PAPER - 6 : FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

SECTION - A

1.

(i) (D)

(ii) (A)

(iii) (C)

(iv) (A)

(v) (A)

(vi) (B)

(vii) (C)

(viii) (B)

(ix) (B)

(x) (D)

(xi) (B)

(xii) (A)

(xiii) (D)

(xiv) (B)

(xv) (A)

SECTION - B

2. (a)

In the books of Sandip Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.23	To Bank A/c	66,000	31.03.24	By Depreciation A/c	5,000
	To Bank A/c	14,000		By Balance c/d	75,000
		80,000			80,000
01.04.24	To Balance b/d	75,000	31.03.25	By Depreciation A/c	5,000
				By Balance c/d	70,000
		75,000			75,000
01.04.25	To Balance b/d	70,000	01.10.25	By Depreciation A/c	2,500
				By Bank A/c (sale)	50,000
				By Profit & Loss A/c (Loss) or Loss on Sale of Assets a/c	17,500
		70,000			70,000

1. Total Cost = ₹66,000 + ₹5,000 + ₹7,000 + ₹1,000 +₹500 + ₹500 = ₹80,000
2. Depreciation = (Total Cost - Scrap Value) / Expected Life = (80,000 – 5,000)/15 = ₹5,000
3. The amount spent on repairs and renewals on 1st January,2024 is of revenue nature and does not form part of the cost of asset.

2. (b)

Advik & Co
Journal Entries

Date	Particulars	L/F	Dr. Amount (₹)	Cr. Amount (₹)
(a) 2026 Apr-01	Suspense A/c Dr.		100	
	To Profit & Loss Adjustment A/c			100
	(Returns outward book was undercast now rectified).			
(b)	Suspense A/c Dr.		1,500	
	To Profit & Loss Adjustment A/c			1,500
	(Discount received was not recorded, now rectified).			
(c)	Office Furniture A/c Dr.		6,000	
	To Profit & Loss Adjustment A/c			6,000
	(Office furniture purchased wrongly debited to Purchase A/c, now rectified.)			
(d)	Debtors' A/c Dr.(or Cutomers0r Accounts Receivable		90	
	To Suspense A/c			90
	(Debtors account was posted 670 in place of 760, now rectified.)			
(e)	Suspense A/c Dr.		10,000	
	To Profit & Loss Adjustment A/c			10,000
	(Sales account was undercast, now rectified)			
(f)	Profit & Loss Adjustment A/c Dr.		10,000	
	To Closing Stock A/c			10,000
	(Closing Stock was overcast, now rectified.)			

Suspense Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2026, April 1	To Profit & Loss Adjustment A/c	100	2026, April 1	By Difference in Trial Balance	21,510
	To Profit & Loss Adjustment A/c	1,500		By Debtors A/c	90
	To Profit & Loss Adjustment A/c	10,000			
	To Bal C/d	10,000			
		21,600			21,600

OR (only for Suspense A/c applicable when not supported by Journal entries)

Suspense Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2026, April 1	To Profit & Loss Adjustment A/c	100	2026, April 1	By Difference in Trial Balance	21,510
	To Profit & Loss Adjustment A/c	1,500		By Debtors A/c	90
	To Profit & Loss Adjustment A/c	10,000			
	To Profit & Loss Adjustment A/c*	10,000			
		21,600			21,600

3. (a)

In the books of Ram

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c Dr. To Ratan A/c (Being bill drawn on Ratan)		3,000	 3,000
	Bank A/c Dr Discount A/c Dr. To Bills Receivables A/c (Being discounting of bill)		2,925 75	 3,000
	Ratan A/c Dr. To Bank A/c To Discount A/c (Being 1/3rd proceeds paid to Ratan)		1,000	 975 25
	Ratan A/c Dr. To Bills Payable A/c (being acceptance of bill)		3,750	 3,750
	Bank A/c Dr. Discount A/c Dr. To Ratan A/c (Being proceeds of discounting 2nd bill)		175 75	 250
	Bills Payable A/c Dr. To Ratan A/c (Being dishonour of bill)		3,750	 3,750
	Ratan A/c Dr. To Bank A/c To Deficiency A/c (Being payment of 80% & balance proved to be bad)		2,250*	 1,800 450

