 2023

Receipts	**Amount (₹)**	**Payments**	**Amount (₹)**
To Opening Balance		By Cash Purchases [WN:6]	3,75,000
Cash	4,000	By Payment to Suppliers	3,50,000
Bank	11,000	By Payments for Services:	

To Cash Sales	5,00,000	Cash	37,000
To Collection from customers	3,50,000	Cheques	40,000
		By Bank Charges	500
Capital Introduces:		By Drawings [20,000 + 55,000]	75,000
Income from Personal Investment	36,000	By Closing Balance:	
		Cash	7,000
		Bank	16,500
	9,01,000		9,01,000

Dr Trading and Profit & Loss Accounts for the year ended Dec. 31, 2023 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		10,000	By Sales:		
To Purchases:			Cash [WN:6]	5,00,000	
Cash [WN:6]	3,75,000		Credit [WN:3]	3,64,500	8,64,500
Credit [WN:4]	3,52,000	7,27,000	By Closing Stock at Cost		13,000
To Gross Profit c/d		1,40,500			
		8,77,500			8,77,500
To Expenses [WN:5]		77,000	By Gross Profit b/d		1,40,500
To Bank Charges		500	By Discount Received		7,000
To Discount Allowed		5,000			
To Capital A/c [Net Profit transferred]		65,000			
		1,47,500			1,47,500

Balance Sheet as on Dec. 31, 2023

Liabilities	Amount (₹)	Amount (₹)	Liabilities	Amount (₹)	Amount (₹)
Capital:	25,000		Inventory		13,000
Opening Capital [WN:1]	65,000		Customers		37,000
Add: Net Profit	36,000		Prepaid Expenses		3,000
Further Capital			Bank		16,500
	1,26,000				
	75,000	51,000	Cash		7,000

[income from personal investment]		23,000			
		2,500			
Less: Drawings [20,000 + 55,000]		76,500			76,500
Creditors for: Goods					
:Services					

Working Notes:

1. Capital balance on 1.1.2023

Balance Sheet as on 1.1.2023

Liabilities	Amount (₹)	Amount (₹)	Liabilities	Amount (₹)	Amount (₹)
Capital [Opening Capital: B/Fig.]		25,000	Inventory		10,000
			Customers Prepaid		27,500
Creditors for:			Expenses		2,000
Goods		28,000	Bank		11,000
Services		1,500	Cash		4,000
		54,500			54,500

2.Expenses Paid during 2023

Dr. **Cash Accounts** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	4,000		By Purchases A/c [WN:6]	3,75,000
	To Sales A/c [WN:6]	5,00,000		By Bank A/c [Amount deposited]	1,25,000
	To Bank A/c [Withdrawn from bank for shop expenses]	40,000		By Expenses A/c [Expenses paid: B/Fig.]	37,000
				By Balance c/f	7,000
		5,44,000			5,44,000

3.Credit Sales during 2023

Dr. Customers' Accounts Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	27,500		By Bank A/c	3,50,000
	To Sales A/c [Credit Sales: B/Fig.]	3,64,500		By Discount Allowed A/c	5,000
				By Balance c/f	37,000
		3,92,000			3,92,000

4.Credit Purchases during 2023

Dr. Creditors Accounts Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	3,50,000		By Balance b/f	28,000
	To Discount Received A/c	7,000		By Purchases A/c [Credit purchases: B/Fig.]	3,52,000
	To Balance c/f	23,000			
		3,80,000			3,80,000

5.Expenses to be transferred to Profit & Loss Accounts

Particulars	Amount ₹
Expenses Paid: Cash [WN:2]	37,000
Cheque	40,000
	77,000
Add: Prepaid Expenses on 31.12.2022	2,000
Outstanding Expenses on 31.12.2023	2,500
	81,500
Less: Prepaid Expenses on 31.12.2023	3,000
	78,500
Less: Outstanding Expenses on 31.12.2022	1,500
Expenses to be debited to Profit & Loss A/c	77,000

