FINANCIAL ACCOUNTING

Time Allowed: 3 Hours | Full Marks: 100

All workings must form part of your answer. Figures in brackets indicate marks.

SECTION – A (Compulsory)

1. Multiple Choice Questions: **[15 × 2 = 30]**

(i) Under which of the following accounting concepts is the owner of a business treated as a creditor of the business to the extent of his capital?
- (a) Money Measurement concept
- (b) Going Concern concept
- (c) Business Entity concept
- (d) Dual Aspect concept

(ii) If the Purchase Return Book of a company was undercast by ₹ 2,500, what will be the effect on the Trial Balance?
- (a) The debit total of Trial Balance will be more by ₹ 2,500
- (b) The credit total of Trial Balance will be more by ₹ 2,500
- (c) The debit total of Trial Balance will be less by ₹ 2,500
- (d) The credit total of Trial Balance will be less by ₹ 2,500

(iii) A dishonoured cheque of a debtor which was previously discounted with the bank is recorded in the Cash Book as:
- (a) Credit side in the Bank column
- (b) Debit side in the Bank column
- (c) Credit side in the Cash column
- (d) Recorded in Journal Proper only

(iv) Sundry Debtors are ₹ 4,00,000. Additional Bad Debts are ₹ 10,000. Provision for Doubtful Debts is to be maintained @ 5% on debtors. The existing provision is ₹ 12,000. The total amount to be debited to the Profit & Loss Account for bad debts and provision will be:
- (a) ₹ 7,500
- (b) ₹ 17,500
- (c) ₹ 19,500
- (d) ₹ 9,500

(v) A bill of exchange drawn on 12th June 2025 for 3 months was accepted. The maturity date will be:
- (a) 12th September 2025
- (b) 15th September 2025
- (c) 14th September 2025
- (d) 16th September 2025

(vi) 500 cases of goods costing ₹ 1,000 each were sent on consignment. Consignor's expenses were ₹ 15,000. Consignee's non-recurring expenses were ₹ 10,000. 50 cases were lost in transit as abnormal loss. What is the value of abnormal loss?

(a) ₹ 50,000
(b) ₹ 51,500
(c) ₹ 52,500
(d) ₹ 50,500

(vii) Net profit of a firm before charging manager's commission is ₹ 2,10,000. If the manager is entitled to a commission of 5% on net profit after charging such commission, the commission will be:

(a) ₹ 10,000
(b) ₹ 10,500
(c) ₹ 9,524
(d) ₹ 11,000

(viii) Under Memorandum Joint Venture method, when each co-venturer keeps records of their own transactions, what account is prepared in the books of each co-venturer to record transactions of other co-venturers?

(a) Joint Venture Account
(b) Joint Bank Account
(c) Joint Venture with Co-venturer Account
(d) Memorandum Joint Venture Account

(ix) A and B are equal partners. They admit C and D as partners with 1/5 and 1/6 share respectively. What is the new profit-sharing ratio?

(a) 15:14:13:21
(b) 19:19:12:10
(c) 1:1:5:6
(d) 2:1:5:6

(x) Capital employed in a business is ₹ 5,00,000. Normal rate of return is 10%. Average profit of the last 3 years is ₹80,000. The value of goodwill based on 3 years' purchase of super profit is:

(a) ₹ 90,000
(b) ₹ 1,50,000
(c) ₹ 2,40,000
(d) ₹ 1,20,000

(xi) Department X transfers goods to Department Y at an invoice price which is cost plus 25%. Department Y has closing stock of goods received from Department X valued at ₹ 40,000. What is the stock reserve to be created?

(a) ₹ 10,000
(b) ₹ 8,000
(c) ₹ 5,000
(d) ₹ 7,500

(xii) Under a Hire Purchase agreement, the difference between the Hire Purchase Price and the Cash Price is known as:
- (a) Down payment
- (b) Hire Purchase Reserve
- (c) Interest
- (d) Principal recovery

(xiii) As per AS 1 (Disclosure of Accounting Policies), which of the following is NOT a fundamental accounting assumption?
- (a) Going Concern
- (b) Consistency
- (c) Accrual
- (d) Materiality

(xiv) Under AS 12, a government grant received in the form of a non-monetary asset (such as land or equipment) at a concessional rate should be recorded at:
- (a) Market value
- (b) Concessional acquisition cost
- (c) Nominal value
- (d) Written-down value

