

PAPER - 6 : FINANCIAL ACCOUNTING
SUGGESTED ANSWERS
SECTION – A

1.

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

SECTION - B

2. (a)

- (i) Total depreciation to be charged in the Profit and Loss Account = ₹ 2,92,000
- (ii) Profit or loss on exchange of machine = ₹ 55,000
- (iii) Book value of machinery in Balance Sheet as on 31.03.2023 = ₹ 16,33,000

2. (b)

JOURNAL OF RAJESH BROTHERS

		Dr.	Cr.
		(₹)	(₹)
25.04.23	P & L Adjustment A/c Dr	4,500	
	To Suspense A/c		4,500
25.04.23	Customer's A/c Dr	12,200	
	To Suspense A/c		12,200
25.04.23	Machinery A/c Dr	46,250	
	To P & L Adjustment A/c		46,250
25.04.23	P & L Adjustment A/c Dr	10,000	
	To Suspense A/c		10,000
25.04.23	P & L Adjustment A/c Dr	31,750	
	To Capital A/c		31,750

(All Journal entries to be supported by appropriate narration)

Suspense A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.23	To Balance b/d	26,700	25.04.23	By P & L Adjustment A/c	4,500
			25.04.23	By Customer's A/c	12,200
			25.04.23	By P & L Adjustment A/c	10,000
		26,700			26,700

3. (a)

Books of Kush
Consignment Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Sent on Consignment A/c	96,00,000	By Jatin	1,12,70,000
To Bank A/c (Freight & Insurance)	96,000	By Loss in Transit A/c	2,42,400
To Jatin – Clearance Exp.	31,200	By Consignment Stock a/c	12,16,000
To Jatin – Selling Exp	5,10,000		
To Jatin – (Commission)	6,90,125		
To Profit & Loss A/c	18,01,075		
	1,27,28,400		1,27,28,400

Jatin's Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment A/c	1,12,70,000	By Consignment A/c - Clearance	31,200
		By Consignment A/c – Selling Exp	5,10,000
		By Consignment A/c – Commission	6,90,125
		By Bank A/c	1,00,38,675
	1,12,70,000		1,12,70,000

Loss In Transit Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment A/c	2,42,400	By Bank – Insurance Claim	1,85,000
		By Profit & Loss A/c	57,400
	2,42,400		2,42,400

Alternatively:

In the Book of Kush
Consignment Account

Dr		Cr	
Particulars	(₹)	Particulars	(₹)
To, Goods Sent on Consignment A/c	1,20,00,000	By, Goods sent on Consignment A/c	24,00,000
To, Bank A/c			
- Freight and Insurance	96,000		
To, Jatin A/c		By, Jatin A/c	1,12,70,000
- Clearing Exp.	31,200	By, Loss in Transit A/c (10 Machines)	
To, Jatin A/c			2,42,400
- Selling Exp.	5,10,000		
To, Jatin A/c	6,90,125	By, Consignment Stock A/c	15,16,000
To, Stock Reserve A/c	3,00,000		
To, P/L A/c	18,01,075		
	1,54,28,400		1,54,28,400

3. (b)

Interest paid with each instalment

Year	Opening Balance of Cash Price	Instalment	Payment towards Cash Price	Payment towards Interest	Closing Balance of Cash Price
	₹	₹	₹	₹	₹
01.01.21	4,50,000	90,000	90,000	0	3,60,000
31.12.21	3,60,000	1,70,000	1,34,000	36,000	2,26,000
31.12.22	2,26,000	1,50,000	1,27,400	22,600	98,600
31.12.23	98,600	1,08,460	98,600	9,860	0

4.

Statement Showing Profit or Loss for the year ended 31st March 2023

Particulars	Amount (₹)
Capital at the end of the year as per Statement of Affairs	11,89,600
Add: Drawings During the year 2022-23	3,00,000
Less: Fresh Capital introduced on 01.10.2022	(65,000)
Adjusted Capital	14,24,600
Less: Capital At the beginning of the year as per Statement of Affairs	(8,10,000)
Profit before charging interest and capital and Manager's Commission	6,14,600
Less: Interest on Capital	(81,000)
Profit before charging manager's commission	5,33,600
Less: Manager's Commission	(48,509)
Net Profit	4,85,091

5.

