

PAPER – 6 : FINANCIAL ACCOUNTING
SUGGESTED ANSWERS
SECTION - A

1.

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

SECTION - B

2. (a)

(i) As per AS-10, the amount of depreciation to be charged to statement of profit and loss account will depend upon the following factors:

- I) cost of the asset
- II) Estimated useful life of the asset
- III) Estimated Residual (scrap) value of the asset.
- IV) Depreciation Method.

- i. The cost of the fixed asset is determined after adding all expenses incurred for bringing the asset to usable condition.
- ii. Estimated useful life of the asset is estimated in terms of years it can be effectively utilized for business operations.
- iii. Estimated sales value of the asset at the end of the useful life is treated as estimated residual value of the asset.
- iv. The method chosen (Straight Line Method, Written Down Value Method, etc.) affects the annual depreciation charge. It should reflect the pattern in which the asset's future economic benefits are expected to be consumed.

(ii)

Depreciation as per competent Accounting

Depreciation for component body	₹ 4,00,000	(20,00,000 /5)
Depreciation for component seating arrangement	₹ 5,00,000	(30,00,000/6)
Depreciation for Component Engine	₹ 2,00,000	(20,00,000/10)
Depreciation on Motor vehicle for the year	<u>₹ 11,00,000</u>	

2. (b)

(i) Difference between Purchase Day Book and Purchase Account

- Purchase Day Book simply records only credit Purchases of goods, whereas both cash and credit Purchases of goods are posted in Purchase Account.
- Purchase Day Book is a part of Journal, whereas Purchase Account is a part of General Ledger.
- Purchase Day Book is not divided into debit and credit sides, whereas Purchase Account is divided into two sides (debit and credit side)

(ii) JOURNAL ENTRIES

			Dr.	Cr.
	Particulars		₹	₹
a	Sales Account Dr To Barun Account (credit sales recorded as ₹ 7200 instead of ₹ 7,000)		200	200
b	Raman Account Dr To Purchase Account (credit purchase recorded as ₹ 9,900 instead of ₹ 9,000)		900	900
c	Purchase Return Account Dr To Chaya Account (Purchase Return recorded as ₹ 4,040 instead of ₹ 4,000)		40	40
d	Paresh Account Dr To Sales Return Account (Sales Return recorded as ₹ 1400 instead of ₹ 1,000)		400	400

3. (a)

Computation of Claim for loss of Stock

	₹
Stock in the Premises on the day of fire 30 th March, 2025	125,200
Less: value of Salvage Stock	<u>24,600</u>
Loss of Stock	<u>1,00,600</u>
Amount of Claim = $\frac{\text{Insured Value}}{\text{Total Cost on the date of fire}} \times \text{loss of Stock}$	
$\frac{120,000}{125,200} \times 100,600 = 96,422 \text{ (approx.)}$	96,422

Working Notes:

1. Calculation of goods with customers. Since no approval for sale has been received for the goods of ₹ 99,000) hence, these (2/3rd of ₹ 99,000 = ₹ 66,000) should be valued at cost i.e. ₹ 52,800.
2. Calculation of Actual Sales
Total Sales – Sale of Goods on approval (2/3rd of goods sold on approval i.e. 2/3 x 99,000)
= ₹ 5,50,000 – ₹ 66,000 = ₹ 4,84,000.

3. Calculation of closing stock as on 30.03.2025

**Memorandum Trading Account for
(from 1st January 2025 to 30th March 2025)**

Particulars	₹	Particulars	₹
To Opening Stock	1,91,200	By Sales	4,84,000
To Purchases	2,80,000	By Goods with customers for approval	52,800
To wages	94,000	By Closing Stock	125,200
To Gross Profit	96,800		
	6,62,000		6,62,000

Alternative Presentation:

Computation of Claim for loss of Stock

	₹
Value of stock in the premises as on 30 th March	1,25,200
Less: Value of salvage stock	<u>24,600</u>
Loss of Stock	<u>1,00,600</u>
Amount of Claim = $\frac{\text{Insured Value}}{\text{Total Cost on the date of fire}} \times \text{loss of Stock}$	
$\frac{120,000}{125,200} \times 100,600 = 96,422 \text{ (approx.)}$	96,422

