INTERMEDIATE EXAMINATION — SET 1

MODEL ANSWERS — TERM – JUNE 2023

PAPER - 6

FINANCIAL ACCOUNTING

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

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Answer Question No. 1 and any five from Question No. 2, 3, 4, 5, 6, 7 and 8.

ANSWER:

SECTION – A

1. (a)

(i)	a
(ii)	c
(iii)	d
(iv)	c
(v)	c
(vi)	c
(vii)	b
(viii)	b
(ix)	c
(x)	a
(xi)	a
(xii)	d

(b)

(i)	F
(ii)	F
(iii)	T
(iv)	F
(v)	F
(vi)	T
(vii)	T

(c)

(i)	trade
(ii)	15.07.23
(iii)	venturers
(iv)	short working
(v)	consignor
(vi)	principal and agent

SECTION - B

2. (a)

Profit & Loss A/c		Balance Sheet	
(i)	Profit was overstated by ₹ 2,000.	(i)	Capital was also overstated by ₹ 2,000 & outstanding Liability was understated by 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	(ii)	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	(iii)	Machinery was overstated by ₹ 4,000 & the Capital A/c was also overstated by ₹ 4,000.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	(v)	Capital was overstated by ₹ 1,000.
(vi)	Gross Profit & Net Profit were overstated by, ₹ 5,000.	(vi)	Capital & Sundry Debtors were overstated by ₹ 5,000.

(b)

In the books of Anil
Journal

Date	Particulars		L. F	Dr. (₹)	Cr. (₹)
April, 1	Bills Receivables A/c To, Sunil's A/c (Being acceptance by Sunil)	Dr.		80,000	 80,000
April, 15	Bank A/c Discount A/c To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)	Dr. Dr.		78,000 2,000	 80,000
June, 30	Sunil's A/c To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)	Dr.		80,100	 80,100
June, 30	Bank A/c To, Cash A/c (Being cash paid to bank)	Dr.		80,100	 80,100

July, 1	Sunil's A/c Dr. To, Interest A/c (Being interest due from Sunil)		3,000	3,000
July, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)		83,100	83,100
July, 1	Bank A/c Dr. Rebate A/c Dr. To, Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	 83,100

3.

In the books of Bajrang Traders
Trading and Profit and Loss Account
For the year ending 31st March, 2022

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		1,35,000	By Sales 46,25,000 Less: Returns 35,000 Less: Sent on Approval 40,000	 45,50,000
To Purchases Less: Returns Less: Free Samples	28,50,000 22,500 12,500	 28,15,000	By Closing Stock 1,85,000 Add: Sent on Approval 25,000	 2,10,000
To Wages		1,25,000		
To Carriage Inwards		24,000		
To Gross Profit c/d		16,61,000		
		47,60,000		**47,60,000**
			By Gross Profit b/d	16,61,000
To Carriage Outwards		33,000	By Discount Received	15,500
To Salaries Add: Outstanding	3,52,000 32,000	 3,84,000	By Interest 42,000 Add: Accrued 13,000	55,000
To Printing & Stationery Less: Closing Stock	6,500 1,500	 5,000		
To Insurance Premium	15,000			

Less: Prepaid	3,750	11,250		
To Repairs		11,000		
To Discount Allowed		30,500		
To Prov. for Discount on Debtors		12,255		
To Bad Debts Add: Further B.D Add: New Provision Less: Old Provision	28,000 5,000 32,250 (35,000)	30,250		
To Advertisement		38,000		
To Establishment Exp.		35,000		
To Free Samples		12,500		
To Depreciation on - Building -Office Equipment - Furniture & Fixtures	 1,50,000 36,750 35,000	2,21,750		
To Net Profit		9,06,995		
		17,31,500		17,31,500

Balance Sheet as on 31st March, 2022

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital on 1.4.18: Add: Net Profit Less: Drawings	31,05,000 9,06,995 (2,10,000)	Building Less: Dep.	15,00,000 1,50,000	 13,50,000
Capital on 31.3.19	38,01,995			
Sundry Creditors	4,55,000	Furniture & Fixtures Less: Dep.	3,50,000 35,000	 3,15,000
Outstanding Salaries	32,000	Office Equipment Less: Dep.	2,45,000 36,750	 2,08,250
		Investment		8,00,000
		Stock: Goods (1,85,000+25,000) Stationery	2,10,000 1,500	 2,11,500
		Sundry Debtors (Trial Balance) Less: Goods on Approval	6,90,000 40,000	
		Sundry Debtors Less: Further B. D.	6,50,000 5,000	

		Net Sundry Debtors Less: Prov. for B.D.@ 5%	6,45,000 32,250	
		 Less: Prov. for Disc.@ 2%.	6,12,750 12,255	6,00,495
		Accrued Interest		13,000
		Prepaid Insurance Prem.		3,750
		Cash at Bank		7,24,000
		Cash in Hand		63,000
	42,88,995			**42,88,995**

Working Notes:

(i) Prepaid Insurance Premium from 1.4.22 to 30.6.22 = ₹ 15,000 x 3/12 = ₹ 3,750.