Ratan's Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	975	By Bills Receivable A/c	3,000
To Discount A/c	25	By Bank A/c	175
To Bills Payable A/c	3,750	By Discount A/c	75
To Bank A/c	1,800	By Bills Payable A/c	3,750
To Deficiency A/c	450		
	7,000		7,000

Note:

Sharing of Discount:

After discounting of the 1st Bill, Ram received = ₹2,000
Add: amount remitted by Ratan 175
(after discounting of 2nd Bill) 2,175

After discounting of the 2nd Bill, Ratan received ₹3,625
Proportion of Discount of 2nd Bill to be borne by 75
Ram (2,175/3,625 x 125) and balance to Ratan

3. (b)

In the books of SXT Ltd.
Hire Purchase Trading Account
(For the year ended 31st March,2026)

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To H P Stock A/c	3,20,000	By HP Stock Reserve A/c (W.N.1)	1,20,000
To H P Debtors A/c	20,000	By Bank (cash received) A/c	11,20,000
To Goods Sold on HP A/c	16,00,000	By Goods Repossessed A/c	16,000
To Stock Reserve A/c (W.N.3)	2,70,000	By Goods sold on HP (loading) A/c (W.N.2)	6,00,000
To Profit & Loss A/c (Bal Fig)	4,26,000	By HP Stock A/c	7,20,000
		By HP Debtors A/c (W.N.4)	60,000
	26,36,000		26,36,000

Working Notes:

1. Opening HP Stock Reserve = ₹3,20,000 x 60/160 = ₹1,20,000
2. Loading on Goods sold on HP = ₹16,00,000 x 60/160 = ₹6,00,000
3. Closing HP Stock Reserve = ₹7,20,000 x 60/160 = ₹2,70,000

4. **Closing Installment Due (Closing HP Debtors)**

Opening HP Stock + Opening Installments Due + HP Sales		= ₹19,40,000
Less:		
Cash received from Customers	₹11,20,000	
Closing HP Stock	7,20,000	
Installments unpaid for repossessed goods	40,000	18,80,000
Closing Installments Due		60,000

4. (a)

Income and Expenditure Account for the year ended 31.03.2026

Dr. **Cr.**

Expenditure	(₹)	Income	(₹)
To Salaries Paid 2,58,000 Less: Advance 6,000	2,52,000	By Subscriptions Received 4,94,700 Add: Closing O/s 12,800 Less: Opening O/s 14,000 Less: Closing Advance 700	4,92,800
To Rent Paid 71,500 Add: Closing O/s 6,000 Less: Opening O/s 5,500	72,000	By Interest on 8% Govt Bonds Received 4,000 Accrued 4,000	8,000
To Printing Stationery 3,870 Add: Opening Stock 340 Less: Closing Stock 365	3,845	By Bank Interest	160
To Conveyance	10,600		
To Depreciation on Scooter (₹50,000 x 20% x 6/12)	5,000		
To Surplus B/f	1,57,515		
	5,00,960		5,00,960

4. (b)

Balance Sheet of Sri Agni as at 31st March, 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 10,00,000 Add: Profit on 31.3.25: 60,000 Profit for current year: 3,74,000	14,34,000	Fixed Assets 4,00,000 Additions 1,00,000 Less: Depreciation (50,000)	4,50,000
Trade Creditors	1,10,000	Stock	3,36,000
		Trade Debtors	2,00,000
		Cash in hand & at Bank	5,58,000
	15,44,000		15,44,000

Working Notes:

Projected Trading and Profit and Loss Account of Sri Agni for the year ended 31st March, 2026

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (Bal Fig)	3,36,000
To Gross Profit c/d (30% on Sales)	6,36,000		
	24,56,000		24,56,000
To Sundry expenses (10% on Sales)	2,12,000	By Gross Profit b/ d	6,36,000
To Depreciation (10% on ₹5,00,000)	50,000		
To Net Profit (b.f.)	3,74,000		
	6,36,000		6,36,000

Cash & Bank A/c for the year ended 31st March,2026

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/d	3,50,000	By Sundry Creditors (₹1,40,000 + 14,10,000)	15,50,000
To Sundry Debtors (₹1,50,000 + 19,20,000)	20,70,000	By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance C/d	5,58,000
	24,20,000		24,20,000

5.