(a) Value of goodwill = ₹ 9,36,000

Treatment of Goodwill			
		Dr.	Cr.
		₹	₹
X's Capital A/c	Dr	1,17,000	
Z's Capital A/c	Dr	1,95,000	
	To Y's Capital A/c		3,12,000

(b) Profit on revaluation of asset and liability = ₹ 1,65,000

Adjustment of Profit on Revaluation among the Partners:

	Total (₹)	X (₹)	Y (₹)	Z (₹)
Profit credited to all partners (3:2:1)	1,65,000	82,500	55,000	27,500
Reverse debited to X and Z (5:3)	(1,65,000)	(1,03,125)	0	(61,875)
Net adjustment		20,625 (Dr)	55,000 (Cr)	34,375 (Dr)

(c) **Balance of partners' capital accounts after Y's retirement**

	X (₹)	Z (₹)
Partners' capital after Y's retirement	11,18,625	7,64,375

(d) Firm's Balance Sheet after retirement of Y

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs		Land & Building	7,80,000
X	11,18,625	Furniture	4,20,000
Z	7,64,375	Stock in trade.	3,15,000
General Reserve	5,10,000	Investments	3,75,000
Creditors	4,25,000	Debtors	8,70,000
Bills Payable	1,35,000	Less: Prov for Bad debt	<u>30,000</u>
		Bills Receivable	1,65,000
		Cash at Bank	41,000
		Cash in Hand	17,000
	29,53,000		29,53,000

6. (a)

Books of Ranu Stores (Head Office)**Branch Stock Account**

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,20,000	By Goods Sent to Branch (Returns)	24,000
To Goods Sent to Branch A/c	18,00,000	By Bank/ Cash A/c	72,000
To Branch Debtors A/c (Returns)	12,000	By Branch Debtors A/c	16,32,000
		By Branch Adjustment A/c (Short)	4,800
		By Balance c/d	1,99,200
	19,32,000		19,32,000

Branch Debtors Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	43,200	By Branch Stock A/c	12,000
To Branch Stock A/c	16,32,000	By Bank/ Cash A/c	15,60,000
		By Branch Expenses A/c - discount	12,000
		By Branch Expenses A/c - bad debt	2,400
		By Balance c/d	88,800
	16,75,200		16,75,200

Goods Sent to Branch Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Stock A/c	24,000	By Branch Stock A/c	18,00,000
To Branch Adjustment A/c	5,92,000		
To Trading A/c	11,84,000		
	18,00,000		18,00,000

Branch Expenses Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Debtors A/c (Discount)	12,000	By Branch Adjustment A/c	1,40,600
To Branch Debtors A/c (Bad debts)	2,400		
To Bank / Cash A/c	1,26,200		
	1,40,600		1,40,600

Branch Adjustment Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Expenses A/c	1,40,600	By Stock Reserve A/c (open)	40,000
To Branch Stock A/c (Shortage)	4,800	By Goods Sent to Branch A/c	5,92,000
To Stock Reserve A/c (Closing)	66,400		
To Profit and Loss A/c	4,20,200		
	6,32,000		6,32,000

Branch Stock Reserve Account

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Adjustment A/c	40,000	By Balance b/d	40,000
To Balance c/d	66,400	By Branch Adjustment A/c	66,400
	1,06,400		1,06,400

6. (b)

Total Loss = ₹ 1,73,500

Amount of Net Claim = ₹ 1,38,800

7. (a)

As per AS 1 any change in the accounting policies which has a material effect in the current period or which is reasonable expected to have a material effect in later 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 statement is affected by such change should also be disclosed to the extent ascertainable. Where such amount is ascertainable, wholly or in part the fact should be indicated. Accordingly, the note of accounting should properly disclose in the change and its effect.

Notes to accounts

- (i) During the year inventory has been valued at factory cost against the practise of valuing it at prime cost as was the practise till last year. This has been done to take cognizance of the more capital-intensive method of production because of heavy capital expenditure during the year. As a result the year-end inventory has been valued at ₹ 75 Crores, in place of ₹ 45 crores, thereby the profit for the year is increased by ₹ 30 crores i.e. ₹ 75 crores – ₹ 45 crores

- (ii) So far, the company has been providing 2% of sales for meeting after selling expenditure during the warranty period. The improved method of production the probability of defect occurring in the product has been reduced considerably. Hence the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change the profit for the year is increased by rupees 18 crores i.e. 2% of rupees 900 crore then would have been the case if the old policy were to be continue.
- (iii) The company has decided to provide ₹ 15 crore for the permanent fall in the value of investment which has taken place over the period of past five years the provision so made has reduced the profit disclosed in the accounts by ₹ 15 crore.