6. Cash Sales & Cash Purchases during 2023

75% of Cash Sale proceeds are used for Cash Purchases

25% Amount of Cash Sale proceeds deposited into Bank

Cash Sales = Cash deposited X 100/25 = 1,25,000 X 100/25 = 5,00,000

Cash Purchases = 75% of Cash Sale proceeds = 5,00,000 X 75% = 3,75,000

5. A partnership firm was dissolved on 30th June, 2024. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	(₹)	Assets	(₹)
Capitals :		Cash	5,400
Atrik	38,000	Sundry Assets	94,600
Mohit	24,000		
Rupa	18,000		
Loan A/c — Mohit	5,000		
Sundry Creditors	15,000		
	1,00,000		1,00,000

The assets were realised in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 14,500 in full settlement of their account. Expenses of realisation were estimated to be ₹ 2,700 but actual amount spent on this account was ₹ 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realised as follows:

On 5th July	**₹**	**12,600**
On 30th August	**₹**	**30,000**
On 15th September	**₹**	**40,000**

The partners shared profits and losses in the ratio of 2: 2: 1. Give working notes. [14]

Answer:

Statement Showing the Distribution of Cash
(According to Proportionate Capital Method)

	Particulars	Creditors (₹)	Mohit's Loan (₹)	Atrik (₹)	Mohit (₹)	Rupa (₹)
A	Balance Due	15,000	5,000	38,000	24,000	18,000
B	Cash Paid (₹5,400 – ₹ 2,700)	2,700	—	—	—	—
C	Balance Unpaid (A – B)	12,300	5,000	38,000	24,000	18,000
D	1st Instalment of ₹ 12,600	11,800	800	—	—	—
E	Balance Unpaid (C – D)	500	4,200	38,000	24,000	18,000
F	Less: Written-off	500				
G	2nd Installment of ₹ 30,000		4,200	16,320	2,320	7,160
H	Balance Unpaid (E – F -G)			21,680	21,680	10,840
I	3rd Installment (₹40,000 + ₹ 700)			16,280	16,280	8,140
J	Unpaid Balance (H – I) = Loss on Realisation			5,400	5,400	2,700

Working Notes:

(i) Statement showing the Calculation of Highest Relative Capitals

	Particulars	Atrik (₹)	Mohit (₹)	Rupa (₹)
A	Actual Capitals	38,000	24,000	18,000
B	Profit-Sharing Ratio	2	2	1
C	Actual Capitals ÷ Profit Sharing Ratio	19,000	12,000	18,000
D	Proportionate Capitals Taking Mohit's Capital as Base Capital	24,000	24,000	12,000
E	Surplus Capital [A–D]	14,000	Nil	6,000
F	Surplus Capital ÷ Profit Sharing Ratio	7,000	—	6,000
G	Revised Proportionate Capitals Taking Rupa's Capital as the Basis	12,000	—	6,000
H	Revised Surplus Capital (E – G)	2,000	—	—

(ii) Distribution of Second Instalment of ₹ 30,000

Particulars	Mohit's Loan (₹)	Atrik (₹)	Mohit (₹)	Rupa (₹)
First ₹ 4,200	4,200	—	—	—
Next ₹ 2,000 (Absolute Surplus)		2,000	—	—
Next ₹ 18,000 (Balance of Surplus)		12,000	—	6,000
Balance ₹ 5,800 (2 : 2 : 1)		2,320	2,320	1,160
Total ₹ 30,000	4,200	16,320	2,320	7,160

6. (a) SS Textiles Ltd. have a branch in Auckland, New Zealand. The trail balance of the branch as on 31.03.2023 was as given below:

Particulars	Dr. (NZ $)	Cr. (NZ $)
Head Office Account		18,000
Sales		1,20,000
Goods from the Head Office Account	90,000	
Opening Stock	15,000	
Office furniture	20,000	
Cash	100	
Bank	1,900	
Expenses outstanding		2,000
Salaries	6,000	
Taxes & Insurance	500	
Rent	2,000	
Debtors	4,500	
	1,40,000	1,40,000

