



INTERMEDIATE EXAMINATION
ANSWERS TO PRACTICE TEST PAPER
PAPER – 6
FINANCIAL ACCOUNTING

TERM – JUNE 2026
SYLLABUS 2022

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

- 1. Choose the correct option:** **[15 x 2 = 30]**
- (i) Recording the owner's personal transactions separately from business transactions is based on the concept of:
- Money Measurement Concept
 - Going Concern Concept
 - Entity Concept
 - Prudence Concept
- (ii) Bills Receivable Journal is also known as:
- Bills Payable Daybook
 - Bills Receivable Book
 - Sales Daybook
 - Purchase Return Book
- (iii) The book of account which records only those cash transactions which are not of heavy amount, but the type of transactions is frequently entered into by an entity is
- Triple Column Cash Book
 - Petty Cash Book
 - Ledger
 - None of the above
- (iv) Provision for Doubtful Debt on 1st April 2025 was 13,000. During the year 2025-26 the Bad-debt was 9,500. The Sundry Debtors on 31st March, 2026 were ₹3,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2026, there was additional Bad debt of ₹2,500 then Provision for doubtful- debt will be:
- debited to Profit & Loss Account by ₹ 16,125.
 - debited to Profit & Loss Account by ₹ 3,000.
 - debited to Profit & Loss Account by ₹ 900.
 - debited to Profit & Loss Account by ₹15,125.
- (v) Kareem draws a bill on Krish for Rs. 7,000. Kareem endorsed it to Kamesh. Kamesh endorsed it to Karan. The payee of the bill will be:
- Kareem
 - Kamesh
 - Karan
 - Krish
- (vi) Which of the following commission is allowed by the consignor to the consignee to encourage the consignee for putting-up hard work in introducing new product in the market?
- Del-credere Commission
 - Over-riding Commission



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- c. Hard work Commission
d. Ordinary Commission
- (vii) Opening stock ₹40,000; Closing stock ₹30,000; Purchases ₹1,20,000; Sales ₹2,00,000. Calculate the Gross Profit.
- ₹70,000
 - ₹50,000
 - ₹60,000
 - ₹80,000
- (viii) Which of the following is/ are the basic features of a Joint Venture?
- The profit or loss on joint venture is shared between the co-venturers in the agreed ratio
 - The co-venturers may or may not contribute initial capital
 - The JV is dissolved once the purpose of the business is over
 - All of the above
- (ix) A, B, C and D are partners sharing their profits and losses equally. They change their profit sharing to 2:2:1:1. How much will C sacrifice?
- 1/6
 - 1/12
 - 1/24
 - 1/2
- (x) X and Y are partners in a Firm with Capital of ₹18,000 and ₹20,000. Z was admitted for 1/3rd share in profits and brings ₹24,000 as Capital, calculate the amount of goodwill:
- ₹ 24,000
 - ₹20,000
 - ₹15,000
 - ₹10,000
- (xi) In departmental accounting, transactions are recorded:
- Company-wise
 - Branch-wise
 - Project-wise
 - Department-wise
- (xii) A lease which is generally not cancellable and covers full economic life of the asset is known as:
- Sale and leaseback
 - Operating Lease
 - Finance Lease
 - Economic Lease
- (xiii) Why is disclosure of significant accounting policies necessary?
- To increase profits
 - To ensure proper understanding of financial statements
 - To reduce tax liability
 - To comply with management decisions



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- (xiv) Government grants are defined as:
- Loans given by banks
 - Assistance by government in cash or kind for compliance with certain conditions
 - Tax collected by government
 - Donations received from public
- (xv) Capital Fund is also known as:
- Revenue Fund
 - General Fund
 - Reserve Fund
 - Specific Fund

Solution:

i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
c	b	b	d	c	b	a	d	b	d	d	c	b	b	b

Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

2.

