

PAPER – 6 : FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

SECTION - A

1:

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

SECTION – B

2. (a):

**In the books of Sandip
Cash Book (Bank column only)**

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2025 Mar-31	To Dividend on shares	3,000	2025 Mar-31	By Balance b/f	2,50,000
	To Bal c/d	257,740		By Drawings (₹3,840 + ₹2,400)	6,240
				By Interest	2,500
				By Debtors - discounted bill dishonoured	2,000
		2,60,740			2,60,740
			2025 Apr:1	By Bal b/d	2,57,740

Bank Reconciliation Statement as on 31.03.2025

Particulars	₹
Bank Balance as per Cash Book (overdrawn)	2,57,740
Add: Cheques deposited but not credited in the Pass Book (₹4,600+ ₹900)	5,500
	2,63,240
Less: Cheques issued but not presented for payment	27,400
Bank balance as per Pass Book (overdrawn)	2,35,840

2. (b):

- (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
- (ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.
- (iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
- (iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
- (v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit only the current period.
- (vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.
- (vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

3. (a):**Books of Raj**

Dr.		Memorandum Joint Venture Account		Cr.			
Particulars		Amount (₹)		Particulars		Amount (₹)	
To Raj-				By Raj			
Stamp Charge		16,500		Commission		50,000	
Advertisement		15,000		Proceeds of shares		4,75,000	
Car Exp. and Printing		35,000		By Sonu			
Purchase of shares		4,00,000		Commission		50,000	
				Proceeds of shares		4,75,000	
To Sonu							
Rent		13,000					
Legal Charge		10,000					
To Profit							
Raj		4,20,375					
Sonu		1,40,125					
		10,50,000				10,50,000	

Joint Venture with Sonu Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank (All expenses)	4,66,500	By Bank (Commission)	50,000
To Profit & Loss	4,20,375	By Bank (proceeds of share)	4,75,000
		By Bank (final settlement)	3,61,875
	8,86,875		8,86,875

3. (b):

Case	WDV (₹L)	Fair Value (₹L)	Sale Price (₹L)	Leaseback type	Accounting Treatment under AS-19
(i)	80	100	100	Operating	When sales price of ₹100 lakhs is equal to fair value, PQ Ltd. should immediately recognise the profit of ₹20 lakhs (i.e. 100-80) in its books.
(ii)	80	120	-----	Operating	In this situation the profit or loss will depend on assumption.
(iii)	80	90	76	Operating	When fair value of leased machinery is ₹ 90 lakhs & sales price is ₹ 76 lakhs, then loss of ₹ 4 lakhs (80-76) to be immediately recognised by PQ Ltd. in its books' provided loss is not compensated by future lease payment, otherwise it can defer and amortise the loss.
(iv)	80	80	100	Operating	When fair value is ₹ 80 lakhs & sales price is ₹ 100 lakhs then, profit of ₹ 20 lakhs is to be deferred and amortised over the lease period.
(v)	80	92	100	Operating	When fair value is ₹ 92 lakhs & sales price is ₹ 100 lakhs, profit of ₹ 12 lakhs (92-80) to be immediately recognised in its books and balance profit of ₹ 8 lakhs (100-92) is to be amortised/deferred over lease period.
(vi)	80	70	78	Operating	When fair value is ₹ 70 lakhs & sales price is ₹ 78 lakhs, then the loss of ₹ 10 lakhs (80 - 70) to be immediately recognised by PQ Ltd. in its books and profit of ₹ 8 lakhs (78 - 70) should be amortised/deferred over lease period.
(vii)	80	95	100	Finance lease (PV ≈ FV)	Since leaseback is finance lease, entire gain of ₹20 lakhs deferred and amortised over lease term (no immediate recognition).

4. (a):

Income and Expenditure Account of RR Clinic for the year ended 31.03.2025

Dr.

Cr.