7. (b)

Objective of Accounting Standard (AS) 10

The objective of the standard is to prescribe the accounting treatment for property, plant and equipment. So that user of the financial statements can discern information about investment made by an enterprise in its property, plant and equipment and the change in such investment the principal issue in the accounting for property, plant and equipment are the recognition of the assets the determination of their carrying amount and the depreciation charges and impairment losses to be recognised in relation to them.

Bearer Plant is a plant that.

- (a) Is used in the production or supply of agricultural produce;
- (b) Is expected to be a produce for more than a period of 12 months; and
- (c) Has a remote likelihood of being sold as agricultural produce except for incidental scrap sale?

The following are not bearer plants:

- (i) Plant cultivated to be harvested as a agricultural produce;
- (ii) Plant cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce other than a incidental scrap sale;
- (iii) Annual crops: When bearer plant are no longer used to bear produce they might be cut down and sold as a scrap. Once an item of property, plant and equipment qualifies for recognition as an asset it will be initially measured at cost.

8. (a)

As per AS 12 Provisions relating to presentation of Government Grants in Financial Statements' are as under:

1. Presentation of Grant Related to Specific Fixed Assets:
The primary condition of government grants related to specific fixed asset is that an enterprise qualifying for them should purchase construct or otherwise acquire such assets. Other condition may also be attached restricting the type or location of the assets or the period during which they are to be acquired or held.
2. Two methods of presentation of Grants (or the appropriate portions of grants) related to specific fixed assets are regarded as acceptable alternatives:
 - i. First method: The grant is shown as 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. Where the whole or virtually the whole of the cost of the assets the asset is shown in the balance sheet at a nominal value.
 - ii. Second method: Grants related to depreciable assets are credited as deferred income which is recognised in the profit and loss statement on systematic and rational basis over the useful life of asset. Such allocation to income is usually made over the period and in the proportions in which depreciation on related asset is charged.

3. Grants related to non-depreciable assets are credited to capital reserve as there is usually no charge to income in respect of such assets, however if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account.
4. Presentation of Grants related to Revenue: 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 expenses.
5. Presentation of Grants of the nature of Promoters' contribution: Where the Government grants are of the nature of promoter's contribution, and no payment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor consider as deferred income

8. (b)

In the Book of _____
Bad Debt Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.09.23	To Sundry Debtors	3,000	31.12.23	By Provision for Doubtful Debt A/c	3,800
31.12.23	To X's A/c	800			
		3,800			3,800

Provision for Doubtful Debts A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.23	To Bad Debts	3,800	01.01.23	By Balance b/d	5,000
31.12.23	To Balance c/d	3,920	31.12.23	By Profit & Loss A/c	2,720
		7,720			7,720

Profit & Loss A/c (Extract)
For the year ended 31-12-2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad Debts	3,800	By Bad Debts Recovery A/c	400
		By Provision for Bad Debts – Existing	5,000
		Less Provision required	<u>3,920</u>
			1,080

Balance Sheet (Extract)
As at 31-12-2023

Liabilities	Amount (₹)	Assets	Amount (₹)	Amount (₹)
		Sundry Debtors	40,000	
		Less Bad Debts	800	
			39,200	
		Less Provision for bad Debts	<u>3,920</u>	35,280

8. (c)

Piecemeal distribution

Till now, the decision was based on the implicit assumption that all assets were realised, and settlement was done on the same date. In fact, on the dissolution of partnership assets are sometimes realised gradually over a period. In such a case, it may be agreeing that the different parties are to be paid in order of preference as and when assets are realised without unnecessary waiting for the final realisation of all the assets.

The Order of payment will be as follows:

1. Realisation expenses
2. For provision for expenses that are to be made
3. Preferential Creditor say Income Tax, or any payment made to the government
4. Secured creditor up to the amount realised from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditor.
5. Unsecured creditor- In proportion to the amount of debts, if more than one creditor
6. Partners' Loan – if there is more than one partner – in that case, in proportion to the amount of loan.
7. Partners' Capital – the order of payment may be made by any one of the following two methods.
 - a) Surplus Capital Method / Proportionate Capital Method / Highest relative Capital Method
 - b) Maximum possible loss method.