- (a) On 31st January 2025, Sethi's cash book showed a bank overdraft of ₹2,50,000. On comparing with the passbook, the following differences were noted.
- Cash and cheques amounting to ₹26,800 were sent to the bank on 27th January, but cheques worth 4600 were credited on 2nd February and one cheque for 900 was returned by them as dishonoured on 4th February.
 - During the month of January, Sethi issued cheques worth ₹33,400 to his creditors. Out of these, cheques worth 27,400 were presented for payment on 5th February.
 - According to Sethi's standing orders, the bankers have made the following payments during the month of January:
Life insurance premium ₹3,840
Television license fee ₹2,400
 - Sethi's bankers have collected ₹3,000 as dividend on his shares.
 - Interest charged by the bank ₹2,500
 - A bill receivable of ₹2,000 discounted with the bank in December, 2024, was dishonoured on 31st January, 2025.
- You are required to:
- Prepare the Amended Cash Book as on 31st January 2025
 - Prepare a Bank Reconciliation Statement from the amended cash book as on 31st January 2025. [7]



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(b) Prepare the necessary journal entries to rectify the following errors:

- i. An amount of ₹ 200 withdrawn by owner for personal use was debited to trade expenses.
- ii. Purchase of goods of ₹ 300 from Nathan was wrongly entered in sales book.
- iii. A credit sale of ₹100 to Santhanam was wrongly passed through purchase book.
- iv. ₹ 150 received from Malhotra was credited to Mehrotra.
- v. ₹ 375 paid as salary to cashier Dhawan was debited to his personal A/c.
- vi. A bill of ₹ 2,750 for extension of building was debited to building repairs A/c.
- vii. Goods of ₹ 500 returned by Akashdeep were taken into stock, but returns were not recorded. [7]

Solution:

(a)

Dr. In the Books of Sethi Cr.
Cash Book (Bank column only)

Date	Particulars	(₹)	Date	Particulars	(₹)
2025 Jan- 31	To Dividend on shares	3,000	2025 Jan-31	By Balance b/f	2,50,000
	To Bal c/d	2,57,740		By Drawings (₹ 3840 + ₹ 2400)	6,240
				By Interest	2500
				By Debtors-discounted bill dishonoured	2000
		2,60,740			2,60,740
				By Bal b/d	2,57,740

Bank Reconciliation Statement
on 31.01.2025

Particulars	(₹)
Bank balance as per Cash Book (overdrawn)	2,57,740
Add: Cheques deposited but not credited in the Pass Book (4600+ 900)	5,500
	2,65,240
Less: Cheques issued but not presented for payment	27,400
Bank balance as per Pass Book (overdrawn)	2,35,840

(b)

Sl. No.	Type of Entry	Particulars	Debit (₹)	Credit (₹)
a.	Rectification entry	Drawings A/c Dr. To Trade Expenses A/c	200	200
b.	Rectification entry	Purchases A/c Dr. Sales A/c Dr. To Nathan A/c	300 300	600
c.	Rectification entry	Santhanam A/c Dr.	200	



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		To Sales A/c To Purchases A/c		100 100
d.	Rectification entry	Mehrotra A/c Dr. To Malhotra A/c	150	150
e.	Rectification entry	Salary A/c Dr. To Dhawan A/c	375	375
f.	Rectification entry	Buildings A/c Dr. To Building Repairs A/c	2,750	2,750
g.	Rectification entry	Sales Returns A/c Dr. To Akashdeep A/c	500	500

3.

(a) X draws a bill for ₹1,200 and Y accepts the same for mutual accommodation in the ratio of 4:2. X discounts the bill for ₹1,110 and remits 1/3rd of the proceeds to B. Before the due date, Y draws another bill for ₹1,800 on X in order to provide funds to meet the first bill. The second bill is discounted for ₹1,740 by Y and a sum of ₹360 is remitted to X after meeting the first bill. The second bill is duly met. Prepare the journal entries in the books of both X and Y. [7]

(b) Vishnu Ltd. leased a printing machine from Garur Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3 instalments and at the termination of the lessee, Garur Ltd. will take back the said machine. The following details are available in respect of the machine lessee:

- Cost of the printing machine is ₹ 15,00,000.
- Unguaranteed residual value at the end of the lease period is ₹ 2,00,000.
- Fair value of the machine is ₹ 15,00,000.
- The internal rate of return of the investment is 10%.