Working Notes:

- I. Calculation of goods with customers. Since no approval for sale has been received for the goods of 99,000) hence, these should be valued at cost i.e. ₹ 52,800. [66000 - 20% of 66,000] (2/3rd of 99,000 = ₹ 66000)
- II. Calculation of Actual Sales
Total Sales - Sale of Goods on approval (2/3rd. of goods sold on approval i.e. 2/3 x 99,000)
= ₹ 5,50,000 - ₹ 66,000 = ₹ 4,84,000.
- III. Calculation of closing stock as on 31.03.2025

**Memorandum Trading Account for
(from 1st January 2025 to 30th March 2025)**

Particulars	₹	Particulars	₹
To Opening Stock	1,91,200	By Sales	4,84,000
To Purchases	2,80,000	By Closing Stock	1,78,000
To wages	94,000		
To Gross Profit (20% on Sales)	96,800		
	6,62,000		6,62,000

Value of stock from the above Trading account ₹ 1,78,000 - Goods Sold and approval yet to be received ₹ 52,800
= Value of stock in the premises as on 30th March ₹ 1,25,200.

3. (b)

In the Books of the Head office
Branch Stock Account

Dr		Cr	
Particulars	₹	Particulars	₹
To Balance b/d	3,60,000	By Bank Account (cash sales)	21,60,000
To Goods Sent to Branch	24,00,000	By Branch Debtors Account (credit sales)	1,20,000
To Branch Adjustment Account (balancing figure, Surplus)	36,000	By Goods Sent to Branch Account (Return to Head Office)	1,20,000
		By Branch Adjustment Account (24,000 × 25/100)	6,000
		By Branch Profit and Loss Account (cost of goods pilfered)	18,000
		By Branch Adjustment Account (invoice price of Normal loss)	36,000
		By Balance c/d	2,88,000
		In hand	48,000
		In transit	
	27,96,000		27,96,000

* Alternatively, combined Posting for ₹ 24,000 may be passed through goods pilfered Account.

** Alternatively, it may first be transferred to a Normal loss account which may Ultimately be closed by transfer to Branch Adjustment Account. The final amount of net profit will however remain the same

*** It has been considered that the Surplus may be due to sale of goods by branch at a price higher than the invoice price.

Branch Stock Adjustment Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Branch Stock Account	6,000	By Stock Reserve Account	90,000
To Branch Stock Account	36,000	By Goods Sent to Branch Account	5,70,000
To Stock Reserve Account	84,000	By Branch Stock Account	36,000
To Gross Profit	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Branch Stock Account	18,000	By Branch Adjustment Account	5,70,000
To Net Profit	5,52,000		
	5,70,000		5,70,000

4.

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March 2025

Dr.

Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Inventory		80,000	By Sales		6,08,750
To Purchases	4,56,000		By Closing Stock		70,000
Less: Advertising	<u>9,000</u>	4,47,000			
To Freight Inward		30,000			
To Gross Profit c/d		<u>1,21,750</u>			
		<u>678,750</u>			<u>6,78,750</u>
To Sundry Expenses		92,000	By Gross Profit		1,21,750
To Advertisement		9,000	By Interest on Investment		600
To Discount Allowed			(20,000 × 6/100 × ½)		
Debtors	15,000		By Discount Received		8,000
Bills Receivable	<u>1,250</u>	16,250	By Miscellaneous Income		5,000
To Depreciation on Furniture		6,500			
To provision for doubtful debt		1,455			
To Net Profit		10,145			
		<u>1,35,350</u>			<u>1,35,350</u>

Balance Sheet as on 31.03.2025

Liabilities	Amount	Amount	Assets	Amount	Amount
	₹	₹		₹	₹
Capital	1,88,000		Furniture	60,000	
Less: Drawings	<u>91,000</u>		Addition during the year	<u>10,000</u>	
	97,000			70,000	
Add: Net Profit	<u>10,145</u>	1,07,145	Less: Depreciation	<u>6,500</u>	63,500
			(balancing figure)		
Sundry Creditors		1,50,000	Investment		19,000
Outstanding Expenses		18,000	Accrued Interest		600
			Inventory		70,000
			Sundry Debtors	72,750	
			Less: Provision	<u>1,455</u>	71,295
			Bills Receivable		17,500
			Cash in hand and Bank		26,250
			Prepaid expenses		<u>7,000</u>
		<u>2,75,145</u>			<u>2,75,145</u>

