PAPER-6 : FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

SECTION – A

1.

(i) (B)
(ii) (D)
(iii) (C)
(iv) (B)
(v) (C)
(vi) (C)
(vii) (D)
(viii) (D)
(ix) (B)
(x) (A)
(xi) (B)
(xii) (B)
(xiii) (C)
(xiv) (D)
(xv) (B)

SECTION – B

2. (a)

(I) **In the books of Sachin Chatterjee**
Cash Book (Bank Column)

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
30.9.23	To Dividend A/c To Bank Interest A/c To Error A/c To Balance c/d	150 170 80 110	30.9.23	By Balance b/d By Bank charges By Over casting error By Party A/c	400 50 20 40
		510			510

(II) **Bank Reconciliation Statement as on 30.9.23**

Particulars	₹	₹
Overdraft balance as per Amended Cash Book		110
Less: Cheque issued but not presented	500	
Less: Cancelled cheque issued	50	550
Balance as per Pass Book		440

2. (b)

Trial Balance as at 31.3.23

Particulars	**Dr. ₹**	**Cr. ₹**
Purchases	43500	
Carriage inward	1000	
Wages	7000	
Salaries	12000	
Rent Rates and taxes	1800	
Insurance	1200	
Interest Paid	1000	
Sales		94500
Cash and Bank	21500	
Bills Payable		5800
Sundry creditors		35000
Plant and machinery	9000	
Buildings	4750	
Furniture	2700	
Bills receivable	10000	
Sundry Debtors	39000	
Capital		66000
Sundry expenses	3000	
Opening stock	21000	
Outstanding salaries		2000
Outstanding wages		1000
Drawings	3500	
Prepaid Insurance	300	
Bad-Debts	2450	
Provision for bad debts		1950
Depreciation	1550	
Closing stock	20000	
Total	206250	206250

3. (a)

In the books of H
Journal

Date	**Particulars**		**Dr. ₹**	**Cr. ₹**
1.7.2023	G's A/c	Dr.	80000	
	To Bills payable A/c			80000
1.9.2023	J's A/c	Dr.	90000	
	To sales A/c (Sales made to J)			90000
	Bills receivable A/c	Dr.	80000	
	Bank A/c	Dr.	9000	
	Discount A/c	Dr.	1000	
	To J's A/c			90000
	Bills payable A/c	Dr.	80000	
	To Bills receivable A/c			80000
10.1.2023	Purchased A/c	Dr.	100000	
	To G's A/c			100000
	G's A/c	Dr.	20000	
	To bank A/c			20000

3. (b)

(I) The annual lease payment = ₹ 577074

(II) The Unearned Finance Income = ₹ 558296

4.

Trading and Profit and Loss Account For The Year ended 31st March 2023

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	49,000	By Sales	3,49,000
To Purchase	2,41,000	By Closing Stock	66,000
To Gross Profit c/d	1,25,000		
	4,15,000		4,15,000
To Salaries	60,000	By Gross Profit b/d	1,25,000
To Rent	7,500	By Discount received	3,500
To Office Expenses	9,000		
To Discount allowed	1,500		
To Bad Debts	1,000		
To Net Profit	49,500		
	1,28,500		1,28,500

Balance Sheet As at 31st March 2023

Liabilities	₹	**Assets**	₹
Capital	183,500	Cash	10,000
Creditors	25,000	Debtors	1,25,000
		Stock	66,000
		Furniture	7,500
	208,500		208,500

5. (a)

(I) Net Asset as on 30th June, 2023 = ₹ 9,70,000

(II) Net Profit earned during the period from 1/1/2023 to 30/6/2023 = ₹ 13,60,000

(III)

Realisation Account

Dr. Cr.