Expenditure	(₹)	Income	(₹)
To Medicine Consumed	2,03,000	By Subscription	3,58,400
To Honorarium to Doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on Investments	63,000
To Telephone Expenses	6,000	By Profit on Medical camp:	
		Collections 87,500	
		Less: Expenses <u>10,500</u>	77,000
To Misc. Expenses	7,000		
To Depreciation on: Medical Equipment 37,800 Building <u>35,000</u> (3,50,000-3,15,000)	72,800		
To Surplus-excess of Income over Expenditure	54,600		
	6,03,400		6,03,400

Working Notes:

		₹	₹
1	Subscription for the year ended 31.03.2025 Subscription received during the year Less Subscription receivable on 01.04.2024 Less: Subscription received in advance on 31.03.2025 Add: Subscription receivable on 31.03.2025 Add: Subscription received in advance on 01.04.2024 Subscription for the year 2024-25	10,500 <u>4,900</u> 15,400 <u>8,400</u>	3,50,000 (15,400) 23,800 3,58,400
2	Purchase of Medicine Payment of Medicine Supply Less: Amount due for Medicine Supply 01.04.2024 Add: Amount due for Medicine Supply on 31.03.2025 Purchase of Medicine during 2024-25		2,10,000 (63,000) 91,000 2,38,000
3	Medicine Consumed Stock of Medicine on 01.04.2024 Add: Purchase of Medicine during the year Less: Stock of Medicine on 31.03.2025 Medicines Consumed		70,000 2,38,000 (1,05,000) 2,03,000
4	Depreciation on Medical Equipment Value of Equipment on 01.04.2024 Add: Purchase of Equipment during the year Less: Value of Equipment on 31.03.2025 Depreciation on Equipment for the year		1,47,000 1,05,000 (2,14,200) 37,800

4. (b):

Trading and Profit and Loss Account of Chandana Enterprises for the year ended 31st March, 2025

Dr.		Cr.		
	₹		₹	₹
To Opening Stock	9,15,000	By Sales Cash Credit (W.N. 1)	110,70,000 28,60,000	139,30,000
To Purchases (W.N. 2)	125,97,000	By Closing stock		9,75,000
To Gross Profit c/d (10% of 139,30,000)	13,93,000			
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross Profit b/ d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% Rs 1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Chandana Enterprises as at 31st March, 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Furniture & Fittings 1,50,000	
Opening balance 6,75,000		Less: Depreciation (22,500)	1,27,500
Less: Drawing (3,60,000)			
3,15,000			
Add: Net profit for the years 4,40,250	7,55,250		
Trade creditors (W.N. 3)	8,29,000	Stock	9,75,000
Outstanding expenses	55,200	Trade Debtors	3,43,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,90,950
	16,39,450		16,39,450

Working Notes:

1. **Trade Debtors Account**

	₹		₹
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. **Memorandum Trading Account**

	₹		₹
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. Trade Creditors Account

	₹		₹
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated in W.N. 2)	125,97,000
To Balance c/d (balancing figure)	8,29,000		
	133,54,500		133,54,500

4. Computation of Sundry Expenses to be charged to Profit & Loss A/c

	(₹)
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid Expenses (Insurance) as on 31-3-2024	3,000
	9,34,050
Less: Outstanding expenses as on 31-3-2024	(67,500)
	8,66,550
Add: Outstanding expenses as on 31-3-2025	55,200
	9,21,750
Less: Prepaid expenses as on 31-3-2025 (Insurance paid till July, 2025) (₹ 9,000 x 4/12)	(3,000)
Sundry Expenses to be debited to P& L A/C	9,18,750

5:

Partner's Capital Accounts

Debit Side

Particular	Amit (₹)	Bhusan (₹)	Charan (₹)	Dev (₹)
To Balance c/d	2,00,000	2,00,000	2,00,000	1,50,000
	2,00,000	2,00,000	2,00,000	1,50,000

Credit Side

Particulars	Amit (₹)	Bhusan (₹)	Charan (₹)	Dev (₹)
By Balance b/d	1,80,000	1,60,000	1,40,000	
By Bank A/c				1,50,000
By Partner's Current A/cs (bal. fig)	20,000	40,000	60,000	
	2,00,000	2,00,000	2,00,000	1,50,000

