

**PAPER - 6: FINANCIAL ACCOUNTING**

**SUGGESTED ANSWERS**

**SECTION - A**

1.

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

**SECTION - B**

2. (a)

**Bank Reconciliation Statement  
as on 31st March 2024**

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book (Debit)		1,82,500
Add:-		
(i) Cheques issued on 28th March but not yet presented for payment	8,000	
(ii) A cheque wrongly credited by bank	<u>20,000</u>	28,000
		2,10,500
Less :-		
(i) Cheques deposited on 25th March but not yet collected till 31st March	25,000	
(ii) A cheque entered in Cash Book but not yet banked	4,000	
(iii) Discounted Bills Receivable dishonoured but not recorded in Cash Book	18,000	
(iv) Amount wrongly debited by bank	<u>15,000</u>	62,000
Balance as per Pass Book (Credit)		<u>1,48,500</u>

2. (b)

- (i) Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- (ii) Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.
- (iii) Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
- (iv) Revenue Expenditure.
- (v) Revenue Expenditure. [As per As-26]
- (vi) Both are Capital Expenditure
- (vii) Capital loss. Live stock is a fixed asset.

3. (a)

**Books of Indra  
Journal Entries**

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.4.2024	Bills Receivables A/c To Chandra A/c	Dr.	90,000	90,000
4.4.2024	Bank A/c Discount on Bills A/c To Bills Receivables A/c	Dr. Dr.	88,650 1,350	90,000
4.4.2024	Chandra A/c To Bank A/c To Discount on Bill A/c	Dr.	30,000	29,550 450
4.7.2024	Interest A/c To Chandra A/c	Dr.	900	900
4.7.2024	Chandra A/c. To Bills Payable A/c	Dr.	60,900	60,900
7.9.2024	Bills Payable A/c To Chandra A/c	Dr.	60,900	60,900
7.9.2024	Chandra A/c To Bank A/c To Deficiency A/c	Dr.	60,900	15,225 45,675

Note: Entries to be supported by Narration.

3. (b)

**Interest included in each Instalment**

Instalment	Interest (₹)
First	1,50,000
Second	1,00,000
Third	50,000
Total	3,00,000

**In the Books of Aarvi Ltd  
Machinery Account**

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.21	To Hire Vendor	12,00,000	31.3.22	By Depreciation A/c By Balance c/d	1,80,000 10,20,000
		12,00,000			12,00,000
1.4.22	To Balance b/d	10,20,000	31.3.23	By Depreciation A/c By Balance c/d	1,53,000 8,67,000
		10,20,000			10,20,000
1.4.23	To Balance b/d	8,67,000	31.3.24	By Depreciation A/c By Balance c/d	1,30,050 7,36,950
		8,67,000			8,67,000

4.

**In the Books of Rahul**  
**Trading Account and Profit and Loss Account for the year ended 31.3.2024**

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	325,000
To Purchases	272,500	By Closing Stock	62,500
To Gross Profit c/d	65,000		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross Profit b/d	65,000
To Depreciation on Fixed Asset	1,000		
To Loss on Fixed Asset	750		
To Net Profit c/d	14,000		
	<u>65,000</u>		<u>65,000</u>

**Balance Sheet of Rahul as on 31.03.2024**

Particulars		Amount (₹)	Particulars		Amount (₹)
Capital Account :			Fixed Assets		9,000
Opening Balance	169,000		Stock		62,500
Add: Capital introduced	5,000		Debtors		87,500
Add: Net Profit	<u>14,000</u>		Bank		50,000
	188,000				
Less: Drawing	<u>25,000</u>	163,000			
Creditors		46,000			
		<u>209,000</u>			<u>209,000</u>

5.

(a)

**Books of Raylink Ltd.**

Date	Journal Entries.		Dr.	Cr.
	Particulars		Amount (₹)	Amount (₹)
2024 Mar. 31	Leasehold Premises A/c	Dr.	1,55,000	
	Plant & Machinery A/c	Dr.	62,500	
	Furniture & Fixtures A/c	Dr.	12,500	
	Stock-in-Trade A/c	Dr.	1,45,000	
	Debtors A/c	Dr.	1,25,000	
	To Business Purchase A/c			5,00,000
	Business Purchase A/c	Dr.	1,00,000	
	To Creditors A/c			1,00,000
	Business Purchase A/c	Dr.	4,00,000	
	Goodwill A/c	Dr.	50,000	
To M/s A. Ray & S. Ray A/c			4,50,000	
M/s A. Ray & S. Ray A/c	Dr.	4,50,000		
To Bank A/c			1,12,500	
To Equity Share Capital A/c			2,70,000	
To Securities Premium A/c			67,500	

Note: Entries to be supported by Narration.

(b)

**Raylink Ltd.**  
**Balance Sheet as at March 31, 2024**

Particulars	Note No.	Amount (₹)
<b>I. EQUITY &amp; LIABILITIES</b>		
1. Shareholders' Funds:		
(a) Share Capital: 27,000 Equity Shares of ₹10 each		2,70,000
(b) Reserves and Surplus: Securities Premium		67,500
2. Non-current liabilities		Nil
3. Current liabilities:		
(a) Short-term borrowings: Bank Overdraft		1,12,500
(b) Trade payables: Creditors		1,00,000
Total		5,50,000
<b>II. ASSETS</b>		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible assets	1	2,30,000
(ii) Intangible asset: Goodwill		50,000
2. Current Assets		
(a) Inventories: Stock-in-Trade		1,45,000
(b) Trade receivables: Debtors		1,25,000
Total		5,50,000

**Notes to Accounts:**

Date	Particulars	Amount (₹)
1	Tangible assets: Leasehold Premises	1,55,000
	Plant & Machinery	62,500
	Furniture & Fixtures	12,500
		2,30,000