(ii) Outstanding Interest on Investment:
Total Interest (1.5.21 to 31.3.22) = ₹ 8,00,000 x 7.50% x 11/12 = ₹ 55,000
Outstanding = ₹ 55,000 – ₹ 42,000 = ₹13,000.

4. (a)

In the books of ………………

Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
1.08.21	Land& Building A/c Dr. To Revaluation A/c (For increase in the value of land and building)		40	 40
1.08.21	Revaluation A/c Dr. To Plant & Machinery A/c (For decrease in the value of Plant & Machinery)		15	 15
1.08.21	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For profit on revaluation)		25	 12.5 8.333 4.167
1.08.21	General Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For transfer of reserve)		165	 82.5 55 27.5

1.08.21	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (For the adjustment of goodwill)		108 36	 144
1.08.21	Profit & Loss Suspense A/c Dr. To B's Capital A/c (For the adjustment of profit from 1.4.18 to 1.8.18)		18.333	 18.333
1.08.21	B's Loan A/c Dr. To B's Capital A/c (Balance transferred)		20	 20
1.0821	Interest on B's Loan A/c Dr. To B's Capital A/c (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c)		0.40	 0.40
1.08.21	B's Capital A/c Dr. To B's Executor's A/c (Being balance of B's Capital A/c transferred to his Executor's A/c = ₹110 +8.333+55+144+18.333+ 20 + 0.40)		356.066	 356.066
1.08.21	B's Executor's A/c Dr. To Bank A/c (Amount paid)		50	 50
1.12.21	Interest A/c Dr. To B's Executor's A/c (For interest due)		10.202	 10.202
1.12.21	B's Executor's A/c Dr. To Bank A/c (Amount due to B's Executor including interest, paid)		316.268	 316.268

Ledger

B's Executor's Account

(₹ in lakh)

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.08.21 1.12.21	To Bank A/c To Bank A/c	50 316.268	1.08.21 1.12.21	By Capital A/c By Interest A/c	356.066 10.202
		366.268			366.268

Working Notes:

(1) Calculation of B's share in Goodwill:
Average of past four years profits = (₹135 Lakh + ₹145 Lakh + ₹131 Lakh + ₹165 Lakh)/4 = ₹ 144 Lakh
Value of Firm's Goodwill = ₹144 Lakh × 3 = ₹432 Lakh
B's Share in Goodwill = ₹432 Lakh × 2/6 = ₹ 144 Lakh, which will be credited to B's Capital A/c and Debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

(2) B's Share in profit from 01.04.21 to 1.8.21 = (₹165 × 4/12) × 2/6 = ₹18.333 Lakh

(3) Interest on B's Loan from 01.04.21 to 1.8.21 = ₹20 Lakh × 6% × 4/12 = ₹40000

(4) Interest to B's Executor from 1.08.21 to 1.12.21 = ₹356.066 Lakh – ₹50 Lakh = ₹306.066 × 10% × 4/12 = ₹10.202 Lakh.

(b) Limited Liability Partnership is a specific form of business organization consisting of partners whose liability is limited to the capital contribution made by them. Unlike a partnership, the partners of a limited liability partnership have limited liability (similar to that in the company) which implies that personal assets of the partners will not be not used for paying off the debts of the organization.

In India, all limited liability partnerships are governed by the Limited Liability Partnership Act, 2008 which came into effect from April 1, 2009.

Some of the important features of a limited liability partnership registered in India are:

(i) A limited liability partnership is a body corporate.

(ii) It is formed and incorporated under the Limited Liability Partnership Act, 2008.

(iii) Any individual or body corporate may be a partner in a limited liability partnership.

(iv) Every limited liability partnership shall have at least two partners.

(v) Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

(vi) Every limited liability partnership shall have either the words “limited liability partnership” or the acronym “LLP” as the last words of its name.