The Branch Account in the head office showed a debit balance of ₹13,20,000 and 'Goods sent to Branch Accounts' a credit balance of ₹80,00,000. Office furniture were acquired in 2007 when NZ $1 = ₹80. The exchange rates were (NZ $1): January 1, 2023 - ₹ 88; December 31, 2023 - ₹ 92; Average – ₹ 90. The stock at branch on December 31, 2023 was valued at NZ $9,000. Convert the Branch Trial Balance into rupees and prepare the

Branch Trading and Profit and Loss Account for 2023, and the Branch Account in Head Office books. Depreciation is to be written off the office furniture @ 10%. [7]

Answer:

Auckland Branch Trial Balance as at December 31, 2023

Item	Rate (₹)	Dr. (NZ $)	Cr. (NZ $)	Dr. (₹)	Cr. (₹)
H.O. Account	-		18,000		13,20,000
Sales	90		1,20,000		108,00,000
Goods from H.O. A/c	-	90,000		80,00,000	
Stock on Jan. 1, 2021	88	15,000		13,20,000	
Office Furniture	80	20,000		16,00,000	
Cash	92	100		9,200	
Bank	92	1,900		1,74,800	
Expenses outstanding	92		2,000		1,84,000
Salaries	90	6,000		5,40,000	
Taxes & Insurance	90	500		45,000	
Rent	90	2,000		1,80,000	
Debtors	92	4,500		4,14,000	
		1,40,000	1,40,000	1,22,83,000	1,23,04,000
Difference in exchange				21,000	
				123,04,000	123,04,000
Closing stock	92	9,000		8,28,000	

Auckland Branch Trading and Profit & Loss Account

Dr. **for the year ended December 31, 2023** **Cr.**

Particulars	(₹)	Particulars		(₹)
To, Opening Stock	13,20,000	By, Sales		108,00,000
To, Goods from H.O.	80,00,000	By, Closing Stock		8,28,000

To, Gross Profit c/d	23,08,000			
	116,28,000			116,28,000
To, Salaries	5,40,000	By, Gross Profit b/d		23,08,000
To, Taxes & Insurance	45,000			
To, Rent	1,80,000			
To, Difference in exchange	21,000			
To, Depreciation	1,60,000			
To, Net Profit	13,62,000			
	23,08,000			23,08,000

Dr. Auckland Branch Account Cr.

Particulars	(₹)	Particulars	(₹)
To, Balance b/d	13,20,000	By, Branch Trading A/c (₹)	
To, Branch Trading A/c (₹)		Opening stock 13,20,000	
Sales 108,00,000		Goods from H.O. 80,00,000	93,20,000
Stock 8,28,000	116,28,000	By, Branch P & L A/c	9,46,000
		(Sundry expenses) By, Balance c/d	26,82,000
	1,29,48,000		1,29,48,000

6.(b) A fire occurred on Mar. 15, 2024 in the premises of Omega Ltd. A Loss of Profit policy was taken by Omega Ltd. for ₹ 80,000. The indemnity period was for 3 months. Net Profit for the year ending Dec. 31, 2023 was ₹56,000 and standing charges (all insured) amounted to ₹49,600. Determine insurance claim from the following details available from quarterly sales tax returns:

Sales	2021	2022	2023	2024
	(₹)	(₹)	(₹)	(₹)
From Jan.1 to Mar.31	1,20,000	1,30,000	1,42,000	1,30,000
From Apr.1 to June 30	80,000	90,000	1,00,000	40,000
From July 1 to Sept.30	1,00,000	1,10,000	1,20,000	1,00,000
From Oct.1 to Dec.31	1,36,000	1,50,000	1,66,000	1,60,000

Sales from 16.3.2023 to 31.3.2023	**28,000**	
Sales from 16.3.2024 to 31.3.2024	**Nil**	
Sales from 16.6.2023 to 30.6.2023	**24,000**	
Sales from 16.6.2024 to 30.6.2024	**6,000**	**[7]**

Answer:

Statement of Claim for Loss of Profit

Particulars		(₹)
GP lost on Short Sales [WN: 4]		16,080
Less: Savings in Standing Charges		Nil
∴ Gross Claim		16,080

∴ Net Claim (under "Average clause") = Gross Claim × $\frac{\textit{Policy Value}}{\textit{Insurable Value}}$

$$= ₹\ 16{,}080 \times \frac{80{,}000}{1{,}19{,}000}$$

= ₹ 10,749 (Approx.)

