INTERMEDIATE EXAMINATION

June 2023

P–6(FA)
Syllabus 2022

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 Nos. 2, 3, 4, 5, 6, 7 *and* 8.

Section-A

1. (a) Choose the correct alternative. 1×12=12

(i) Which of the following is not a qualitative characteristics of accounting information?

(A) Reliability

(B) Materiality

(C) Comparability

(D) Understandability

(ii) IND-AS are

(A) rule based accounting standard.

(B) principle based accounting standard.

(C) partially rule based and partially principle based accounting standard.

(D) None of the above

(iii) An increase in which of the following Account will be recorded on the debit side?

(A) Rent Received Account

(B) Building Account

(C) Bills Payable Account

(D) Capital Account

(iv) Trade Discount allowed is deducted from the gross sales. Sale is recorded in the Books of Account at

(A) gross sales and trade discount separately

(B) net sales invoice

(C) None of the above

(D) Any of (A) or (B)

(v) Rebate is calculated for the period between date of
   (A) payment and maturity date.
   (B) drawing and payment of bill.
   (C) drawing and maturity date
   (D) None of the above

(vi) Which of the following is not an error of Principle?
   (A) purchase of machinery debited to purchase Account
   (B) sale of old furniture credited to Sales Account
   (C) repairs on the overhauling of existing machinery debited to Machinery Account.
   (D) cash received from Rana posted to Jana.

(vii) Income tax paid by a sole trader is shown
   (A) on the debit side of the Trading Account.
   (B) on the debit side of Profit & Loss Account.
   (C) as deduction from Capital in the Balance Sheet.
   (D) as addition to Capital in the Balance Sheet.

(viii) A lease which is generally not cancealable and cover full economic life of the asset is known as ________.
   (A) Sale and lease back
   (B) Operating lease
   (C) Finance lease
   (D) Economic lease

(ix) A charitable Institution has 250 members with an annual subscription of ₹ 5,000 each. The subscription received during 2020-21 were ₹ 11,25,000, which include ₹ 65,000 and ₹ 25,000 for the year 2019-20 and 2021-22 respectively. Amount of outstanding subscription for the year 2020-21 will be
   (A) ₹ 90,000
   (B) ₹ 1,25,000
   (C) ₹ 2,15,000
   (D) ₹ 1,90,000

(x) X and Y are partners with a capital of ₹ 50,000 and ₹ 30,000 respectively. Interest payable on capital is 10% per annum. If the profits earned by the firm is ₹ 4,800, what will be the interest on capital for X and Y?
   (A) ₹ 5,000, ₹ 3,000
   (B) ₹ 3,000, ₹ 1,800
   (C) No interest will be paid to the partners.
   (D) None of the above

(xi) Which class of account is Consignment Account?

(A) Personal Account

(B) Real Account

(C) Representative Personal Account

(D) Nominal Account

(xii) Memorandum Joint Venture Account is prepared when

(A) the seperate set of books is maintained for Joint Venture.

(B) the each co-venturer keeps records of all transactions.

(C) the each co-venturer keeps records of their own transaction only.

(D) All of the above cases

(b) State True or false: 1×7=7

(i) Book Keeping starts where accounting ends.

(ii) Liabilities = Capital – Assets.

(iii) Wrong entry in the Pass Book will also be considered while preparing an amended Cash Book.

(iv) Depreciation is the process of valuation of an asset.

(v) Under Debtor system of maintaining Branch Account Depreciation does not appear in Branch Account.

(vi) Cash in Hand represents cash actually held by the business on the Balance Sheet Date.

(vii) Average clause is applicable in case of under Insurance.

(c) Fill in the blanks: 1×6=6

(i) Goodwill is an __________ asset.

(ii) __________ concepts holds that accounting shuld be free from personal bias. .

(iii) The excess of expenses over income is called __________ .

(iv) __________ represents payment made against which services are expected to be received in a very short period.

(v) __________ account is credited when lessor receive an amount.

(vi) A branch which does not keep the full system of accounting is known as __________ .

Section-B

2. (a) (i) Briefly explain Expenditure. 1×6

(ii) When an account is said to have a debit balance?

(iii) Explain accounting treatment of normal loss in Branch Account.

(iv) What is Depreciable Cost?

(v) What is meant by 'substance over form' as per AS I?

(vi) If adjusted purchase and Closing Stock are given in the Trial Balance, will you transfer Closing Stock in Trading Account? Comment.