Working Notes:

I)

Capital as on 01.04.2024
Balance Sheet as on 31.03.2024

Liabilities	₹	Assets	₹
Capital (Balancing Figure)	1,88,000	Furniture	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding Expenses	20,000	Sundry Debtors	1,60,000
		Cash in hand at Bank	12,000
		Prepaid expenses	<u>6,000</u>
	<u>3,18,000</u>		<u>3,18,000</u>

II)

Purchases made during the year:

Sundry Creditors Account			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To cash and Bank	3,92,000	By Balance b/d	1,10,000
To Discount Received	8,000	By Sundry Debtors	4,000
To Bills Receivables	20,000	By Purchases Account	4,56,000
To Balance c/d	<u>1,50,000</u>		
	<u>5,70,000</u>		<u>5,70,000</u>

III)

Sales made during the year:

Particulars	₹	₹
Opening Inventory		80,000
Purchases	4,56,000	
Less: for advertising	<u>9,000</u>	4,47,000
		<u>30,000</u>
Freight Inward		5,57,000
Less: closing Inventory		<u>70,000</u>
		4,87,000
Cost of goods sold		
Add: gross profit (25% on cost)		<u>121,750</u>
Sales.		<u>6,08,750</u>

IV)

Debtors on 31st March 2025

Dr.		Sundry Debtors Account		Cr.	
Particulars		₹	Particulars	₹	
To Balance b/d		160,000	By Cash and Bank Account	5,85,000	
To Sales Account		608,750	By Discount Allowed Account	15,000	
To Sundry Creditors Account		4,000	By Bills Receivable Account	1,00,000	
(Bills Dishonoured)			By Balance c/d (Balancing Figure)	72,750	
		<u>7,72,750</u>		<u>7,72,750</u>	

V)

Additional drawings by Proprietor**Dr.****Cash and Bank Account****Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	12,000	By Freight Inward	30,000
To Sundry Debtors Account	5,85,000	By Furniture Account	10,000
To Bills Receivables Account	61,250	By Investment Account	19,000
To Miscellaneous Income Account	5,000	By Expenses Account	95,000
		By Creditors Account	392,000
		By Drawings	70,000
		Add: Cash Short	<u>21,000</u>
		By Balance c/d	<u>26,250</u>
	<u>6,63,250</u>		<u>6,63,250</u>

VI)

Amount of Expenses debited to Profit and Loss Account**Dr.****Sundry Expenses Account****Cr.**

Particulars	₹	Particulars	₹
To prepaid Expenses Account	6,000	By Outstanding Expenses Account	20,000
To Bank Account	95,000	By Profit and Loss Account	92,000
To outstanding Expenses Account	18,000	By Prepaid Expenses Account	<u>7,000</u>
	<u>119,000</u>		<u>1,19,000</u>

VII)

Bills Receivable as on 31.03.2025**Dr.****Bills Receivable Account****Cr.**

Particulars	₹	Particulars	₹
To Debtors	1,00,000	By Creditors Account	20,000
		By Bank Account	61,250
		By Discount on Bills Receivable Account	1,250
		By Balance c/d (Balancing Figure)	<u>17,500</u>
	<u>1,00,000</u>		<u>1,00,000</u>

Note: All Sales and Purchases are assumed to be on credit.

5.

Books of A, B and C

Dr.		Revaluation Account		Cr.	
01.4.2024		₹	01.04. 2024	₹	
To Sundry Debtors Account		4,000	By Stock in Trade Account	6,500	
To provision for doubtful debt Account		2,200			
To Furniture and Fixtures Account		200			
To Profit on Revaluation Account					
A -	60				
B -	<u>40</u>	100			
		6,500		6,500	

