

INTERMEDIATE EXAMINATION

December 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.

Wherever necessary, candidates may make appropriate assumption(s)

and state the same clearly in the answer.

Workings should form part of your answer.

Section – A (Compulsory)

1. You are required to answer all the questions. Each question is followed by 4 answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer. 2×15=30

(i) The construction of a factory building was completed on 1st April, 2023, at a cost of ₹ 56,50,000. A sum of ₹ 45,000 had been incurred for the construction of the temporary huts for storing building materials. Insurance premium of ₹ 56,500 paid on 5th April, 2023. The capital and revenue expenditure would be

- (A) Capital Expenditure ₹ 57,51,500 and Revenue Expenditure ₹ nil
- (B) Capital Expenditure ₹ 56,95,000 and Revenue Expenditure ₹ 56,500
- (C) Capital Expenditure ₹ 56,50,000 and Revenue Expenditure ₹ 1,01,500
- (D) Capital Expenditure ₹ 57,23,250 and Revenue Expenditure ₹ 28,250

(ii) If a receipt of ₹ 21,500 for interest has been recorded in the books as payment of ₹ 12,500 for interest, the profits would show—

- (A) an increase of ₹ 9,000
- (B) an increase of ₹ 34,000
- (C) a decrease of ₹ 9,000
- (D) a decrease of ₹ 34,000

(iii) Shiva received a bill for ₹ 58,550 from Vijay and endorsed it in favour of Makkhu. On the date of maturity, the bill was dishonoured and for it noting charges of ₹ 450 paid by holder. In this case Shiva will debit—

- (A) Vijay by ₹ 58,550
- (B) Vijay by ₹ 58,100
- (C) Vijay by ₹ 59,000
- (D) Noting charges account by ₹ 450

- (iv) Joint Venture with XYZ Account, is opened
- (A) when separate set of books is maintained for joint venture.
 - (B) when not maintaining separate set of books for joint venture but every Co-venturer keeps record his own transactions only.
 - (C) when not maintaining separate set of books for joint venture but every Co-venturer keeps complete record of all the transactions.
 - (D) In all the above situations, (A), (B) and (C).
- (v) On 31st March, 2023, the debtors of a trader are ₹ 6,20,000 before writing off the bad debts of ₹ 15,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of provision for discount on debtors is
- (A) ₹ 12,400
 - (B) ₹ 12,100
 - (C) ₹ 11,495
 - (D) ₹ 11,780
- (vi) Salaries paid during the year 2022-23 were ₹ 4,70,000. Salaries outstanding on 01.04.2022 were ₹ 65,000 and it was also outstanding for three months on 31.03.2023. The amount of salaries shown in Income and Expenditure Account will be—
- (A) ₹ 5,35,000
 - (B) ₹ 4,00,000
 - (C) ₹ 5,40,000
 - (D) ₹ 4,05,000
- (vii) Profit before interest on loan and manager's commission were ₹ 4,25,250. Interest on loan is ₹ 42,000. If the manager is entitled a commission of 5% on net profit after charging such commission then manager's commission will be—
- (A) ₹ 20,250
 - (B) ₹ 21,262.50
 - (C) ₹ 19,162.50
 - (D) ₹ 18,250

- (viii) At the end of the accounting year, advances from customers are
- (A) debited to Profit and Loss account.
 - (B) credited to Profit and Loss account.
 - (C) shown in the Balance Sheet as assets.
 - (D) shown in Balance Sheet as liabilities.
- (ix) On 31.03.2023 the debtors of a trader are ₹ 7,50,000 before writing off the bad debts of ₹ 25,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of net debtors shown in the balance sheet as at 31.03.2023, will be—
- (A) ₹ 6,74,250
 - (B) ₹ 6,74,975
 - (C) ₹ 6,98,250
 - (D) ₹ 6,97,500
- (x) Following information is given for the year ending 31.03.2023:
- Salaries outstanding and paid in advance on 01.04.2022 were ₹ 33000 and ₹ 22,000 respectively.
- Salaries paid during the year 2022-2023 ₹ 3,30,000.
- Salaries paid in advance and outstanding on 31.03.2023 were ₹ 16,500 and ₹ 44,000 respectively.
- The amount of salaries to be shown in Income and Expenditure Account for the year ending 31.03.2023, will be—
- (A) ₹ 3,46,500
 - (B) ₹ 2,91,500
 - (C) ₹ 3,13,500
 - (D) ₹ 3,68,500