(b) Mr. Rajesh gives the following information for the year ending 31st March, 2023:

	₹
Cash Purchases	15,00,000
Cash Sales	40,00,000
Credit Purchases	3,00,000
Credit Sales	5,00,000
Income Received	80,000
Income received in advance (included ₹ 80,000)	6,000
Income due but not yet received	15,000
Expenses paid	8,50,000
Expenses paid in advance (included in ₹ 8,50,000)	20,000
Expenses not yet paid	45,000

Ascertain the Profit or Loss if he adopts (i) Cash basis of Accounting and (ii) Accrual Basis of Accounting. 2+4

(c) Calculate Closing Stock from the following details: 3

	₹
Opening Stock	20,000
Cash Sales	60,000
Credit Sales	40,000
Purchases	70,000

Rate of Gross Profit on cost $33\frac{1}{3}\%$.

3. (a) Rectify the following errors identified in the books of Sunil. The Trial Balance showed ₹ 250 as debit excess. The difference has been posted to the Suspense Account.

(i) Total of debit side of Expenses Account has been cast in excess of ₹ 150.

(ii) Sales Account has been totalled short by ₹ 200.

(iii) One item of purchase of ₹ 25 has been posted from the Purchases Book to the Ledger as ₹ 350.

(iv) Sales return of ₹ 200 from a party has not been posted to that account, though the Party's Account has been credited.

(v) A cheque of ₹ 600 issued to the Supplier's Account (shown under Sundry Creditors) towards his dues had been wrongly debited to the Purchases Account.

(vi) Credit sale of ₹ 100 has been credited to the sales and also to the Sundry Debtors Account.

Required: Pass the necessary journal entries for correcting the above and prepare a Suspense Account as it would appear in the ledger. 8

(b) IND-AS 20 differs from AS-12 with respect to certain matters. Briefly explain those matters. 7

4. Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date: 15

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Furniture	1,00,000	1,20,000
Stock-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	......	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and Payments during the year were as follows:

Particulars	₹
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchase	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors.

5. (a) When you proceed to reconcile the Bank Account starting with 'Debit' Cash Book balance, how is the following dealt with and why? 4

(i) Cheques issued but not presented for payment.

(ii) Cheques deposited but not yet credited.

(iii) Bank charges charged by the Bank not recorded in the Cash Book.

(iv) Interest allowed by the Bank not recorded in the Cash Book.

(b) AS-19 should be applied in accounting for all leases. Comment. 3

(c) Distinguish between Foreign Branch and Domestic Branch. 3

(d) Entity A purchased an asset on 1st January, 2019 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1st January, 2023, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis. 5

6. (a) Difference between Bad debts and Provision of Bad debts. 4

(b) Following is the extract from the Trial Balance of a firm as at 31st March, 2023:

TRIAL BALANCE as at 31st March, 2023

Heads of Accounts	Dr. (₹)	Cr. (₹)
Sundry Debtors	4,10,000	...
Provision for Doubtful Debts	...	20,000
Bad Debts	6,000	...

Additional Information:

(i) Additional Bad Debts ₹ 10,000.

(ii) Maintain Provision for Doubtful Debts @ 10% on Sundry Debtors.

Pass necessary Journal entries and show relevant accounts (including Final Accounts). 3

(c) A fire occured in the premises of a businessman on 31st January, 2023, which destroyed stock. However, stock worth ₹ 5,940 was salvaged. The company's insurance policy covers the following:

Stock— ₹ 6,00,000; Loss of Profit (including standing charges) — ₹ 3,75,000; and Period of indemnity — 6 months. The summarised Profit and Loss Account for the year ended 31st December, 2022 is as follows: (all figures in ₹)

Dr. Profit and Loss Account for the year ended 31st December, 2022. Cr

To Opening Stock	6,18,750	By Sales	30,00,000
To Purchases	27,18,750	By Closing Stock	7,87,500
To Standing charges	2,51,250		
To Variable expenses	1,20,000		
To Net Profit	78,750		
	37,87,500		37,87,500

The transactions for the month of January, 2023 were: (i) Turnover — ₹ 1,50,000; and (ii) Payment to Creditors — ₹ 1,60,020. *Trade Creditors*: 1st January, 2023 — ₹ 2,26,000; 31st January, 2023 — ₹ 2,30,980.