Capital Account

Dr.				Cr.			
	A	B	C		A	B	C
01.4.2024	₹	₹	₹	01.4.2024	₹	₹	₹
To Profit and Loss Account	4800	3200		By Balance b/f	24,000	60,000	
To cash Account	800	800		By Revaluation A/C	60	40	
To Balance c/d.	20,060	57,640	15,540	By Cash A/C (premium for goodwill)	1600	1600	
				By Cash (note-2)	-	-	15,540
	25,660	61,640	15,540		25,660	61,640	15540

Balance Sheet as on 01.04.2025

Liabilities	₹	₹	Assets	₹	₹
Capital Account			Fixtures and fittings		300
A	20,060		Stock in Trade		28,000
B	57,640		Sundry Debtors	42,000	
C	<u>15,540</u>	93,240	Less: Provision	4,200	37,800
Sundry Creditors		<u>20,000</u>	Cash (Note3)		<u>47,140</u>
		<u>1,13,240</u>			<u>113,240</u>

Workings:

- Premium for goodwill paid by C: $\frac{1}{5} \times 16,000 = ₹ 3,200$
Old ratio of A and B 3:2
New ratio between A, B and C 5:3:2; Therefore, A and B sacrifice in the ratio of 1:1
- Combined adjusted capitals of A and B is = $20,060 + 57,640 = ₹ 77,700$.
Cs capital contribution will be = $(77,700 \times \frac{1}{5}) = ₹ 15,540$
- Balance of Cash in hand may be ascertained by preparing cash Account

Cash Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/f	30,000	By A' s Capital Account	800
A's Capital	1600	By B's Capital Account	800
B' Capital	1600	By Balance	47,140
C's Capital	15,540		
	<u>48,740</u>		<u>48,740</u>

6. (a)

**In the Books of Ram
Consignment to Delhi Account**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Goods Sent on Consignment Account	28,400	By Goods Sent on Consignment Account	7,500
To Shyam Account- commission	2,394	- Loading ₹ (28,400 - 20,900)	
To Stock Reserve Account	1,700	By Shyam Account - sales Proceeds	26,760
(₹ 6,920- ₹ 5,220)		By Stock on Consignment Account	6,920
To Profit and Loss Account	8,686		
(Profit on Consignment transferred)			
	<u>41,180</u>		<u>41,180</u>

Shyam Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Consignment to Delhi Account	26,760	By Bills Receivable Account	22,720
To Balance c/d	5,536	(80% of invoice price)	
		By Consignment to Delhi Account	2,394
		- Commission	
		By Draft Account	6,280
		By Draft in Transit Account	902
	<u>32,296</u>		<u>32,296</u>

Goods Sent on Consignment Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Consignment to Delhi Account	7,500	By Consignment to Delhi Account	28,400
To Trading Account (Balancing Figure)	20,900		
	<u>28,400</u>		<u>28,400</u>

Workings:

	₹
Calculation of commission	
Invoice value of goods	28,400
Less: unsold stock	<u>6,920</u>
	<u>21,480</u>
Invoice value of goods sold	
Total Sales Proceeds	26,760
Less: Invoice value of goods sold	<u>21,480</u>
Surplus Price	<u>5,280</u>
Commission @5% on ₹ 21,480	1,074
Add: @ 25% on ₹ 5,280	<u>1,320</u>
Total commission	<u>2,394</u>

	₹	₹
Sales made by Shyam (given in Q)	26,760	
Security Money on Closing Stock (80% of Rs 6,920)	<u>5,536</u>	32,296
Less		
Bills drawn on Goods sent (80% of Invoice Price)	22,720	
Commission Account (worked out)	2,394	
Draft Received	<u>6,280</u>	<u>31,394</u>
Balance		902

6. (b)

Table showing calculation of Interest

(fig. in ₹)

Payment date (1)	Total cash price (2)	Interest Paid (3)	Cash price paid (4)	Instalment paid (5=3+4)
Down Payment	140,000 <u>- 40,000</u> 1,00,000		40,000	40,000
1st instalments	<u>- 25,000</u> 75,000	$1,00,000 \times 20\% = 20,000$	25,000	45,000
2nd instalment	<u>-25,000</u> 50,000	$75,000 \times 20\% = 15,000$	25,000	40,000
3rd instalment	<u>-25,000</u> - 25,000	$50,000 \times 20\% = 10,000$	25,000	35,000
4th Instalment	<u>-25,000</u>	$25,000 \times 20\% = 5,000$	25,000	30,000
	Nil	50,000	140,000	190,000

7. (a)

Major difference between Accounting standards and IND AS are: -

Accounting standards were based on international accounting standard, whereas IND AS are based on IFRS.