Partner's Current Accounts

Debit Side

Particulars	Amit (₹)	Bhusan (₹)	Charan (₹)	Dev (₹)
To Balance b/d	-	-	10,000	-
To Amit & Bhusan (Profit)	-		4,000	8,000
To Amit and Bhusan (Goodwill adjustment)			6,000	12,000
To Partners Capital A/cs	20,000	40,000	60,000	
By Balance c/d	3,333			
	23,333	40,000	80,000	20,000

Credit Side

Particulars	Amit (₹)	Bhusan (₹)	Charan (₹)	Dev (₹)
By Balance b/d	-	16,000		-
By Dev & Charan	9,333	2,667		
By Dev & Charan (Goodwill adjustment)	14,000	4,000		
To Balance c/d		17,333	80,000	20,000
	23,333	40,000	80,000	20,000

Balance Sheet of New Firm after Dev's Admission

Liabilities	₹	Assets	₹
Amit	2,00,000	Machinery	1,50,000
Bhushan	2,00,000	Furniture	1,50,000
Charan	2,00,000	Stock	2,10,000
Dev	1,50,000	Debtors 80,000 Less: Provision 4,000	76,000
Current Account: Amit	3,333	Cash	1,70,000
Creditors	1,20,000	Current Account Bhusan 17,333 Charan 80,000 Dev 20,000	1,17,333
	8,73,333		8,73,333

Working Notes:

- Dev joins the business for $\frac{1}{5}$ th share and brings ₹ 1,50,000 as capital. Thus, total capital of new firm will be ₹ 7,50,000 ($1,50,000 \times 5$). Total capital of Amit, Bhushan & Charan will be ₹ 6,00,000 ($7,50,000 - 1,50,000$) which will be shared by them equally i.e. ₹ 2,00,000 each.

2. New Profit-Sharing Ratio:

Amit	Bhushan	Charan	Dev
$\frac{4}{5} \times \frac{1}{3}$	$\frac{4}{5} \times \frac{1}{3}$	$\frac{4}{5} \times \frac{1}{3}$	$\frac{1}{5}$
= $\frac{4}{15}$	= $\frac{4}{15}$	= $\frac{4}{15}$	= $\frac{3}{15}$

New Profit Sharing Ratio = 4:4:4:3

3. Adjustment of Goodwill:

Sacrifice/ (Gain) of Partners:

	Amit	Bhushan	Charan	Dev
Old PSR	$\frac{3}{6}$	$\frac{2}{6}$	$\frac{1}{6}$	
New Ratio	$\frac{4}{15}$	$\frac{4}{15}$	$\frac{4}{15}$	$\frac{3}{15}$
Sacrifice / (Gain)	$\frac{3}{6} - \frac{4}{15} = \frac{7}{30}$	$\frac{2}{6} - \frac{4}{15} = \frac{2}{30}$	$\frac{1}{6} - \frac{4}{15} = \frac{(3)}{30}$	$\frac{(6)}{30}$

Journal Entry to Adjust Goodwill

	₹	₹
Charan [₹60,000 × $\frac{3}{30}$] Dr	6,000	
Dev [₹60,000 × $\frac{6}{30}$] Dr	12,000	
To Amit [₹ 60,000 × $\frac{7}{30}$]		14,000
To Bhushan [₹ 60,000 × $\frac{2}{30}$]		4,000

4. Profit or Loss on Revaluation of Assets and liabilities:

	₹
Increase in value of Machinery (2,16,000- 1,50,000)	66,000
Decrease in value of Furniture (1,28,000- 1,50,000)	(22,000)
Increase in Provision for Doubtful Debts (8,000- 4,000)	(4,000)
Profit on Revaluation of Assets and liabilities	40,000

Journal Entry to Adjust Profit on Revaluation:

	₹	₹
Charan [₹ 40,000 × 3/30] Dr	4,000	
Dev [₹ 40,000×6/30] Dr	8,000	
To Amit [₹ 40,000 × 7/30]		9,333
To Bhushan [₹ 40,000×2/30]		2,667