(xv) A club received ₹ 1,20,000 as subscription during the year. Subscription outstanding at the beginning was ₹ 10,000 and at the end was ₹ 15,000. Subscription received in advance at the beginning was ₹ 8,000 and at the end was ₹ 12,000. The subscription income for the year is:
- (a) ₹ 1,21,000
- (b) ₹ 1,19,000
- (c) ₹ 1,25,000
- (d) ₹ 1,15,000

Section – B

(Answer any five questions from this section. Each question carries 14 Marks) [5 × 14 = 70]

2. (a) On 31st March 2026, the Cash Book of M/s. Sterling Enterprises showed a debit bank balance of ₹ 3,45,600. On comparing it with the Bank Pass Book, the following differences were observed:
- (i) Cheques deposited but not collected by bank: ₹ 54,000.
- (ii) Cheques issued but not presented for payment: ₹ 68,000.
- (iii) Bank charges of ₹ 1,200 debited in Pass Book only.
- (iv) Dividend on shares directly collected by bank and credited in Pass Book: ₹ 15,000, but no entry in Cash Book.
- (v) A cheque for ₹ 8,500 received from a customer and recorded in Cash Book was dishonoured, but the dishonour was not entered in the Cash Book till 31st March.
- (vi) A cash deposit of ₹ 25,000 was recorded in the bank column of Cash Book as ₹ 2,500.
- (vii) A payment of ₹ 12,000 made by the bank as per standing instructions was not recorded in the Cash Book.

Illustrate:
- (I) Amended Cash Book to find the adjusted bank balance, and
- (II) Bank Reconciliation Statement as on 31st March 2026. [7]

(b) The Trial Balance of Mr. Sen as on 31st December 2025 showed a difference which was placed to a Suspense Account. The following errors were subsequently located:

(i) A credit sale of goods for ₹ 18,000 to Mr. Amit was posted to the credit of his account.
(ii) A purchase of a typewriter for office use costing ₹ 12,500 was entered in the Purchases Book.
(iii) The total of the Sales Return Book of ₹ 3,600 was not posted to the ledger.
(iv) Goods costing ₹ 5,000 taken by Mr. Sen for personal use were not recorded anywhere.
(v) An amount of ₹ 4,200 paid to a creditor, Mr. Bose, was posted as ₹ 2,400 to the debit of his account.
(vi) Old furniture sold on credit to Mr. Das for ₹ 3,000 was recorded in the Sales Book as ₹ 300.

Pass necessary journal entries for rectification and Illustrate the Suspense Account. [7]

3. (a) M/s. Zenith Traders of Kolkata consigned 100 radio sets to M/s. Apex Agencies of Patna. The goods were invoiced at ₹ 2,500 each, which includes a profit of 25% on cost. Zenith Traders paid carriage and insurance of ₹ 8,000.

During transit, 10 sets were completely destroyed by fire. Apex Agencies took delivery of the remaining sets and paid clearing charges of ₹ 3,600 and godown rent of ₹ 2,000.

Apex Agencies sold 70 sets at ₹ 3,000 each. They were entitled to a commission of 5% on sales at invoice price and 25% on any surplus realized over invoice price. Apex Agencies reported that one customer to whom 2 sets were sold on credit became insolvent and only 40% could be recovered.
(Note: Consignee was NOT allowed del credere commission).
You are required to prepare:
(I) Consignment Account and
(II) Consignee's Account in the books of Zenith Traders. [7]

(b) M/s. Lease-Finance Ltd. leased a machine to M/s. User Corp on 1st April 2023 for 4 years. The details are:
(i) Cost of the machine (Fair Value): ₹ 15,28,905.
(ii) Expected useful life of machine: 5 years.
(iii) Lease Term: 4 years.
(iv) Annual lease rentals payable at the end of each year: ₹ 4,50,000.
(v) Unguaranteed Residual Value (URV) at the end of lease term: ₹ 1,50,000.
(vi) Implicit Rate of Interest: 10% p.a.
(vii) Present Value Factors @ 10% for years 1, 2, 3, and 4 are 0.9091, 0.8264, 0.7513, and 0.6830 respectively. Cumulative PV factor (PVAF) is 3.1699.

Required:
(I) Discuss the lease with reasons as per AS 19.
(II) Align the Unearned Finance Income in the hands of the lessor. [7]

4. (a) From the following Receipts and Payments Account of Star Sports Club for the year ended 31st December 2025, prepare the Income & Expenditure Account for the year ended 31st December 2025:

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Balance (Cash/Bank)	24,000	By Salaries	28,000
To Subscriptions: - 2024: ₹ 5,000 - 2025: ₹ 85,000 - 2026: ₹ 4,000	94,000	By Rent	12,000
To Entrance Fees	12,000	By Sports Materials purchased	35,000
To Interest on 8% Investments	6,400	By Printing & Stationery	4,500
To Sale of Old Sports Equipment (BV ₹ 3,000)	1,800	By Office Expenses	6,000
To Donation for Building Fund	50,000	By Closing Balance (Cash/Bank)	1,02,700
Total	1,88,200	Total	1,88,200

Additional Information:

(i) Subscriptions outstanding as on 31st Dec 2024 were ₹ 6,000 and as on 31st Dec 2025 were ₹8,000.