Books of the Firm

Realisation Account

Dr. **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Fixed Assets A/c		50,000	By Provision on Debtors A/c		500
To Joint Life Policy A/c		10,000	By Provision on Stock A/c		2,000
To Debtors A/c		10,000	By Investment Fluctuation Fund A/c		500
To Stock (at I.P.)		10,000	By Joint Life Policy Fund A/c		10,000
To Investments A/c		8,000	By Creditors A/c		19,000
To Provision for Discount on Creditors A/c		500	By Outstanding Salary A/c		2,000
To Chandan's Capital A/c		10,000	By Raj's Capital (Inv. taken over)		6,000
[Creditors taken over]			By Bank A/c		
To Bank A/c:			Joint Life Policy	10,000	
Creditors paid off	7,500		Fixed Assets	70,000	
Unrecorded liability paid	2,500		Stock	7,000	

[1/2 × 5,000]			Debtors	9,000	
Outstanding Salary	2,000		Unrecorded assets sold	1,300	
Expenses on dissolution	1,100	13,100	Bad Debt Recovered	800	98,100
To Chandan's Capital		1,600			
[Salary 4 × ₹400]					
To Partner's Capital					
(Profit on Realisation)					
Raj [2/5]	9,960				
Chandan [2/5]	9,960				
Preetam [1/5]	4,980	24,900			
		1,38,100			1,38,100

PARTNER'S CAPITAL ACCOUNTS

Dr. **Cr.**

Particulars	Raj ₹	Chandan ₹	Preetam ₹	Particulars	Raj ₹	Chandan ₹	Preetam ₹
To Balance b/d			2,000	By Balance b/d	40,000	30,000	
To, Realisation A/c	6,000			By Reserve Fund	4,000	4,000	2,000
To Bank A/c	47,960	55,560	4,980	By Realisation A/c (Profit)	9,960	9,960	4,980
				By Realisation A/c (creditors taken over)		10,000	
				By Realisation A/c (4 month’s salary)		1,600	
	53,960	55,560	6,980		53,960	55,560	6,980

Bank Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance B/f	23,500	By Realisation A/c	
To Realisation A/c		Creditors	7,500
Joint Life Policy	10,000	Unrecorded Liability	2,500
Fixed Assets	70,000	Outstanding Salary	2,000
Stock	7,000	Expenses	1,100
Debtors (₹9,000 + 800)	9,800	By Raj’s Capital	47,960
Unrecorded Assets	1,300	By Chandan’s Capital	55,560
		By Preetam’s Capital	4,980
	1,21,600		1,21,600

Note:

(i) Chandan took over creditors of ₹10,000. This has been recorded. How he settles such liability is his personal matter and hence not recorded.

(ii) Unrecorded assets sold, and bad debts previously written off now received are recorded.

6. (a)

(If Stock at Cost on 01.04.2025 is converted to IP)

Books of Green Ltd.

Patna Branch Stock A/c

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f (at IP) (₹4,800 x 1.60)	7,680	By Goods Sent to Branch A/c [Goods returned – assumed at I/P]	400
To Goods sent to Branch A/c (at IP)	52,800	By Branch Cash A/c	18,400
To Branch Adjustment A/c (WN 3)	8,000	By Branch Debtors A/c	40,000
		By Balance c/f [at IP]	7,040
		By Stock Shortage (Balancing Figure)	2,640
	68,480		68,480

Patna Branch Adjustment A/c

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods sent to Branch A/c (Load: 400 x 60/160)	150	By Balance B/f (Load on Opening Stock: 7,680 x 60/160)	2,880
To Branch P/L A/c (Gross Profit transferred- Bal fig)	26,900	By Goods sent to Branch A/c (Load on goods sent: 52,800 X 60/160)	19,800
To Balance C/f (Load on Closing Stock: 7,040 X 60/160)	2,640	By Branch Stock A/c (Excess contribution to Gross Profit)	8,000
To Branch Stock A/c – loading on Shortage (Load: 2,640 x 60/160)	990		
	30,680		30,680