- (xi) Opening Stock, Closing Stock, Sales Return and Sales are ₹ 2,80,000; ₹ 3,20,000; ₹ 45,000 and ₹ 24,20,000 respectively. If rate of gross profit is 25% on cost, then gross profit will be—
- (A) ₹ 6,05,000
 - (B) ₹ 4,75,000
 - (C) ₹ 4,84,000
 - (D) ₹ 5,93,750
- (xii) Only items of revenue nature pertaining to the period of accounts are shown in the
- (A) Receipts and Payments Account.
 - (B) Income and Expenditure Account.
 - (C) Both (A) and (B)
 - (D) Balance Sheet.
- (xiii) Excess of Hire-purchase price over the cash price is known as
- (A) Depreciation
 - (B) Penalty
 - (C) Interest
 - (D) Instalment
- (xiv) AS-10 is applicable to which one of the following assets?
- (A) Construction Contracts
 - (B) Live stock
 - (C) Plantation
 - (D) Property, Plant and Equipment

(xv) Goods costing ₹ 2,34,000 are sent to the Branch at a invoice price of ₹ 3,12,000. The loading on invoice price is

- (A) 20%
- (B) 25%
- (C) 33.33%
- (D) 28%

Section – B

Answer *any five* questions out of *seven* questions given. Each question carries 14 marks.

2. (a) On 30th September, 2023, Shri Sachin Chatterji's Cash Book shows that he had an overdraft of ₹ 400 on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following :
- (i) Cheques issued ₹ 1,500 had been entered in the Cash Book but had been presented into Bank ₹ 1,000.
 - (ii) Dividend amounting to ₹ 150 had been directly deposited into bank.
 - (iii) Bank had credited interest on Bank Deposit of ₹ 170 but the same had been debited in the Cash Book on 6th October, 2023.
 - (iv) Bank charge of ₹ 50 shown in the bank statement but the same had not been entered in the Cash Book.
 - (v) A cheque is issued to N.K. Chatterjee for ₹ 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unrepresented cheques shown above.
 - (vi) The receipt side of the Cash Book had been overcast by ₹ 20.
 - (vii) A cheque for ₹ 20 had been entered as a receipt in the Cash Book instead of as a payment.
 - (viii) A cheque drawn for ₹ 8 had been incorrectly entered in the Cash Book as ₹ 88.

You are required to prepare—

- (I) Adjusted Cash Book; and
- (II) Bank Reconciliation Statement as on 30.9.2023.

(b) From the following details, prepare an Adjusted Trial Balance as at 31-3-23.

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	₹		₹
Purchase	65,000	Sundry Creditors	35,000 (A)
Carriage Inward	1,000	Plant and Machinery	10,000 (B)
Wages	6,000	Buildings	5,000 (C)
Salaries	10,000	Furniture	3,000 (D)
Rent, rates and taxes	1,800	Bills Receivable	10,000 (E)
Insurance	1,500	Sundry Debtors	40,000
Interest paid	1,000	Capital	66,000
Sales	95,000	Sundry Expenses	5,000
Cash and Bank	21,500	Opening Stock	21,000
Bills Payable	5,800		

Notes:

- (i) Salaries and wages due to be paid ₹ 2,000 and ₹ 1,000 respectively.
- (ii) Insurance was paid to the extent of ₹ 300 advance.
- (iii) A sum of ₹ 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.
- (iv) Sundry expenses include ₹ 2,000 spent for the personal purpose of the proprietor.
- (v) Sales for the period include ₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth ₹ 1,000 (cost price) for personal consumption which has not been recorded in the books.
- (vi) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

- (vii) Closing Stock ₹ 20,000

3. (a) On 1st July, 2023, G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchased goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H.

On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. H paid the amount due to G by cheque. Give the necessary Journal entries in the books of H. 7

- (b) Lease Ltd. has initiated a lease for four years in respect of a vehicle costing ₹ 20,00,000 with expected useful life of 5 years. The asset would revert to the company under the lease agreement. The other information available in respect of lease agreement is:

- (i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹ 2,50,000.
- (ii) The implicit rate of interest is 10%.
- (iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hand of Lease Ltd.

- (I) The annual lease payment.
- (II) The unearned finance income.

Note: (i) PV of residual value for 4th year @ 10% is 0.683.

(ii) PV factor for 4 years @ 10% is 3.16987. 7

4. Rajesh does not maintain proper books of account. From the following particulars prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and the Balance Sheet as on that date: 14

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Debtors	90,000	1,25,000
Stock	49,000	66,000
Furniture	5,000	7,500
Creditors	30,000	22,500

Summary of other transactions is as follows:

Particulars	₹
Cash collected from Debtors	3,04,000
Cash paid to Creditors	2,20,000
Salaries	60,000
Rent	7,500
Office Expenses	9,000
Drawings	15,000
Additional Capital introduced	10,000
Cash Sales	7,500
Cash Purchases	25,000
Discount Received	3,500
Discount Allowed	1,500
Returns Inward	5,000
Returns Outward	4,000
Bad Debt	1,000

He had ₹ 25,000 as Cash Balance in the beginning of the year.