5. (a)

In the books of H.O
Branch Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
By Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500		— Bank A/c:		
Debtors	5,000		— Cash Sales	12,000	
Petty Cash	1,000	18,500	— Cash Received from Debtors	30,000	42,000
Goods sent to branch A/c		40,000	— Goods sent to branch (Return to H.O.)		5,000
Bank A/c			— Goods sent to branch (Loading)		8,000
Rates & taxes	3,000		By Balance c/d		
Salaries	8,000		Stock	15,000	
Misc. Expenses	1,000	12,000	Debtors	4,000	
Goods sent to Branch (Loading on returns)		1,000	Petty Cash	1,000	20,000
Closing Stock Reserve (₹15,000 × 1/5)		3,000			
General P & L A/c		3,000			
		77,500			77,500

Note: Here, loading is 25/125 = 1/5 of invoice price. Hence, loading on opening stock will be ₹12,500 x 1/5 = ₹2,500 and so on.

(b) The difference between bad debt and doubtful debt is discussed below:

Bad Debts: Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect is called Bad Debts. It is a confirmed loss and hence, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching.

Doubtful Debts: The debts which whether will be receivable or not, cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realize) is known as doubtful debts. Practically, it cannot be treated as a loss on that particular date, as such, it cannot be written off and a provision must be made on the basis of estimation.

There are two methods of adjusting for provision for doubtful debt as follows:

In the first year:

For creating provision for Doubtful Debts

Profit and Loss A/c Dr.

To, Provision for Doubtful Debts A/c

In the second year:

(i) If closing provision is more than the opening provision-

Profit and Loss A/c Dr.

To, Provision for Doubtful debts A/c

(ii) If Closing Balance is less than opening provision –

Provision for Doubtful Debts A/c Dr.

To, Profit and Loss A/c

6. (a) **Garner vs. Murray Rule**

Justice Joyee held in the case of Garner vs. Murray that the loss arising due to the insolvency of a partner must be distinguished from an ordinary loss (including realization loss). Unless otherwise agreed, the decision in Garner vs. Murray requires –

(i) That the solvent partners should bring in cash equal to their respective shares of the loss on realization;

(ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

In case of fixed capital system, capitals as per last Balance Sheet represent last agreed capitals. In case of fluctuating capital system, however, all necessary adjustments in respect of reserved, unappropriated profits or losses (but not realization profit or loss), Drawings A/c., undisclosed liabilities and assets etc. must be made to get last agreed capitals. A partner who has nil or negative balance in his capital account before dissolution does not contribute anything to the loss arising as a result of insolvency of a partner.

(b) **Working Notes:**

1. Hire Purchase Price = Down Payment + Installments
   = ₹3,00,000+(₹4,20,000+ ₹ 3,9,0,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
2. Total Interest = H.P. Price - Cash Price = 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000

3. Calculation of ratio of hire purchase price outstanding in the beginning of each year

A Year	B Outstanding Hire Purchase Price in the beginning of each year	C Installment Paid	D = B-C Outstanding Hire Purchase Price at the end of each year
I	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

Calculation of Interest for each year:

Interest for 1st year	₹ 3,00,000 x 150/360 =	₹ 1,25,000
Interest for 2nd year	₹ 3,00,000 x 108/360 =	₹ 90,000
Interest for 3rd year	₹ 3,00,000 x 69/360 =	₹ 57,500
Interest for 4th year	₹ 3,00,000 x 33/360 =	₹ 27,500
		₹ 3,00,000

In the books of Sunny

Machinery Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Year 1	To Hire Vendor A/c	15,00,000	Year 1	By Depreciation A/c By balance c/d	1,50,000 13,50,000
		15,00,000			15,00,000
Year 2	To Hire Vendor A/c	13,50,000	Year 2	By Depreciation A/c By balance c/d	1,50,000 12,00,000
		13,50,000			13,50,000
Year 3	To Hire Vendor A/c	12,00,000	Year 3	By Depreciation A/c By balance c/d	1,50,000 10,50,000
		12,00,000			12,00,000
Year 4	To Hire Vendor A/c	10,50,000	Year 4	By Depreciation A/c By balance c/d	1,50,000 9,00,000
		10,50,000			10,50,000

Hire Vendor Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Year 1	To Bank A/c To Bank A/c To balance c/d	3,00,000 4,20,000 9,05,000	Year 1	By Machinery A/c By Interest A/c	15,00,000 1,25,000
		16,25,000			16,25,000
Year 2	To Bank A/c To balance c/d	3,90,000 6,05,000	Year 2	By balance b/d By Interest A/c	9,05,000 90,000
		9,95,000			9,95,000
Year 3	To Bank A/c To balance c/d	3,60,000 3,02,500	Year 3	By balance b/d By Interest A/c	6,05,000 57,500
		6,62,500			6,62,500
Year 3	To Bank A/c	3,30,000	Year 3	By balance b/d By Interest A/c	3,02,500 27,500
		3,30,000			3,30,000

7. **(a)** Exchange gain on the reporting date (31.03.2022) = ₹6,90,000

Exchange loss on the settlement date (30.06.2022) = ₹1,80,000

The exchange gain and loss are to be transferred to the Statement of Profit and Loss.