Working Notes:

WN: 1 Trend of Turnover of last few years

Sales of: 2021 = ₹ (1,20,000 + 80,000 + 1,00,000 + 1,36,400) = ₹ 4,36,400

Sales of: 2022 = ₹ (1,30,000 + 90,000 + 1,10,000 + 1,50,000) = ₹ 4,80,000

Sales of: 2023 = ₹ (1,42,000 + 1,00,000 + 1,20,000 + 1,66,000) = ₹ 5,28,000

Rate of turn over change

$$= \frac{\text{Turnover of the current year} - \text{Turnover of the previous year}}{\text{Turnover of the previous year}} \times 100$$

$$\text{For 2023} = \frac{5{,}28{,}000 - 4{,}80{,}000}{4{,}80{,}000} \times 100 = 10\%$$

$$\text{For 2022} = \frac{4{,}80{,}000 - 4{,}36{,}400}{4{,}36{,}400} \times 100 = 10\% \text{ (approx.)}$$

Thus, we observe a 10% upward trend in turnover over the last few years.

2. Calculation of GP Rate

Particulars		(₹)
Net Profit of 2023		56,000
Add: Insured Standing Charges		49,600
	∴ Insured Gross Profit	1,05,600

Sales of 2023 = ₹ 5,28,000 (as computed above)

$$\therefore \text{Rate of Gross Profit in 2023} = \frac{Gross\ Profit}{Sales} \times 100$$

$$= \frac{1,05,600}{5,28,000} \times 100$$

$$= 20\ \%$$

3. Calculation of Short Sales

Particulars	(₹)	(₹)
Standard Turnover (from March 15, 2024 to June 15, 2024):		
Turnover from April 1, 2023 to June 30, 2023	1,00,000	
Add: Turnover from March 16, 2023 to March 31, 2023	28,000	
	1,28,000	
Less: Turnover from June 16, 2023 to June 30, 2023	24,000	1,04,000
Add: Upward trend @ 10% [WN: 1]		10,400
		1,14,400
Less: Actual Turnover (from March 15, 2024 to June 15, 2024)		
Turnover from April 1, 2024 to June 30, 2024	40,000	
Add: Turnover from March 16, 2024 to March 31, 2024	Nil	
	40,000	
Less: Turnover from June 16, 2024 to June 30, 2024	6,000	34,000
∴ Short Sales		80,400

4. GP lost on Short Sales

Short sales × Rate of GP = ₹ 80,400 × 20%

= ₹ 16,080

5. Annual Turnover I.e. Sale for the year ending March 15, 2024

	(₹)
From March 16, 2023 to March 30, 2023	28,000
From April 1, 2023 to June 30,2023	1,00,000
From July 1, 2023 to September 31,2023	1,20,000
From October 1, 2023 to December 31,2023	1,66,000
From January 1, 2024 to March 31, 2024	1,30,000
	5,44,000
Less: March 16, 2024 to March 31, 2024	Nil
	5,44,000

6. Applicability of Average Clause

Insurable Value = Adjusted Annual Turnover × GP Rate

= (₹ 5,44,000 × 110%) × 20%

= ₹ 1,19,680

Policy Value = ₹ 80,000 (Given)

In this case, as Policy Value < Insurable Value, there is 'under insurance' and so Average Clause is applicable.

7. (a) Describe the disclosure requirements under AS-11 for exchange differences recognised in the profit & loss account. [7]

(b) On 14.08.2023, Pushkar Ltd. obtained a loan from RBC Bank of ₹ 65 lakhs to be utilised as under:

Purchase of equipment: ₹ 19,50,000;
Construction of factory shed: ₹ 26,00,000;
Advance for purchase of delivery vehicle: ₹6,50,000;
Working capital: ₹13,00,000.