To Plant and Machinery	1,71,000	By Bank Loan	20,000
To Leasehold Building	76,000	By Sundry Creditors	55,000
To Furniture	19,000	By Bills Payables	7,500
To Stock	7,09, 000	By …..Ltd. Company	4,00,000
To Sundry debtors	75,000	By Loss on Realisation	
To Cash at Bank	2,500	A"s Capital 2,85,000	
		B"s Capital 2,85,000	5,70,000
	10,52,500		10,52,500

(IV) **Partner's Capital Account**

Dr. Cr.

	A(₹)	B(₹)		A(₹)	B(₹)
To Loss on Realisation	2,85,000	2,85,000	By Balance C/d	1,38,000	1,52,000
To Drawings	3,40,000	3,40,000	By Add/Less	(+) 7,000	(-) 7,000
To Equity Shares in Ltd.Co.	2,00,000	2,00,000	Cash brought in by B to Pay to A to settle the difference		
			By Net Profit for the Period	6,80,000	6,80,000
	8,25,000	8,25,000		8,25,000	8,25,000

6. (a)

Profit made at H.O. = ₹ 21,44,000

Profit made at Branch = ₹ 1,40,000

6. (b)

Amount of the claim of loss by fire = ₹ 90,008.60 or 90,009

7. (a)

Paragraph 7 of AS 10 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

measure for recognition, i.e., what constitutes an item of property, plant and Further, paragraph 9 provides that the standard does not prescribe the unit of equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 17, inter alia, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 45 and 47 of AS 10, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

7. (b)

ABC Ltd. should recognise the grants in the following manner:

- As per para 6.4 of AS 12, in certain circumstances, a government grant is awarded for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditure. Such grants may be confined to an individual enterprise and may not be available to a whole class of enterprises. These circumstances may warrant taking the grant

  To income in the period in which the enterprise qualifies to receive it, as an Prior Period Items and Changes in Accounting Policies). Therefore, 20 lakhs has been received for immediate start-up of business. This should be recognised in the statement of Profit and Loss immediately as there are no conditions attached to the grant.

- As per para 9.1, grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, they are deducted in reporting the related expense. 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.

- As per para 7.1, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.

- The standard provides the option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per para 8.3 and 8.4 of the standard. Under the first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at Rs.10 lakhs - Rs.2 lakhs = 8 lakhs and depreciation will be charged on it as follows:
  Rs. 8 lakhs/5 years = 1.60 lakhs per year.

Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation depreciation on related assets is charged. Income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Rs.2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this cases, 40,000 [2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

8. (a)

(i) Interest = ₹ 3000

It is treated as a charge against profits and is debited to a profit and loss account

(ii) Net profit = ₹ 137700

(iii) Divisible profit = ₹ 97700

(iv) Each partner's share of profit = ₹ 48850

8. (b)

(i) According to the Convention of Full Disclosure, all significant information relating to the economic affairs of the entity should be reported in the financial statements in an understandable manner.

(ii) According to the Convention of Consistency, accounting practices once selected and adopted should be consistently applied year after year.

(iii) According to the Convention of Materiality, a transaction should be reported in the financial statements on the basis of its materiality. An item is material if it can influence the decision of the user.

(iv) According to the Convention of Conservatism, anticipated losses should be accounted for while anticipated incomes should not be accounted.

8. (c)

Factors governing the selection and application of accounting policies are:

Prudence: Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of receivables, number of warranty claims that may occur. Prudence means making of estimates, which is required under conditions of uncertainty.

Substance over form: it means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form. Like in hire purchaser if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the purchase the purchaser, becomes the owner only on the payment of last instalment. Therefore the legal form the transaction is ignored and the transaction is accounted as per as substance.

Materiality: Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

(a) As to the disclosure of all material items, individually or in aggregate in the context of fair presentation of financial statements as a whole if its omission or misstatement could influence the economic or financial decision of the user relying upon the financial statements.

(b) Depends on the size of the items or errors judged in the particular circumstances of its omissions or misstatements.

(c) Is a cut-off point rather than being a primary qualitative characteristic which information must have.

(d) This is a matter of judgment, varies from one entity to another and over one period to another.