You are required to:

- (i) Analyze whether the lease is a finance lease or an operating lease.
- (ii) Examine the amount of unearned finance income.

Given: PVF10%, 3 = 0.7513; PVAF10%, 3 = 2.4868

[7]



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Solution:

(a)

In the books of X
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c Dr. To Y A/c (Being on 1st bill drawn on Y for mutual accommodation)		1,200	1,200
	Bank A/c Dr. Discount on Bills A/c Dr. To Bills Receivable A/c (Being the bill discounted with the banker for 1110)		1,110 90	1,200
	Y A/c ($\text{₹ } 1,200 \times \frac{1}{2}$) Dr. To Bank A/c To Discount on Bills A/c ($\text{₹ } 90 \times \frac{1}{3}$) (Being 1/3rd of the proceeds remitted to Y – the loss on discount shared proportionately)		400	370 30
	Y A/c Dr. To Bills Payable A/c (Being the bill drawn on X by Y)		1,800	1,800
	Bank A/c Dr. Discount on Bills A/c Dr. To Y A/c ($\text{₹ } 1,200 \times \frac{1}{3}$) (Being the net amount remitted to X by Y)		360 40	400
	Bank A/c Dr. To Y A/c (Being the balance amount of the 2nd bill remitted by Y)		600	600
	Bills Payable A/c Dr. To Bank A/c (Being the 2nd bill honoured at maturity)		1,800	1,800

Note: (Prepare Y A/C to know the balance amount due)

In the books of Y
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X A/c Dr. To Bills Payable A/c (Being a bill drawn on Y by X for mutual accommodation)		1,200	1,200
	Bank A/c Dr.		370	



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Discount on Bills A/c Dr. To X A/c (Being 1/3rd of the proceed received and the loss on discount shared proportionately)	30		400
Bills Receivable A/c Dr. To X A/c (Being the bill drawn on X)	1,800		1,800
Bank A/c Dr. Discount on Bills A/c (Bal. fig.) Dr. To Bills Receivable A/c (Being the bill discounted with the banker for ₹ 1,740)	1,740 60		1,800
X A/c Dr. To Bank A/c To Discount on Bills A/c (Being 1/3rd of the proceeds remitted to X – the loss on discount shared proportionately)	400		360 40
Bills Payable A/c Dr. To Bank A/c (Being the 1st bill honoured at maturity)	1,200		1,200
X A/c Dr. To Bank A/c (Being the balance amount of the 2nd bill remitted to X)	600		600

Note: Before the due date of the 1st bill, X was to remit ₹ 800 to Y to enable him to honour the bill. But X was not in a position to remit the required amount. He accepted a bill of ₹ 1800 drawn by Y. Y discounted the bill for ₹ 1,740 and remitted to X ₹ 360 after adjusting ₹ 800 in respect of the 1st bill. Therefore, X enjoyed ₹ (360+800) ₹ 1,160 out of ₹ 1,740. X's share of discount will be: ₹ 60/1,740 × ₹ 1,160 = ₹ 40

(b)

(i) Present value of unguaranteed residual value = ₹ 2,00,000 × 0.7513 = ₹ 1,50,260

∴ Present value of lease payments = ₹ (15,00,000 – 1,50,260) = ₹ 13,49,740

Present value of lease payments as percentage of Fair value = $\frac{13,49,740}{15,00,000} = 90\%$ (approx.)

As the 'Present value of lease payments' makes a substantial portion of the 'Fair value', the machine lease by Vishnu Ltd. from Garur Ltd. is a finance lease by nature.