The company's business was disrupted until 30th April, 2023, during which period the reduction in the turnover amounted to ₹ 2,70,000 as compared with the corresponding turnover of same period in the previous year.

You are required to submit the claim for insurance for loss of stock and loss of profit. 8

7. X and Y were in partnership in XY & Co. sharing profits in the proportions of 3 : 2. On 31st March, 2023, they accepted an offer from P. Ltd. to acquire at that date their fixed assets and stock at an agreed price of ₹ 7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership firm.

The purchase consideration of ₹ 7,20,000 consisted of cash ₹ 3,60,000, Debentures in P. Ltd. (at par) ₹ 1,80,000 and 12,000 Equity Shares of ₹ 10 each in P. Ltd. X will be employed in P. Ltd. but, since Y was retiring X agreed to allow him ₹ 30,000 in compensation, to be adjusted through their Capital Accounts. Y was to receive 1,800 shares in P. Ltd. and the balance due to him in cash. The Balance Sheet of the firm as on 31.03.2023 is in below:

Liabilities	Amount ₹	Assets	Amount ₹
X's Capital Account	1,20,000	Fixed Assets	4,80,000
Loan from X	2,10,000	Stock	45,000
Bank Overdraft	1,50,000	Debtors	75,000
Creditors	1,80,000	Y's Capital Account	60,000
	6,60,000		6,60,000

The sale of the assets to P. Ltd. took place as agreed; the Debtors realised ₹ 60,000 and Creditors were settled for ₹ 1,71,000. The firm then ceased business. You are required to pass necessary journal entries and show:

(a) Realisation Account

(b) Bank Account

(c) Partners' Capital Accounts 15

8. (a) The conceptual framework is a body of interrelated objectives and fundamentals. Explain. 3

(b) Rajdeep bought 2 cars from Rajesh Motor Pvt. Ltd. on 01.04.2020 on the following terms (for both cars)

	₹
Down Payment	6,00,000
1st Instalment at the end of first year	4,20,000
2nd Instalment at the end of 2nd year	4,90,000
3rd Instalment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a. Rajdeep provides depreciation @ 25% on the diminishing balance.

You are required to calculate the cash price of the cars and the interest paid with each instalment. 3

(c) Explain in short, the relevant Disclosures of Accounting policies as per AS 1. 3

(d) The accounting cycle consists of certain sequential steps. List out those steps. 4

(e) A, B and C were partners in a firm sharing profits in 5 : 3 : 2 ratio. They decided to share the future profits is 2 : 3 : 5. For this purpose the goodwill of the firm was valued at ₹ 2,00,000. There was a credit balance of Profit & Loss Account amounting to ₹ 1,00,000 which they do not want to distribute. Prepare adjustment entry for the treatment of Goodwill and Profit & Loss due to change in the Profit Sharing Ratio. 2

SUGGESTED ANSWERS TO QUESTIONS

SECTION - A

1(a)

i) (B) Materiality

ii) (B) Principle based Accounting Standard

iii) (B) Building account

iv) (B) Net sale invoice

v) (A) Payment and maturity date

vi) (D) Cash received from Rana posted to Jana

vii) (C) As deduction from capital in the Balance Sheet

viii) (C) Finance Lease

ix) (C) Rs. 215,000

x) (B) Rs. 3000, Rs. 1800

xi) (D) Nominal Account

xii) (C) The each co-venture keeps records of their own transactions only.

1 (b)

i) False

ii) False

iii) False

iv) False

v) True

vi) True

vii) True

1(c)

i) Intangible

ii) Verifiable objective

iii) Loss

iv) Prepaid

v) Lease Account

vi) Dependent Branch

SECTION - B

2 (a)

(i) Expenditure is the amount spent or liability incurred for acquiring assets, goods or services.

(ii) An account is said to have a debit balance if the total of the debit side is more than the credit side.

(iii) Normal loss does not appear in the Branch Account since the closing stock appears at the adjusted figure.

(iv) Depreciable cost = cost of the asset – scrap value.

(v) Substance over form means the transactions should be accounted for in accordance with actual happening over the economic reality of the transactions, not by its legal form.

(vi) No. Closing Stock will not be transferred to Trading Account because it already stands credited to Trading Account as adjusted purchase means opening stock + Purchase (net) – Closing Stock.