5. A and B were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets :	
A	1,38,000	Leasehold Building	80,000
B	1,52,000	Plant and Machinery	1,80,000
Bank Loan	40,000	Furniture	20,000
Current Liabilities :		Current Assets :	
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	<u>4,10,000</u>		<u>4,10,000</u>

The business was carried on till 30th June, 2023. The partners withdrew in equal amounts half the amount of profits made during the period of six months (from January to June, 2023) after charging depreciation on

Leasehold Building	—	10% per annum
Plant and Machinery	—	10% per annum
Furniture	—	10% per annum

Meanwhile Sundry Creditors were reduced by ₹ 15,000. Bills Payable by ₹ 2,500 and Bank Loan by ₹ 20,000. On 30th June stock was valued at ₹ 7,09,000, Book Debts were ₹ 75,000 and Cash at Bank was ₹ 2,500. On 30th June, 2023 the firm sold the business to a limited company for ₹ 4,00,000 payable in Equity Shares of ₹ 10 each.

The partners decided to take shares in the profit sharing ratio, any difference to be settled in cash.

You are required to prepare :

- (I) Statement of Net Assets as on 30th June, 2023;
- (II) Statement of Profit earned during the period six months ended on 30.6.2023;
- (III) Realisation Account;
- (IV) Capital Accounts of the partners.

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6. (a) X Ltd. has a retail branch at Puri. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Delhi H.O. to branch at Puri at wholesale price. From the following particulars ascertain the profit made at H.O. and branch for the year ended 31st March, 2023.

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Particulars	H.O. ₹	Branch ₹
Stock on 01.04.2022	7,00,000	—
Purchase	42,00,000	—
Goods sent to Branch (at invoice price)	15,12,000	—
Sales	42,84,000	14,40,000
Stock on 31.03.2023	16,80,000	2,52,000
Expenses	80,000	40,000

Sales at H.O. are made only on wholesale basis and that at branch only to customers at retail price.

Stock at H.O. is valued at invoice price.

- (b) On 1st April, 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at cost 1 Jan. 2022	1,47,000
Stock at cost 31 Dec. 2022	1,59,200
Purchases year ended 31 Dec. 2022	7,96,000
Sales year ended 31st Dec. 2022	9,74,000
Purchases 1.1.2023 to 31.3.2023	3,24,000
Sales 1.1.2023 to 31.3.2023	4,62,400

In valuing the stock for the Balance Sheet at 31st Dec. 2022 ₹ 4,600 had been written off on certain stock which was a poor selling line having the cost ₹ 13,800. A portion of these goods were sold in March, 2023 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to average clause.

Work out the amount of the claim of loss by fire.

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7. (a) ABC Ltd. is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd.?

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- (b) ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

(i) ₹ 20 lakh received for immediate start-up of business without any condition.

(ii) ₹ 50 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:

(I) That drugs should be available to the public at 20% cheaper from current market price; and

(II) The drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].

(iii) Two acres of land received for set up of plant.

(iv) ₹ 2 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

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8. (a) 'A' and 'B' were partners in a firm and their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively on 1st April, 2022. Profit for the year ending 31st March, 2023 amounted to ₹ 2,10,000. Drawings of partners were ₹ 1,00,000 and ₹ 60,000 respectively. It was observed that following errors were committed while distributing the profit:
- (i) Manager's commission @ 10% on the profits before charging such commission was omitted.
 - (ii) Closing Inventory was valued at ₹ 70,000 whereas its net realisable value (market value) was ₹ 50,000.
 - (iii) Outstanding salary of employees ₹ 40,000 were not recorded.
 - (iv) 'A' had given a loan of ₹ 1,50,000 to the firm on 1st December, 2022, interest was omitted to be recorded on this loan.
 - (v) Loan was given to 'B' on 1st July, 2022 amounting to ₹ 1,00,000 bearing interest @ 8% p.a. Interest was omitted to be charged by the firm.
 - (vi) Interest on Capital @ 6% p.a. was not allowed and interest on drawings was not charged @ 10% p.a.

On the basis of above information, answer the following questions :

- (I) How much interest should be allowed on A's Loan to the firm? Is it a charge or appropriation of profit?
 - (II) What is the amount of net profit?
 - (III) What is the amount of divisible profit?
 - (IV) What is each partner's share of profit? 4
- (b) Explain the following accounting conventions: 5
- (i) Full Disclosure
 - (ii) Consistency
 - (iii) Materiality
 - (iv) Conservatism
- (c) Explain the methods/criteria for the selection and application of Accounting Policies. 5
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