(ii) Annual lease payments = $\frac{\text{Present value of lease payments}}{PVAF\ 10\%,3} = \frac{13,49,740}{2.4868} = 5,42,762$ (approx.)

Gross investment in lease = ₹ [(₹ 5,42,762 × 3) + 2,00,000] = ₹ 18,28,286

∴ Unearned finance income



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= Excess of 'Gross investment in lease' over 'Cost of the printing machine'
= ₹ (18,28,286 – 15,00,000)
= ₹ 3,28,286.

4.

- (a) Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March 2025.

Particulars	Debit (₹)	Credit (₹)
Mr. Arvind Kumar's Capital		1,00,000
Machinery	36,000	
Depreciation on Machinery	4,000	
Repairs to Machinery	5,200	
Wages	54,000	
Salaries	21,000	
Income Tax of Mr. Arvind Kumar	1,000	
Cash in Hand	4,000	
Land & Building	1,49,000	
Depreciation on Building	5,000	
Purchases	2,50,000	
Purchase Returns		3,000
Sales		4,98,000
CC Bank		7,600
Accrued Income	3,000	
Salaries Outstanding		4,000
Bills Receivables	30,000	
Provision for Doubtful Debts		10,000
Bills Payable		16,000
Bad Debts	2,000	
Discount on Purchases		7,080
Debtors	70,000	
Creditors		62,520
Opening Stock (01.04.2024)	74,000	
Total	7,08,200	7,08,200

Additional information:

- (i) Stock as on 31st March 2025 was valued at ₹ 60,000



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- (ii) Write off further ₹6,000 as bad debt and maintain a provision of 5% for doubtful debt.
- (iii) Goods costing ₹10,000 were sent on approval basis to a customer for ₹ 12,000 on 30th March, 2024. This was recorded as actual sales.
- (iv) ₹ 2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
- (v) General Manager is to be given commission at 10% of net profits after charging his commission.
- (vi) Works manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own.

You are required to prepare Trading and Profit & Loss Account in the books of Mr. Arvind Kumar. [7]

- (b) The following information is available from Mrs. Sashi who maintains books of accounts on single entry system.

Particulars	01.04.2024 (₹)	31.03.2025 (₹)
Cash and Bank	20,000	21,000
Sundry Debtors	17,000	25,000
Stock	40,000	60,000
Furniture	29,000	29,000
Creditors	32,000	22,000
10 % Loan from Mrs. Sashi	30,000	30,000

Mrs. Sashi withdrew ₹5,000 from the business every month for meeting her household expenses. During the year She sold investments held by her privately for ₹ 35,000 and invested the amount in her business. At the end of the year 2024-2025, it was found that full years interest t on loan from Mrs. Sashi had not been paid. Depreciation @ 10% p.a was to be provided on furniture for the full year. Shop assistant was to be given a share of 5% on the profits ascertained before charging such share. Calculate profit earned during the year ended 31.03.2025 by Mrs. Sashi. [7]

Solution:

- (a) **Mr. Arvind Kumar**
Trading Account for the year ended 31st March 2025

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Opening stock: Finished goods		74,000	By Sales A/c Less: Sent on Approval	4,98,000 (12,000)	4,86,000
To Purchases: Less: Purchases returns	2,50,000 (3,000)	2,47,000	By Closing stock A/c Finished goods Add Sent on Approval	60,000 10,000	70,000
To Wages:		54,000			
To P/L A/c		1,81,000			



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(Gross Profit transferred)					
		5,56,000			5,56,000

Dr. Profit and Loss Account for the year ended 31st March 2025 Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Salaries		25,000	By Trading A/c (Gross Profit transferred)		1,81,000
To Repairs to Machinery		5,200	By Discount Received		7,080
To Depreciation: on Machinery on Building		4,000 5,000			
To Rent		2,400			
To Bad Debts	2,000				
Add: Further Bad Debts	6,000				
Provision for Doubtful Debts	2,480				
Less: Provision Opening	(10,000)	480			
To Commission to Works Manager		18,000			
To Commission to General Manager		12,000			
To Capital A/c (Net Profit transferred)		1,20,000			
		1,88,080			1,88,080