6. (a):

**Books of Delta Ltd.
In the books of Mumbai H.O
Patna Branch Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/f: Stock	30,000	By Bank A/c (Cash sales)	1,20,000
To Goods Sent to Branch A/c (at cost)	90,000	By Balance c/d(Stock)	20,000
To Bank A/c (Branch Exp.)			
Salaries 10,000			
Other Expenses <u>4,000</u>	14,000		
To Balance c/d	6,000		
(Branch Profit before Commission)			
	1,40,000		1,40,000
To Manager's Commission	300	By balance b/d	6,000
To General P& L A/c (Branch Profit)	5,700		
	6,000		6,000

Working Notes:

1. Cost of Goods Sold (COGS) by Branch = ₹ 1,20,000 x100/120 = ₹ 1,00,000
2. Closing balance of Branch Stock

Memorandum Branch Stock A/c

	₹		₹
To Op. Stock	30,000	By COGS [WN:1]	1,00,000
To Goods sent to Branch	90,000	By Cl. Stock [B/Fig.]	20,000
	1,20,000		1,20,000

Manager's Commission:

$$(1,20,000 + 20,000 - 30,000 - 90,000 - 14,000) \times 5/100 = 6,000 \times 5/100 = ₹ 300$$

6. (b):

Computation of the amount of claim for the loss of profit:

1. Amount of Short Sales or Reduction in turnover:

	₹
Turnover from 25 th May, 2023 to 30 th September, 2023	6,00,000
Add: 10% expected increase	60,000
Less: Actual Turnover from 25 th May, 2024 to 30 th September, 2024	1,75,000
Short Sales	4,85,000

2. Rate of Gross Profit for last Financial Year:

	₹
Net Profit for last financial year	2,00,000
Add: Insured Standing Charges	1,75,000
Gross Profit	3,75,000
Turnover for the last financial year	15,00,000
Rate of Gross Profit = $\frac{3,75,000}{15,00,000} \times 100$	25%

3. Loss of Profit or GP on Short Sales: 4,85,000 x 25% = ₹ 1,21,250

Calculation of loss of Profit:

	₹	₹
Loss of Profit or Gross Profit on Short Sales		1,21,250
Add: Additional Expenses		
Lower of		
Actual Expenses (A)	30,000	
Additional Exp. X (G.P. on Adjusted Annual Turnover)/ (G.P.as above + Uninsured Standing Charges) 30,000 x [3,85,000 / (3,85,000 + 1,25,000)] (B)	22,647	
G.P. on sales generated by additional expenses (₹1,75,000 X 25%) I [It is given that entire sales during the interrupted period was due to additional expenses]	43,750	
Therefore, lower of (A, B & C) is		22,647
Less: Saving in Insured Standing Charges		5,000
Amount of claim before application of Average Clause		1,38,897

Annual Turnover (adjusted):

	₹
Turnover from 25 May, 2023 to 24 May, 2024	14,00,000
Add:10% expected increase	1,40,000
Adjusted Annual Turnover	15,40,000
Gross Profit on ₹15,40,000 @ 25%	3,85,000
Standing charges not Insured (3,00,000-1,75,000)	1,25,000
Gross profit + Uninsured standing charges	5,10,000

Amount of claim (Average Clause Applicable):

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \times \text{Amount of Claim}$$

$$(3,50,000/3,85,000) \times 1,38,897 = ₹ 1,26,270$$

Alternative solution:

GP for previous accounting period

= Net profit for previous accounting period + Insured standing charges.

= ₹ 2,00,000 + 1,75,000

= ₹ 3,75,000

GP rate = 25%

Short sale = standard turnover – actual turnover for indemnity period.