2(b)

(i) Net Profit as per Cash Basis = ₹ 17,30,000

(ii) Net Profit as per Accrual Basis = ₹ 19,14,000

2(c)

Closing Stock = ₹ 15,000.

3(a)

JOURNAL

Date	Particulars	L.F.	Dr.	Cr.
(i)	Suspense A/c …Dr. To Expenses A/c (Being the mistake in totalling of Expenses A/c rectified)		150	150
(ii)	Suspense A/c …Dr. To Sales A/c (Being the mistake in totalling of Sales A/c rectified)		200	200
(iii)	Supplier's A/c …Dr. To Suspense A/c (Being the mistake in posting from Purchase Book to Ledger rectified)		325	325
(iv)	Sales Return A/c …Dr. To Suspense A/c (Being the Sales return from a party, not posted to sales return, now rectified)		200	200
(v)	Sundry Creditors A/c …Dr. To Purchases A/c (Being the payment made to supplier wrongly posted to purchases, now rectified)		600	600
(vi)	Sundry Debtors A/c …Dr. To Suspense A/c (Being the sales wrongly credited to Customer's A/c, now rectified)		200	200

Suspense A/c Total Rs. 975

Credit Balance Rs. 625

3(b)

Ind AS 20	AS 12
Disclosure required in financial statement with indication on other forms of government assistance received	No specific guidance as does not deal with other forms of government assistance
Government grants in the nature of capital contribution are not recognized	Government grants as capital contribution are specifically recognized
Prohibition of recognition of grants directly to the shareholder's fund	Grants for non-depreciable assets are required to be shown as a capital reserve under shareholder's funds
Recognition of non-monetary grants at fair value	Recognition of non-monetary grants at acquisition cost or nominal value
No option to deduct the amount of grant from the book value of the asset.	Optional to deduct the amount of grant from the book value of the asset.

4.

Gross Profit as per Trading A/c ₹ 2,14,000

Net Profit as per Profit & Loss A/c ₹ 56,000

Balance Sheet Total ₹ 2,76,000

5 (a)

i) Cheques issued but not yet presented for payment are added because bank shows higher balance.

ii) Cheques deposited but not cleared are deducted because bank shows lower balance.

iii) Bank charges are deducted because bank has already debited the account.

iv) Interest allowed is added because bank has credited the account.

5 (b) AS 19 should be applied in accounting for all leases other than:

a) Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights;

b) Licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and

c) Lease agreements to use lands.

5 (c) Differences between foreign branch and domestic branch:

Domestic Branch	Foreign Branch
A domestic branch is established and carried out in the same country where its H.O is situated.	A foreign branch is always is always established and carried out its operations in a country other than the country of its H.O
It can be either dependent or independent.	It's always independent.
H.O and Branch both follow the same currency for recording the transactions and preparing accounts.	Whereas the transactions and accounting for foreign branches happen to be different than its H.O.

5 (d)

Depreciation ₹15,000 for each year.

6 (a) Difference between Bad Debts and Doubtful Debts

Bad Debts	**Doubtful Debts**
The debts which cannot be realized are known as Bad Debts.	The debts which may or may not become bad are known as Doubtful Debts.
Bad Debts are immediately written off.	Doubtful debts are not written off but provided for.
A bad debt is a known loss.	A doubtful debt is an anticipated loss.
In case of bad debt, the Debtor's Amount is brought down by the amount of bad debt.	In case of doubtful debt, the Debtor's Account remains as it is since, debtor's Account and provision for Doubtful Debts Account are two separate accounts. But provision is made against expected loss.

6 (b)

Date	**Particulars**	**L.F.**	**Dr.**	**Cr.**
2019 March 31	Bad Debts A/c Dr.		10,000	
	To Sundry Debtors A/c			10,000
	(Being the additional bad debts recorded)			
	Provision for Doubtful Debts A/c Dr.		16,000	
	To Bad Debts A/c			16,000
	(Being the Bad Debts transferred to Provision for Doubtful Debts Account)			
	Profit and Loss A/c Dr.		36,000	
	To Provision for Doubtful Debts A/c			36,000
	(Being the amount debited to Profit and Loss Account to maintain Provision for Doubtful Debts @ 10% on sundry debtors)			