(b) Statement of Affairs

Particulars	31-03-2024 (₹)	31-03-2025 (₹)	Particulars	31-03-2024 (₹)	31-03-2025 (₹)
Capital (opening & closing) (Bal. fig.)	44,000	83,000	Cash at Bank	20,000	21,000
Creditors	32,000	22,000	Debtors	17,000	25,000
Loan from Mrs. Sashi	30,000	30,000	Stock	40,000	60,000
			Furniture	29,000	29,000
	1,06,000	1,35,000		1,06,000	1,35,000



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Statement of Profit & Loss
for the year ended 31.03.2025

Dr.					Cr.
Particulars	31-03-2024 (₹)	31-03-2025 (₹)	Particulars	31-03-2024 (₹)	31-03-2025 (₹)
Opening Capital		44,000	Closing Capital		83,000
Further Introduction of Capital		35,000	Drawings (5,000 × 12)		60,000
Trading Profit		64,000			
		1,43,000			1,43,000
Depreciation (29,000 × 10%)		2,900	Trading Profit		64,000
Interest on Loan (30,000 × 10%)		3,000			
Net Profit		58,100			
		64,000			64,000
Commission to Shop Assistant (58,100 × 5%)		2,905	Net Profit		58,100
Net Profit		55,195			
		58,100			58,100

Statement of Affairs
for the year ended 31.03.2025

Particulars	(₹)	(₹)	Particulars	(₹)
Capital	44,000		Cash at Bank	21,000
Add: Further Capital Introduced	35,000		Debtors	25,000
Less: Drawings	(60,000)		Stock	60,000
Add: Net profit	55,195	74,195	Furniture (₹29,000 – ₹2,900)	26,100
Creditors		22,000		
Interest on Loan		3,000		
Commission to Assistant		2,905		
Loan from Mrs. Sashi		30,000		
		1,32,100		1,32,100

5. The Balance Sheet of A, B and C who are sharing profits in proportion to their capital stood as follows on March 31st, 2025:

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Accounts:			Land and Buildings		50,000
A	40,000		Plant and Machinery		17,000



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B	30,000		Stock		16,000
C	20,000	90,000	Debtors	10,000	
Creditors		13,800	Less: Provision	200	9,800
			Cash at Bank		11,000
		1,03,800			1,03,800

B retired on the above date and the following was agreed upon:

- (i) The stock be depreciated by 6%.
- (ii) That the provision for doubtful debts be brought up to 5% on Debtors.
- (iii) That the Land and Buildings be appreciated by 20%.
- (iv) That a provision for ₹1,540 be made in respect of outstanding legal charges.
- (v) That the Goodwill of the entire firm be fixed at ₹21,600 and B's share of it be adjusted into the accounts of A and C who are going to share future profits in the ratio of 5:3.
- (vi) That the assets and liabilities (except Cash at Bank) were to appear in the Balance Sheet at their old figures.
- (vii) That the entire capital of the firm as newly constituted be fixed at ₹ 56,000 between A and C in the proportion of 5: 3 (actual cash to be brought in as paid off, as the case may be).

Prepare the Balance Sheet after B's retirement.

[14]

Solution:

Balance Sheet as on 31st March, 2025

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Account:			Land and Building		50,000
A	35,000		Plant and Machinery		17,000
C	<u>21,000</u>	56,000	Stock		16,000
B's Loan A/c		39,600	Debtors	10,000	
Creditors		13,800	Less: Provision for Bad Debt	<u>200</u>	9,800
			Cash at Bank (₹11,000 + ₹5,600)		16,600
		1,09,400			1,09,400

Note: Since assets and liabilities will appear in the Balance Sheet at their old figure Memorandum Revaluation Account should be opened.