= (6,00,000 × 110%) - 1,75,000

= 6,60,000 – 1,75,000

= ₹ 4,85,000

GP Lost = Short sale × GP rate

= 4,85,000 × 25% = 1,21,250

Admissible additional expenses for insurance claim

Least of the following:

(₹)

- | | | |
|------|--|----------|
| i. | Actual additional exp. | 30,000 |
| ii. | Sales due to additional expenses × GP rate (₹ 1,75,000 × 25%) | 43,750 |
| iii. | Actual additional expenses × $\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$ | |
| | | = 22,500 |

Gross Claim = (1,21,250 + 22,500 - 5,000)

= ₹ 1,38,750

Insurable value = (14,00,000 + 10%) × 25%

= ₹ 3,85,000

Net claim = Policy Value / Insurable value × Gross Claim

= ₹ 1,26,136

7. (a):

- (i) Statement showing the computation of the amount at which the machinery should be capitalized in the books of Alpha Ltd.

Particulars		Amount (₹)
Purchase cost of machinery	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Add: Architect's Salary	₹45,000 X 3	1,35,000
Initial Delivery Cost	Transportation Cost	50,000
Professional fees for installation	Architect's fees	30,000
Total cost of machinery to be capitalized		1,61,55,000

- (ii) As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE.

Management of Neon Enterprise should capitalize the costs of construction and remodeling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodeling expenditure amounting ₹30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant ₹7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, ₹7,50,000 should be treated as expense.

7. (b):

(i) The following computations would be made to determine the amount of borrowing costs for the purpose of AS 16 'Borrowing Costs':

Interest for the period = US \$ 20,000 × ₹ 50 per US \$ × 6% = ₹ 60,000.

Exchange loss on principal amount = US\$ 20,000 × ₹ (50-48) = ₹ 40,000.

Interest that would have resulted if the loan was taken in Indian Currency = US \$ 20,000 × 48 × 11% = ₹ 1,05,600

Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 1,05,600 – ₹ 60,000 = ₹ 45,600

In the above case, ₹ 40,000 is less than ₹ 45,600, therefore the entire exchange difference of ₹40,000 would be considered as borrowing costs.

The total borrowing cost would be = ₹ 60,000 + ₹ 40,000 = ₹ 1,00,000

(ii) Accounting Treatment:

(Figures in ₹ lakhs)

Purpose	Nature	Interest to be capitalised	Interest to be charged to P&L A/c
Installation of Plant & Machinery	Qualifying Asset	320 X 65/500 = 41.60	
Advance to Supplier for additional Asset	Qualifying Asset	50 X 65/500 = 6.50	
Working Capital	Not a Qualifying Asset		130 X 65/500 = 16.90
Total		48.10	16.90

8. (a):

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹4 lakhs to ₹3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2024-25 in the following manner:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by ₹ 1 lakh."

8. (b):

The following adjustments need to be done:

- (i) The old plant of ₹20,000 was disposed for ₹7,600 causing a loss of ₹12,400 and the same should be debited to Profit & Loss Account.
- (ii) A new machine purchased for ₹16,800 and the same shall be brought into account by debiting new plant account.
- (iii) By mistake, purchase account was debited by ₹9,200 which should be reversed.
- (iv) The old plant account should be retired by crediting it by ₹20,000.

The entry can be made as follows:

New Plant Account Dr	₹ 16,800	
Profit & Loss Account Dr	₹ 12,400	
To Old Plant Account		₹20,000
To Purchases Account		₹9,200

(Being the rectification entry for sale and purchase of machinery)

8. (c):

Balance Sheet as at 31.03.25

	₹		₹
A's Capital	1,25,030	Sundry Assets (b/f)	1,45,730
B's Capital	2,070	Cash	4,520
Creditor	23,150		
	1,50,250		1,50,250

Capital Account of Partners

Dr			Cr		
	A (₹)	B (₹)		A (₹)	B (₹)
To Realisation loss	12,960	9,720	By Balance b/d	1,25,030	2,070
To Cash	1,12,070		By Cash		7,650
	1,25,030	9,720		1,25,030	9,720

Realisation loss = 1,45,730 - 1,24,910 + Realisation expenses of ₹1,860 = ₹ 22,680