6 (c) Loss of Stock

Claim for Insurance for Loss of Stock ₹ 5,95,680

Claim for Insurance for Loss of Profit ₹ 29,700

7. **In the books of XY & CO.**

JOURNAL

Date	Particulars	L F	DR. Amount (Rs)	CR. Amount (Rs)
31.3.23	Realisation A/C Dr To Fixed Assets A/C To Stock in Trade A/C To Sundry Debtors A/C (different asset transferred)		6,00,000	 4,80,000 45,000 75,000
31.3.23	Creditors A/C Dr To Realisation A/C (Sundry Creditors 31.3.23)		1,80,000	 1,80,000
31.3.23	P LTD A/C Dr To Realisation A/C (purchase consideration due)		7,20,000	 7,20,000
31.3.23	Bank A/C Dr Debentures in P Ltd Dr Shares in P Ltd Dr To P Ltd A/C (Purchase consideration received)		3,60,000 1,80,000 1,80,000	 7,20,000
31.3.23	Bank A/C Dr To Realisation A/C		60,000	 60,000
31.3.23	Realisation A/C Dr To Bank A/C (Payment to creditors)		1,71,000	 1,71,000
31.3.23	Realisation A/C Dr To X capital A/C To Y capital A/C (profit on Realisation transferred)		1.89.000	 1,13,400 75,600
31.3.23	Loan from X Dr To X capital (loan balance transferred)		2,10.000	 2,10.000
31.3.23	X Capital Dr To Y Capital (Adjustment for compensation)		30,000	 30,000
31.3.23	X capital Dr To Shares in P Ltd To Debentures in P Ltd To Bank A/C (Final settlement of X)		4,13,400	 153,000 180,000 80,400
31.3.23	Y capital Dr To Shares in P Ltd To Bank A/C (final settlement of Y)		45,600	 27,000 18,600

Realisation Account Total ₹ 9,60,000

Bank Account Total ₹ 4,20,000

Partners Capital Account Total

X - ₹ 4,34,400

Y – ₹ 1,05,600

8(a)

Conceptual framework:

The conceptual framework is a body of Interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial Reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported. It states the objectives of general purpose financial Reporting and the information provided by it. Conceptual framework also guides on the qualitative characteristics that the financial statements must possess.

Conceptual framework also plays an important role in the development of institutional framework and assists preparers to develop consistent accounting policies when no accounting standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy.

8(b)

Calculation of interest and cash price.

Total cash price = Rs 18,00,000.

Interest Paid

Installment	₹
3rd	50,000
2nd	90,000
1st	120,000

8(c)

As per AS1, the disclosure of Accounting policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place. Any change in the accounting policies which has a material effect in the current periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the Financial Statements is affected by such change should also be disclosed to the extent ascertainable .where such amount is not ascertainable, wholly or in part, the fact should be indicated. If the fundamental accounting assumptions, viz, Going concern, Consistency and Accrual, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact to be disclosed.

8(d)

Stages of Accounting Cycle.

The accounting cycle consists of the following sequential steps:

1. Identifying transactions: The first step in the accounting cycle is to analyze events to determine if they are " transactions ". Transactions are the starting point from which the rest of the accounting cycle follows.
2. Recording transactions in books of original entry: The second step in the accounting cycle is to record the identified transactions in the relevant books of original entry as journal entries.
3. Posting to the Ledger: The next step is to record a summary of the activities in the relevant account in the Ledger (referred to as posting).
4. Drafting of unadjusted Trial Balance: At the end of an accounting period, data from the Ledger Accounts may be taken to draft a Trial Balance. It is prepared for identifying any errors that may have occurred during the initial stages of the accounting cycle. However, this step is not mandatory.
5. Passing of adjustment entry: Identification of necessary adjustment and passing of adjusting entries

make up the fifth step in the cycle.

6. **6.** Drafting of Adjusted Trial Balance: Once all adjusting entries are completed, then an adjusted trial balance can be prepared. This happens to be the last step before the preparations of Financial Statements.
7. **7.** Closing of books: In this stage of the accounting cycle, the Ledger Accounts are closed and balanced. (also refers to as zeroed out) at the end of every accounting period.
8. **8.** Drafting the financial statements: In the last stage of the accounting cycle, the income statement is prepared with the closing balances of the Nominal Accounts, While the balances of real and personal accounts gets reflected in the Balance Sheet. Financial Statements are prepared in the following order: Income statement, Statements of retained earnings, Balance Sheet and statements of cash flows.

8(e)

		Dr.	Cr.
C's Capital A/c	Dr.	90,000	
To A's Capital A/c			90,000