Workings:

As per AS 11, transactions such as purchase, sales etc. are to be recorded in the books of accounts at the exchange rate prevailing on the date of transaction. Any exchange gain/ loss arising subsequently is to be transferred to Income Statement.

Value of the goods sold = $ 1,00,000

Exchange rate on the date of transaction = ₹ 79.20/$

So, sales to be recorded in the books = 1,00,000*79.20 = ₹ 79,20,000

Exchange rate on the date of reporting (31.03.2022) = ₹ 86.10/$

Value of the receivables on 31.03.2022 = 1,00,000*86.10 = ₹ 86,10,000

Exchange gain on 31.03.2022 = (86,10,000 – 79,20,000) = ₹ 6,90,000.

Exchange rate on the date of settlement (30.06.2022) = ₹ 84.30/$

Exchange loss on 30.06.2022 = 1,00,000*(86.10 – 84.30) = ₹ 1,80,000

(b)

Receipt and Payments Account
For the year ended 31.03.2021

Dr. **Cr.**

Particulars	₹	Particulars	₹	₹
To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)		15,000
To Donation A/c	5,000	By Salary	19,500	
To Entrance Fees A/c	4,000	Add: Outstanding of last year	1,200	
To Furniture A/c (Sale of furniture) (7,000 -2,500)	4,500	Less: Outstanding of this year	(350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased)(W.N. 2)		5,000
		By Furniture(Purchased)(W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2020-2021.

Particulars	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2020-21	3,700	
Advance in 2019-20	1,000	(4,700)
		63,300

Add: Arrears of 2019-20	2,600	
Advance for 2021-22	1,500	4,100
		67,400
Less: Written off during 2020-21		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2020-21.

Sports Equipment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Income & Expenditure A/c (Depreciation)	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	By Balance c/d	24,000
	30,000		**30,000**

3. Calculation of Furniture purchased during 2020-2021

Furniture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchases) (bal. fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c	3,100
		(Depreciation)	
		By Balance c/d	27,900
	38,000		38,000

8. (a) (i) Total borrowing cost – (4,00,000+4,00,000) × 13/100 = ₹ 1,04,000

	₹
Expenditure incurred including previously capitalized borrowing cost (10,00,000 + 52,000)	10,52,000
Cash payment during 2021-22	1,50,000
Asset transferred during 2021-22	2,00,000
	14,02,000
Less: Progress payment received	7,00,000
	7,02,000

Money borrowed including previously capitalized interest cost
= (4,00,000+4,00,000+52,000) = 8,52,000
Borrowing cost to be capitalized = 7,02,000/8,52,000 *1,04,000 = ₹ 85,690

8. (a) (ii) As per AS 10, The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Accordingly, the company should charge ₹200 as depreciation for the year ended 31.03.2022 without any further adjustment. The change will have a prospective effect only.

(b) (i) There are two broad approaches which can be adopted for the accounting treatment of Government grants. They are:

1. Capital approach; and
2. Income approach.

It is generally considered appropriate that accounting for Government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters' contribution should be treated under Capital approach, whereas Income approach is considered more appropriate in the case of other grants.

Capital approach: Under this approach, a grant is treated as part of shareholders' funds. This is credited directly to shareholders' funds.

Income approach: Under this approach, a grant is considered to be an item of income over one or more periods. It should therefore be taken to income and matched with the associated costs which the grant is intended to compensate.

(b) (ii) As per para 11.3 of AS 12 on *Accounting for Government Grants*, the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset. Depreciation on the revised book value is provided prospectively over the residual useful life of the asset.

In the given case, book value of machinery will be increased by ₹ 2 crores in the year 2022-2023. The computations for the depreciation on machinery can be given as:

Cost of machinery	₹ 20 crores
Less: Grant received	₹ 2 crores
Cost of machinery	₹ 18 crores
Useful life of machinery 9 years	
Depreciation per year as per straight line method	₹ 18 crores/9
(Assuming, residual value to be zero) =	₹ 2 crores
Total depreciation for 4 years (2018-19 to 2021-2022)	₹ 8 crores
Book value (in year 2022-2023)	₹ 10 crores
Add: Grant refunded	₹ 2 crores
Revised book value	₹ 12 crores
Remaining useful life 5 years	
Revised annual depreciation	₹ 12 crores/5 = 2.4 crores

Thus, book value of machinery will be ₹ 12 crores in the year 2022-2023 and the depreciation amounting ₹ 2.4 crores will be charged on machinery. Annual depreciation of ₹ 2.4 crores will be charged in the next four years.