In March, 2024 installation of the machinery was completed and also construction of factory shed was completed and the machinery installed. However, the truck was not delivered within 31.03.2024. Total interest charged by the bank for the year ending 31.3.2024 was ₹11.70 lakhs. Discuss how the interest amount would be treated in the financial statements of the company as per AS 16.

[7]

Answer:

(a)

An enterprise should disclose—

- Amount of exchange difference included in the net profit or loss.

- Amount accumulated in foreign exchange translation reserve.
- Reconciliation of opening and closing balance of foreign exchange translation reserve.
- If the reporting currency is different from the currency of the country in which entity is domiciled, the reason for such difference.
- A change in classification of significant foreign operation needs following disclosures—
  - Nature of change in classification
  - The reason for the change
  - Effect of such change on shareholders fund
  - Impact of change on net profit or loss for each prior period presented
  - The disclosure is also encouraged of an enterprise's foreign currency risk management policy.

(b)

In this case, only the factory shed is a Qualifying Asset (QA) as per AS 16. The amount of interest on borrowings and its treatment is presented below:

Particulars	Nature of asset	Interest capitalised	Interest charged to Income Statement
Purchase of equipment	Not a QA		3,51,000 [11.7 × 19.5/65]
Construction of factory shed	QA	4,68,000 [11.7 × 26/65]	
Advance for purchase of delivery vehicle	Not a QA		1,17,000 [11.7 × 6.5/65]
Working capital	Not a QA		2,34,000 [11.7 × 13/65]
Total (₹)		4,68,000	7,02,000

8. Answer the following questions:

(a) Which factors are governing the selection the application of accounting policies. [5]

(b) On 31st March 2023, a club had subscription in arrears of ₹28,000 and in advance ₹4,000. During the year ended 31st March 2024, the club received subscription of ₹2,08,000 of which ₹12,500 was related to 2024-25. On 31st March, 2023, there were 5 members who had not paid subscription for 2024 @ ₹1,600 per person. Prepare the Subscription Account for the year 2023-24. [5]

(c) Examine the applicability of Section 37 of the partnership Act. [4]

Answer:

(a) The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date.

The major considerations governing the selection and application of accounting policies are:

a. Prudence

In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. Substance over Form

The accounting treatment and presentation in financial statements of transactions and events should be

governed by their substance and not merely by the legal form.

c. Materiality

Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

(b)

Dr. Subscription Account Cr.

Particulars	(₹)	Particulars	(₹)
To, Balance b/d (arrears) To, I & E A/c (income for 2023-24) [B/fig] To, Balance c/d (advance)	28,000 1,79,500 12,500	By, Balance b/d (advance) By, R & P A/c (received) By, Balance c/d (arrears- ₹1600 × 5)	4,000 2,08,000 8,000
	2,20,000		2,20,000

(c) In case of retirement, the retiring partner or in case of death, the executor of the deceased partner, if the dues are not settled, then such retired partner or the executor is entitled to the following:

Maximum of:

Interest @ 6% p.a. on the amount due to them (i.e. if the amount is unsettled, like, rate of interest on loan to be allowed to the retired partner or the executor is not mentioned)

Or

The share of profit earned for the amount due to the partner

Conditions:

(a) The surviving partners/continuing partners continue to carry on the business of the firm.

(b) The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.

(c) There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest @ 6% p.a. on the unsettled capital.

Example: Unsettled capital of C ₹52,000 (Date of retirement: 30.09.23, financial year 2023-2024). Net Profit earned by the firm after C's retirement ₹ 25,000. Capitals of A: ₹57,000 and B: ₹76,000) C is entitled to the maximum of the following:

(i) Interest on unsettled capital = ₹52,000 × 6% × 6 months = ₹1,560

(ii) Profit earned out of unsettled capital = Profit × Retired or Deceased Partner's unsettled Dues/ Total Capital of the firm (including the amount due to the retired or deceased partner) = ₹ (25,000 × 52,000)/ (₹52,000 +₹57,000 +₹76,000) = ₹7,027.