Accounting standards are rule based whereas IND AS are principle based.

Accounting standards are drafted in technical language whereas IND AS are drafted in simple language.

Accounting standards follow historical cost whereas IND AS follow on the fair value of fixed assets.

Accounting standards are not reliable to international investors where IND AS are reliable by international investors.

Accounting standards do not ensure uniformity in financial reporting whereas IND AS ensure uniformity in financial reporting.

Accounting standards require multiple reporting for Companies located in different countries whereas such reporting does not require under IND AS.

7. (b)

Comparative provision under IND AS 23 and AS 16 are the following: -

Qualifying asset will never include biological Assets under IND AS 23 but maybe included under AS 16.

Specific explanation on the understanding of a substantial period is not required under IND AS 23 but the same is provided under AS 16.

Inventories which are produced in large quantities can be considered as qualifying assets under IND AS 23 whereas if the condition of substantial period is satisfied then in that case the Inventories may be considered as qualifying assets under AS 16.

Interest Cost which is capitalised or not capitalised during the period should be disclosed separately under IND AS 23 but if such cost is capitalised during the period and in that case disclosure requirement under AS 16 is necessary.

Borrowing cost in hyperinflation is addressed under IND AS 23 but the inflation in interest rate is not addressed under AS 16.

Weighted average capitalisation rate on borrowing would be disclosed in Notes to accounts under IND AS 23 but no specific guidance is not provided under AS 16.

In the consolidated financial statement weighted average capitalisation rate on total borrowing of holding and subsidiary is to be considered under IND AS 23 but no such specified guidance is provided under AS 16.

8. (a) (i)

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed in one place.
- In the case of a change in accounting policy which has a material effect in the current period or later period the amount by which any item in the financial statement is affected by such change should be disclosed to the extent ascertainable Where the such amount is not ascertainable wholly or in part the fact should be indicated.
- If fundamental accounting assumption is not followed the fact should be disclosed and If the fundamental Accounting Assumption are followed in financial statements, specific disclosure is not required.

8. (a) (ii)

Table showing calculation of deferred tax asset/Liability.

Particulars	Amount	Time Difference	Deferred Tax	Amount @50%
	₹			₹
Excess Depreciation as per tax records (₹ 5,50,000 - ₹ 2,50,000)	300,000	Timing	Deferred Tax Liability	150,000
Unamortised Preliminary Expenses as per tax records	40,000	Timing	Deferred Tax Assets	(20000)
Net Deferred Tax Liability				130,000

Net Deferred Tax Liability amounting to ₹ 1,30,000 should be recognised as transition adjustment.

8. (b)

- (i) The statement is false. All profit and loss accounts are a period statement because it depicts the result of operation of the whole period. Balance sheet is a point statement because it reflects the financial position of an enterprise at a specified point of time.

(ii) Substitution received during the year 2024-25	₹ 4,000
Add: Subscription outstanding on 31.03.2025	180
	4,180
Less: Subscription outstanding on 01.04.2024	400
	3,780
Add: Subscription received in advance on 31.03.2024	100
	3,880
Less: Subscription Received in Advance on 31.03.2025	80
	3,800

Subscription income for 2024-25 transfer to income and expenditure for ₹ 3,800.

8. (c)

In the Books of the Firm

Journal Entries

	Dr.	Cr.
a. Realisation A/c. (₹ 180,000 - ₹ 150,000 less 4% thereof)Dr.	36,000	
To Bank A/c.		36,000
(Amount paid to creditors by cheque)		
b. No entry required (See Note)		
c. Bank A/c (₹ 500,000 – ₹ 300,000).....Dr.	200,000	
To Realisation A/c.		200,000
(Amount received from Creditor for land and Building taken over after adjusting amount due to him)		
d. A's Capital A/c.....Dr.	15,000	
B's Capital A/c.....Dr.	9,000	
To Realisation A/c.		24,000
(Loss on Realisation transferred)		

Note: No entry is required for Debtors taken over.