

**PAPER-5 : FINANCIAL ACCOUNTING**

**SUGGESTED ANSWERS**

**SECTION – A**

**1. (a)**

- (i) (C)
- (ii) (B)
- (iii) (C)
- (iv) (B)
- (v) (B)
- (vi) (D)
- (vii) (A)
- (viii) (C)
- (ix) (D)
- (x) (B)

**1. (b)**

- (1) D
- (2) E
- (3) A
- (4) C
- (5) B

**1. (c)**

- (i) False
- (ii) True
- (iii) False
- (iv) True
- (v) False

**1. (d)**

- (i) Ledger Account
- (ii) Amortisation
- (iii) Contractor's
- (iv) 13:8:7:4
- (v) Profit & Loss A / c : Trading A/c or Purchases A/C.

**SECTION – B****2. (a)**

<b>Date</b>	<b>Particulars</b>	<b>L.F</b>	<b>Dr (₹)</b>	<b>Cr (₹)</b>
i	Preeti To Jyoti To Suspense A/C		2800	2,000 800
ii	Salaries A/C To purchases A/C		10,000	10,000
iii	Machinery A/C To Wages A/C		7,000	7,000
iv	Depreciation A/C To Suspense A/C		1,000	1,000
v	Drawing A/C To Purchases A/C		1,000	1,000
vi	Purchases A/C To Suspense A/C		4,500	4,500
vii	Suspense A/C To Purchases A/C		1,800	1,800
viii	Suspense A/C To Preeti		2,000	2,000
ix	Bad Debts A/C To Suspense A/C		1,000	1,000

**2. (b)**

The decision of Hariharan to maintain accounts on the Double Entry System of Accounting following the Accrual Concept is correct because when accounts are maintained on an accrual-based double entry system of accounting, correct income, expenditure, liabilities and assets are shown in the financial statements. It is important to know the correct income, expenditure, liabilities and assets as it enables the businessman to plan his finances. Had he followed Cash Basis of Accounting the business would not have shown correct financial performance and financial position as credit transactions would not have been recorded.

3.

**Anil's Journal**

Date	Particulars	LF	Dr (₹)	Cr (₹)
Jan 1	Bills Receivable A/C Dr To Bindu		10,000	10,000
Jan 4	Bank A/C Dr Discount A/C Dr To Bills Receivable A/C		9800 200	10,000
April 4	Bindu Dr To Bank A/C		10020	10020
April 5	Bank A/C Dr To Bindu		5,000	5,000
April 5	Bindu Dr To Interest A/C		300	300
April 5	Bills Receivable A/C Dr To Bindu		5320	5320
April 5	Bank A/C Dr To Bills Receivable A/C		5320	5320

**Bindu's Journal**

Date	Particulars	LF	Dr (₹)	Cr (₹)
Jan 1	Anil's Dr To Bills Payable A/C		10,000	10,000
April 4	Bills Payable A/C Dr Noting charges A/C Dr To Anil's		10,000 20	10020
April 5	Anil To Bank A/C		5000	5000
April 5	Interest A/C Dr To Anil		300	300
April 5	Anil Dr To Bills Payable A/C		5320	5320
April 5	Bills Payable A/C Dr To Bank A/C		5320	5320

4. (a)

**Balance Sheet as at 31.3.2023**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Capital Fund	80,000	Fixed Assets	67,200
General Fund	30,000	Investments	46,000
Building Fund	32,000	Receivables	10,000
Prize Fund	10,200	Cash and Bank balances	30,800
Current Liabilities	1,800		
	154,000		154,000

4. (b)

**No, his decision is not correct because of the following reasons:**

- (i) It ignores the concept of division of work and specialisation;
- (ii) Maintaining a Journal book alone will make the book unwieldy and difficult to handle;
- (iii) Posting will become a complicated and time-consuming process;
- (iv) Difficult to prepare the Trial Balance and locate the errors, if any;
- (v) It leads to possibilities of manipulations and frauds as tracking of Cash and Bank will become difficult.