6. (a)

**Books of Adhiraj Ltd. (Noida H.O.)**  
**Surat Branch A/c**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Sent to Branch A/c	60,000	By Goods Sent to Branch A/c	10,000
To Bank A/c	3,000	- Loading	
To Goods-in-Transit A/c	1,000	By Goods-in-Transit A/c	6,000
- Loading			
To Stock Reserve	1,000	By Bank A/c	43,000
		- [Remittance from Branch]	
To General Profit & Loss A/c [Branch NP transferred]	22,800	By Balance c/f:	
		- Branch Debtors	20,800
		- Branch Cash	2,000
		- Branch Stock	6,000
	87,800		87,800

6. (b)

**Trading Account for the year ending 31<sup>st</sup> March, 2024**

	Amount (₹)		Amount (₹)
To Opening Stock	1,60,000	By Sales less Returns	8,00,000
To Purchases less Returns	5,60,000	By Closing Stock	1,00,000
To Gross Profit	1,80,000		
	9,00,000		9,00,000

Rate of Gross Profit =  $(180,000/800,000) \times 100 = 22.5\%$

**Memorandum Trading Account  
for the period from 1<sup>st</sup> April, 2024 to 10<sup>th</sup> December, 2024**

	Amount (₹)		Amount (₹)
To Opening Stock	1,00,000	By Sales less Returns	6,40,000
To Purchases less Returns	5,84,000	By Closing Stock	1,88,000
To Gross Profit	1,44,000	(Balancing figure)	
	8,28,000		8,28,000

Loss on Stock destroyed by fire =  $(188,000 - 28,800) = ₹ 1,59,200$

Amount of Claim: = ₹ 84,681.

7. (a)

(i) **Integral foreign operation:** A foreign operation which is carried as if it were extensions of the reporting enterprise's activities like dependent branch, sales depot, foreign arm which produces raw materials and transfers it to head office (reporting enterprise) or foreign operation raises finance to help the reporting enterprise. (AS11)

**Translation of items of financial statements of integral foreign operation:**

- (i) Salaries & Wages: They should be translated using the actual rate prevailing on the date of transaction; however, average rate may also be applied.
- (ii) Depreciation on Furniture: It should be translated using the exchange rate which existed on the date of purchase of the furniture.
- (iii) Machineries carried at fair value: It, being a tangible fixed asset, which is carried at fair value, is to be translated using the exchange rate which existed as on the date of the valuation.

(ii)

- a) Accounting income (loss) - is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income, tax expense or adding income tax saving.
- b) Taxable income (tax loss) - is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.
- c) Tax expense (tax saving) - is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

7. (b)

(i)

- (a) The total cost of the fixed asset is ₹850 lakhs and the grant are 40% i.e., ₹340 lakhs. In the balance sheet, the asset will be shown at the net amount (₹850 lakhs - ₹340 lakhs) i.e., ₹510 lakhs only. This will be depreciated over the life of the asset.
- (b) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e., ₹250 lakhs be added to the Capital Reserves and the plant should be shown at ₹900 lakhs.
- (c) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis.

(ii)

**Comparative Provision between AS 11 and Ind AS 21**

<b>Ind AS 21</b>	<b>IND AS 11</b>
<ul style="list-style-type: none"><li>• Forward Exchange contracts are not covered.</li><li>• Accounting of foreign operations is based on a functional currency approach.</li><li>• No specific guidance provided</li></ul> <ul style="list-style-type: none"><li>• Presentation currency could be different from the local currency.</li></ul>	<ul style="list-style-type: none"><li>• Forward exchange contracts are included within its scope.</li><li>• Accounting for foreign operations is based on an integral and non- integral approach.</li><li>• Options to recognise exchange differences arising on translation of certain long-term monetary items over the period is available.</li><li>• No such specifications provided.</li></ul>

8. (a)

**Merits of Ind-AS:**

- Suitable for Indian Conditions: They have been framed in such a way that they are most suitable for Indian conditions.
- Clear Guidelines for Financial Reporting Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
- Uniformity in Financial Reporting: The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
- Helpful to Investors: Investors require high quality, relevant, reliable, transparent and comparable information in financial statements to make economic decisions. The use of Ind-AS meets their requirements.
- Difficult to Commit Fraud and Manipulate the Accounts: There are tough and rigid rules for the preparation and presentation of financial statements under Ind-AS and it is extremely difficult to manipulate the accounts.

8. (b)

- It's a capital profit. Hence it should be transferred to the Capital Reserve.
- The cost of the asset is spread over its useful life and only the current year's depreciation is treated as expense because of the going concern concept.
- It is due to the convention of conservatism, profit and loss Account discloses lower profits in comparison to the actual profit and balance sheet will disclose understatement of Assets and overstatement of liabilities. These two effects result in creation of a secret reserve.
- ₹100,000 will be deducted from Purchases in Trading Account, ₹30,000 will be shown on the Debit side of the profit and loss account and ₹70,000 will be shown on the asset side of Balance Sheet.
- True. Discount will be allowed only to those Debtors who will make Prompt payment. Hence provision for discount is calculated on good Debtors arrived at after deducting the provision for doubtful debt.

8. (c)

<b>Date</b>	<b>Particulars</b>	<b>Debit (₹)</b>	<b>Credit (₹)</b>
1.	Realisation A/C To Rana's Capital	Dr. 8,000	8,000
2.	Dhana's Capital. To Bank A/C	Dr. 10,000	10,000
3.	Realisation Expenses A/C Mona's capital To Bank A/C	Dr. Dr. 8,000 12,000	20,000
4.	Kana's Capital. To Dhana's Capital	Dr. 10,000	10,000

Note: Entries to be supported by Narration.