(ii) Salaries outstanding as on 31st Dec 2025 were ₹ 3,000.

(iii) Capitalize 50% of the Entrance Fees.

(iv) Investments represent ₹ 1,00,000 face value and were made on 1st January 2025 (held for the entire financial year).

(v) Sports materials on hand as on 31st Dec 2024 was ₹ 12,000 and as on 31st Dec 2025 was ₹15,000. [7]

(b) Mr. Roy, a trader, keeps his books under Single Entry System. The following information is provided for the year ended 31st March 2026:

Particulars	01.04.2025 (₹)	31.03.2026 (₹)
Cash & Bank	15,000	?
Stock-in-Trade	45,000	52,000
Sundry Debtors	60,000	85,000
Sundry Creditors	35,000	42,000
Furniture	20,000	20,000

Summary of Cash Book:

Received from Debtors: ₹ 2,10,000; Cash Sales: ₹ 30,000; Paid to Creditors: ₹ 1,45,000; Cash Purchases: ₹ 20,000; Wages paid: ₹ 15,000; General Expenses: ₹ 18,000; Drawings: ₹ 24,000; Additional Capital introduced: ₹ 10,000; Repairs on Furniture purchased on 31st March 2026: ₹ 5,000 (payment made by cheque).

Additional Information:

(i) Depreciate furniture @ 10% p.a. (on the opening balance).

(ii) Create a Provision for Doubtful Debts @ 5% on Closing Debtors.

(iii) Treat the ₹ 5,000 furniture repairs as a revenue repair expense.

You are required to:

(I) Calculate Credit Sales and Credit Purchases.

(II) Calculate the Closing Cash & Bank Balance and prepare the Statement of Profit or Loss (and/or Trading and Profit & Loss Account) for the year. [7]

5. X and Y are partners sharing profits in the ratio of 3:2. Their Balance Sheet as on 31st March 2026 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:	3,50,000	Land & Building	1,50,000
- X: ₹ 2,00,000			
- Y: ₹ 1,50,000			
General Reserve	50,000	Plant & Machinery	80,000
Sundry Creditors	1,20,000	Furniture	40,000
Bills Payable	30,000	Stock-in-Trade	80,000
		Sundry Debtors: ₹ 1,10,000	1,05,000
		Less: Provision: ₹ (5,000)	
		Cash at Bank	95,000
Total	5,50,000	Total	5,50,000

On 1st April 2026, Z is admitted as a partner for 1/5th share in the future profits on the following terms:

(i) Land & Building is to be appreciated by 20% and Plant & Machinery is to be depreciated by 10%.

(ii) Provision for Doubtful Debts is to be increased to 10% on debtors.

(iii) Z is to bring in ₹ 1,00,000 as capital.

(iv) Z is unable to bring in cash for his share of goodwill. The goodwill of the firm is valued at ₹ 1,50,000. It was decided to adjust Z's share of goodwill through his Current Account.

(v) The capitals of the old partners X and Y are to be adjusted on the basis of Z's capital and his share in the firm, any surplus or deficit to be transferred to their respective Current Accounts.

You are required to prepare:

(I) Revaluation Account,

(II) Partners' Capital Accounts, and

(III) Opening Balance Sheet of the new firm as on 1st April 2026. [14]

6. (a) M/s. Rupa Footwear of Delhi has a branch at Patna. Goods are invoiced to the branch at selling price, which is cost plus 25%. From the following particulars, prepare Patna Branch Account in the books of the Head Office for the year ended 31st December 2025:

- Stock at Branch on 1st Jan 2025 (IP): ₹ 60,000
- Debtors at Branch on 1st Jan 2025: ₹ 35,000
- Goods sent to Branch (IP): ₹ 3,00,000
- Cash Sales at Branch: ₹ 1,20,000; Credit Sales at Branch: ₹ 1,80,000
- Cash received from Debtors: ₹ 1,65,000
- Goods returned by Branch to H.O. (IP): ₹ 10,000
- Discount allowed to debtors: ₹ 3,000; Bad debts written off: ₹ 2,000
- Branch expenses paid by H.O.: Rent: ₹ 12,000, Salaries: ₹ 18,000.
- Stock at Branch on 31st Dec 2025 (IP): ₹ 50,000
- Petty Cash balance on 31st Dec 2025: ₹ 500 (Branch was sent ₹ 5,000 for petty cash during the year). [7]