5. (a)

(i)

**Machinery Account**

<b>Dr.</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To Cash A/C		By Cash A/C (Scrap sale)	750
- cost of machine	20,000	By Depreciation Fund A/C	15,400
- installation	1,000	By Profit and Loss A/C	4,350
To cash A/C		By Balance c/d	
- cost of new machine	23,000	for old machine	500
		for new machine	<u>23,000</u>
			23,500
	44,000		44,000

(ii)

**Depreciation Fund Account**

<b>Dr.</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To Cash A/C	200	By Balance b/d	16,500
To Depreciation Fund Investment A/C	900		
To Machinery A/C	15,400		
	16,500		16,500

(iii)

**Depreciation Fund Investment Account**

Particulars	₹	Particulars	₹
To Balance b/d	16,500	By Cash A/C - sale of securities - depreciation fund A/C	15,600 900
	16,500		16,500

**5. (b)**

The decision of the Chief Accountant is not correct. Chart of accounts is an important document under a computerised environment. It is the document which shows the decision as to how the financial statements shall be prepared, i.e., which accounts shall form part of the Profit and Loss Account and which shall be part of the Balance Sheet. Besides, it shows under which group various accounts are clubbed. At the time of recording a transaction, on the basis of account codes given in the chart of accounts, the transaction is posted to the defined account, grouped under the defined group and shown in the Profit and Loss Account or Balance Sheet. The decision of the

Chief Accountant means that each and every entry will have to be scrutinised which, in turn, means additional work will have to be performed which can be avoided by preparing the chart of accounts. The computer system itself prepares acceptable financial statements if the chart of accounts is well defined.

Therefore, the Chief Accountant should prepare a chart of accounts before switching to computerised accounting.

**6. (a)**

- (i) Loss of stock = ₹ 165,440  
(ii) Amount of Claim by applying Average clause = ₹ 128,000

**6. (b)**

Value of closing stock = ₹ 76 lakhs.

**7.**

- (a) Profit share of A is  $\frac{1}{3}$  rd which has increased to  $\frac{4}{9}$ th. Since his profit share has increased, the remuneration to A may have been withdrawn.

- (b) Adjusted Profits:

	₹
31.03.2021	220,000
31.03.2022	110,000
31.03.2023	408,000

- (c) Value of goodwill = ₹ 3,69,000

- (d)

		Dr.	Cr.
April 1, 2023	A's Capital Account Dr.	41,000	
	To C's Capital Account		41,000

**8. (a)**

<b>Revenue Receipt</b>	<b>Capital Receipt</b>
It has a short-term effect. The benefit is enjoyed within one accounting year	It has a long-term effect. The benefit is many years in the future.
It occurs repeatedly. It is recurring and regular.	It does not occur again and again. It is non-recurring and irregular.
It is shown in the profit and loss account on the credit side, as an income for the year.	It is shown in the Balance Sheet on the liability side.
It does not produce capital receipt.	Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt
This does not increase or decrease the value of asset or liability	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc.
Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.

**8. (b)****Provision for Discount on Debtors:**

We know that Cash discount is allowed by the suppliers to customers for prompt settlement of cash. Naturally a provision is created for this purpose. Thus the provision which is created on Sundry debtors for allowing Discount on receipt of Cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that if the customer pays their debts before the due dates, they may claim discounts and that is why discount is allowed to debtors for prompt settlement is an usual way. Where goods are sold on credit, debtors' accounts are debited but the amount may not be realised in the same accounting periods. Naturally, a possible aim is to allow the discount whether cash is received. The same will happen in the next accounting period. Due to this reason a provision for discount on debtors is made on the basis of past experience at an estimate rate on Sundry Debtors. Care should be taken while calculating discount. Discount should be calculated at a specified rate on of debtors (ie, after discounting bad debts and provision for bad debts)

**8. (c)****Difference between single entry system and double entry system:**

The distinctions between double entry system and single entry system are as follows:

- (i) In the double entry system both the aspects (debit and credit) of all the transactions are recorded. But in the single entry system, there is no record of some transactions; some transactions are recorded only in one of their aspects whereas some other transactions are recorded in both of their aspects.
- (ii) Under double entry system, various subsidiary books such as sales book, purchases books etc. are maintained. Under the single entry system, no such subsidiary books except cash books which are also considered as a part of the ledger are maintained.
- (iii) In the case of the double entry system, there is a ledger which contains personal, real and nominal accounts. But in the single entry system, the ledger contains some personal accounts only.

- (iv) Under double entry system, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.
- (v) Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner. But under the single entry system, it is not possible - only a rough estimate of profit or loss is made and a Statement of Affairs is prepared which resembles a balance sheet in appearance but which does not present an accurate picture of the financial position of the business.

**8. (d)**

**Applicability of Section 37 of the Indian Partnership Act 1932:**

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% pa on the amount due to them (ie, 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.
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