Working Notes:

1. Relation between Cost Price (CP), Invoice Price (IP) and List Price (LP):
   Considering CP =100, LP = 100 + 100% = 200. Hence, IP = LP less 20% = 200 – 20% of 200 = 160
2. Excess Contribution to Gross Profit:
   Here, the difference between LP and IP results in Excess Contribution to Gross Profit. It arises only out of the credit sales which have been made at list price.
   Excess Contribution to Gross Profit = ₹40,000 X 40/200 = ₹8,000

Alternative Solution

Books of Green Ltd.

Patna Branch Stock A/c

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f (at IP)	4,800	By Goods Sent to Branch A/c [Goods returned – assumed at I/P]	400
To Goods sent to Branch A/c (at IP)	52,800	By Branch Cash A/c	18,400
To Branch Adjustment A/c (WN 3)	8,000	By Branch Debtors A/c	40,000
To Stock Surplus A/c (Bal fig)	240	By Balance c/f [at IP]	7,040
	65,840		65,840

Patna Branch Adjustment A/c

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods sent to Branch A/c (Load: 400 X 60/160)	150	By Balance B/f (Load on Opening Stock: 4,800 X 60/160)	1,800
To Branch P/L A/c (Gross Profit transferred- Bal fig)	26,900	By Goods sent to Branch A/c (Load on goods sent: 52,800 X 60/160)	19,800
To Balance C/f (Load on Closing Stock: 7,040 X 60/160)	2,640	By Branch Stock A/c (Excess contribution to Gross Profit)	8,000
		By Stock Surplus A/c (Load: 240 X 60/160)	90
	29,690		29,690

Working Notes:

1. Relation between Cost Price (CP), Invoice Price (IP) and List Price (LP):
   Considering CP =100, LP = 100 + 100% = 200. Hence, IP = LP less 20% = 200 – 20% of 200 = 160

2. Excess Contribution to Gross Profit:
   Here, the difference between LP and IP results in Excess Contribution to Gross Profit. It arises only out of the credit sales which have been made at list price.
   Excess Contribution to Gross Profit = ₹40,000 X 40/200 = ₹8,000

6. (b)

In the books of Balducci Ltd.
Trading Account for the year ended 31.12.2025

Dr. **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		75,000	By Sales		4,00,000
To Purchases Less: Abnormal Goods	3,10,000 4,800	3,05,200	By Closing Stock Add: Loss on value of Abnormal Goods (₹5,000 -4,800)	80,000 200	80,200
To Gross Profit (Bal fig)		1,00,000			
		4,80,200			4,80,200

Percentage of Gross Profit on Sales = ₹1,00,000/ ₹4,00,000 = 25%.

Memorandum Trading Account
For the period ended 31st March, 2026

Dr. **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening Stock		80,200	By Sales Less: Sale of Abnormal Stock (₹2,400 - ₹400)	1,00,000 2,000	98,000
To Purchases		75,000	By Closing Stock (Bal. Fig.)		81,700
To Gross Profit (25% on ₹98,000)		24,500			
		1,79,700			1,79,700

Calculation of amount of claim to be lodged with the Insurance Company:

Value of Closing Stock as above	₹81,700
Add: Abnormal Goods at Cost	2,400
Less: Stock Salvaged	5,000
Claim to be lodged	79,100

Alternative Presentation:

In the books of Balducci Ltd.
Trading Account for the year ended 31.12.2025

Dr. **Cr.**

Particulars	Normal Items ₹	Abnormal Items ₹	Total ₹	Particulars	Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening Stock	75,000	-	75,000	By Sales	4,00,000	-	4,00,000
To Purchases	3,05,200	4,800	3,10,000	By Closing Stock	80,200	(200)	80,000
To Gross Profit @ 25% on Sales	1,00,000	-	1,00,000	By Gross Loss	-	5,000	5,000
	4,80,200	4,800	4,85,000		4,80,200	4,800	4,85,000

Percentage of Gross Profit on Sales = ₹1,00,000/ ₹4,00,000 = 25%.