(b) From the following information, Evaluate the amount of claim under loss of Stock Policy:

Sum Insured: ₹50,000	Stock as on 1.1.2025: ₹73,500
Accounting Year: Calendar Year	Stock as on 31.12.2025: ₹79,600
Value of Salvaged Stock: ₹5,800	Purchases during 2025: ₹3,98,000
G.P. Ratio: Uniform from year to year	Sales during 2025: ₹4,87,000
Reason for Damage on 30-6-2026: Due to fire accident	Purchases from 1.1.2026 to 30.6.2026: ₹1,62,000
	Sales from 1.1.2026 to 30.6.2026: ₹2,31,200

In valuing the stock at 31st December, 2025, ₹2,300 had been written off certain stock which was a poor selling line, having a cost of ₹6,900. A portion of these goods were sold in March, 2026 at a loss of ₹250 on the original cost of ₹3,450. The remainder of this stock was now estimated to be worth its original cost for the purpose of the claim. Subject to the above exception, gross profit had remained at a uniform rate throughout the year. [7]

7. (a) M/s. Radiant Steel Ltd. purchased a specialized manufacturing machine. The costs incurred are:

(i) Purchase price (excluding GST): ₹ 12,00,000.

(ii) Trade discount allowed by manufacturer: 5% of purchase price.

(iii) GST paid: ₹ 2,16,000 (for which full input tax credit is available).

(iv) Freight and delivery charges: ₹ 45,000.

(v) Site preparation and installation costs: ₹ 80,000.

(vi) Architect's fees for machine layout: ₹ 25,000.

(vii) Directly attributable administrative costs incurred specifically for bringing the machine to the location and condition necessary for its intended operation: ₹ 30,000.

(viii) Operating losses incurred before the machine reached its planned performance: ₹ 40,000.

(ix) Test run expenses: ₹ 15,000; Sale of samples produced during the test run: ₹ 3,000.

You are required to evaluate the cost at which the machinery should be capitalized as per AS 10 (Property, Plant and Equipment). [7]

(b) An Indian exporter, M/s. Bharat Garments, sold goods to a New York buyer on credit for $ 50,000 sold goods to a New York buyer on credit for $ 50,000 on 15th January 2025, when the exchange rate was $ 1 = ₹ 82.50. The financial year of the exporter ends on 31st March 2025. On 31st March 2025, the exchange rate was $1 = ₹83.80. The payment was received on 15th May 2025 when the exchange rate was $ 1 = ₹ 84.20.

Required:

(I) Examine, how the transaction should be initially recognized in the books of Bharat Garments.

(II) Evaluate the exchange difference to be recognized in the Profit & Loss Account for the years ended 31st March 2025 and 31st March 2026. [7]

8. (a) Discuss, the treatment of refund of Government Grants as per Accounting Standard 12. [5]

(b) A trader incurred the following expenses during the year ended 31 March 2026:

Particulars	Amount Paid (₹)
Salaries	12,60,000
Rent	6,00,000
Insurance	1,20,000
Electricity	3,60,000

The following additional information is available:

- Salaries for March 2026 amounting to ₹1,10,000 are outstanding.
- Rent includes ₹50,000 paid in advance for April 2026.
- Insurance includes ₹30,000 relating to the period after 31 March 2026.
- Electricity charges of ₹40,000 for March 2026 are outstanding.

Prepare a statement showing the amount of each expense to be charged to the Statement of Profit and Loss for the year ended 31 March 2026. [5]

(c) A and B are partners sharing profits and losses in the ratio of 3:2. Their capitals are ₹5,00,000 and ₹4,00,000 respectively. The partnership deed provides that:

- Interest on capital is allowed at 8% p.a.
- A is entitled to a salary of ₹60,000 p.a.
- Interest on drawings is charged at 10% p.a.

For the year ended 31 March 2026, the net profit of the firm of ₹2,40,000 was distributed between A and B in their profit-sharing ratio without making any adjustment for interest on capital, salary and interest on drawings. During the year, A withdrew ₹1,00,000 on 1 October 2025, while B withdrew ₹80,000 on 1 January 2026.

It was discovered after the accounts had been closed that the above items had been omitted.

You are required to:

(i) Calculate the correct amount of profit to be credited to A and B.

(ii) Prepare a single adjustment entry in the books of the firm to rectify the omission. [4]