Memorandum Trading Account
For the period ended 31st March, 2026

(in ₹)

Particulars	Normal Items	Abnormal Items	Total	Particulars	Normal Items	Abnormal Items	Total
To Opening Stock	80,200	(200)	80,000	By Sales	98,000	2,000	1,00,000
To Purchases	75,000	-	75,000	By Closing Stock (Bal Fig)	81,700	2,400*	84,100
To Gross Profit @ 25% on Sales	24,500	4,600	1,00,000				
	1,79,700	4,400	1,84,100		1,79,700	4,400	1,84,100

*Remaining abnormal stocks are valued at cost i.e. 50% of ₹4,800 = ₹2,400

Calculation of amount of claim to be lodged with the Insurance Company:

Value of Closing Stock as above	₹84,100
Less: Stock Salvaged	5,000
Claim to be lodged	79,100

7. (a)

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

Particulars	(₹ in lakhs)	(₹ in lakhs)
Quoted Price	180.00	
Less: Discount @1.25%	2.25	177.75
Add: GST@12.5%		22.50
Transportation Cost @2%		3.60
Erection Cost @3%		5.40
Preoperative Cost		1.50
Finance Cost @14.5% on ₹125 lakhs for the period 01.10.2025 to 31.12.2025		4.53
Amount to be capitalised as per AS 10		215.28

Note: Finance cost from 01.01.2026 to 31.03.2026 will be charged to Statement of Profit & Loss as per AS 16: Borrowing Cost.

7. (b):

As per AS 11, Fees for technical services $24,000 would be recorded on 07.12.2024 applying the exchange rate existing on that date = 24,000 × ₹73.80 = ₹17,71,200.

(ii) **For 2024-25:**

On 31.03.2025, Outstanding fess for technical services should be reflected in the balance sheet using the closing rate ($1 = ₹ 75.45) i.e. 24,000 × ₹ 75.45 = ₹18,10,800.

∴ Exchange loss to be charged to the Statement of Profit and Loss = ₹(18,10,800 – 17,71,200) = ₹39,600.

For 2025-26:

On 20.05.2025, Outstanding fess for technical services paid should be recognised using the existing rate ($1 =₹ 76.50) i.e. 24,000 × ₹ 76.50 = ₹18,36,000.

∴ Exchange loss on settlement to be charged to the Statement of Profit and Loss = ₹(18,36,000 – 18,10,800) = ₹25,200.

8. (a)

The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date. The major considerations governing the selection and application of accounting policies are:

1. **Prudence**

   In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

2. **Substance over Form**

   The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

3. **Materiality**
   Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

8. (b)

(i) **Salaries to be Charged to P&L Account for the year ended 31st December'2025**

Salaries of 80 workers @ ₹33,000 per month for full year	₹3,16,80,000
Salaries of 10 Trainees for six months @₹21,000 per month	12,60,000
Total amount to be charged to P&L Account	3,29,40,000

(ii) Salaries actually paid in 2025:

December'2024 salaries paid in January 25 @ ₹30,000 for 80 workers	₹24,00,000
Salaries of 80 workers from January to November 2025 (paid Feb – Dec 25) @₹33,000 per month for 11 months	2,90,40,000
Salaries of 10 Trainees for July to Nov'25 (paid Aug – Dec 25) @ ₹21,000 for 5 months	10,50,000
Total amount of Salaries actually paid	3,24,90,000

8. (c)

As per section 37 of Partnership Act, if dues of the retiring partner are not settled on the date of retirement, then the retiring partner will get

(i) 6% interest p.a. on the amount due or

(ii) share of profit earned for the amount due, whichever is beneficial to him.

Hence the retiring partner i.e. C will get:
6% on ₹52,000 for six months = ₹52,000 x 6% x 6/12 = ₹1,560
Proportionate profit = ₹25,000 x ₹52,000/ ₹ (52,000+57,000+76,000) = ₹7,027
Hence, the retiring partner will get ₹7,027.