Working Notes:

$$A = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

Hence, gaining ratio = 13: 11



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Memorandum Revaluation Account

Particulars	(₹)	Particulars	(₹)
To Under valuation of Stock	960	By Overvaluation of Land and Building	10,000
To Provision for Bad Debts ₹(500-200)	300		
To Provision for legal changes	1,540		
To Profit on Rev:			
A 3200			
B 2400			
C 1600	7,200		
	10,000		10,000
To Reversal of items		By Reversal of items:	
To Overvaluation of Land and Building	10,000	By Undervaluation of Stock	960
		By Provision for Bad	300
		By Provision for legal changes	1,540
		By Capital A/c	
		Profit to be written-back	
		A-5/8 = 4500	
		C-3/8 = 2700	7,200
	10,000		10,000

B's share of goodwill = ₹21,600 × 3/9 = ₹7,200

The entry being:

A's Capital A/c	Dr	3,900	
C's Capital A/c	Dr	3,300	
	To, B's Capital A/c		7,200
(Being gaining ratio)			

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Memo. Reval. A/c	4,500	----	2,700	By Balance b/d	40,000	30,000	20,000
To B's Capital A/c	3,900	----	3,300	By Revaluation A/c Profit	3,200	2,400	1,600
To B's Loan A/c	----	39,600	----	By A's capital A/c	----	3,900	----
				By B's Capital A/c	----	3,300	----
To Balance c/d	35,000*	----	21,000	By Bank A/c (Balance Fig.)	200	----	5,400
	43,400	39,600	27,000		43,400	39,600	27,000

* Total Capital = ₹56,000 in 5 : 3, i.e., A ₹35,000; C ₹21,000.



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6.

- (a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2023 assuming that H.O sold goods at cost price 25%.

Particulars	(₹)	Particulars	(₹)
Stock on 1.4.2022 (I.P.)	12,500	Bad Debts	2,000
Debtors	5,000	Allowances to customers	1,000
Petty Cash	1,000	Returns Inwards	1,000
Goods sent to branch (I.P.)	40,000	Charges sent to Bank:	
Goods return to H.O. (I.P.)	5,000	Rates & Taxes	3,000
Cash Sales	12,000	Salaries	8,000
Cash received from Debtors	30,000	Misc. Exps.	1,000
		Stock on 31.03.2023 (I.P.)	15,000
		Debtors	4,000
		Petty Cash	1,000

[7]

- (b) On account of fire on June 15, 2025, in business house of a company, the working remained disturbed up to December 15, 2025 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ₹ 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to last year. The company incurred an additional expenditure of ₹ 12,000 to make sales possible and made a saving of ₹ 2,000 in insured standing charges.

Evaluate the claim under the consequential loss policy keeping the following additional information in view:

Particulars	(₹)	Particulars	(₹)
Actual sales from 15.6.25 to 15.12.25	70,000	Total standing charges for last financial year	1,20,000
Sales from 15.6.24 to 15.12.24	2,40,000	Turnover for last financial year	6,00,000
Net profit for the financial year	80,000	Turnover from 16.6.24 to 15.6.25	5,60,000
Insured standing charges for last financial year	70,000		

[7]

Solution:

- (a) **Dr.** In the books of Head Office **Cr.**
Branch account

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500		Bank A/c:		



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			Cash Sales	12,000	
			Cash Received from Debtors	30,000	42,000
Debtors	5,000		Goods sent to branch (Return to H.O.)		5,000
Petty Cash	1,000	18,500	Goods sent to branch (Loading)		8,000
Goods sent to branch		40,000			
Bank A/c:			By Balance c/d		
Rates & Taxes	3,000		Stock	15,000	
Salaries	8,000		Debtors	4,000	
Misc. Expenses	1,000	12,000	Petty Cash	1,000	20,000
Goods sent to Branch (Loading on returns)		1,000			
Closing Stock Reserve (₹ 15,000 × 1/5)		3,000			
General Profit & Loss A/c		3,000			
		77,500			77,500

Note: Here, loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹ 12,500 × $\frac{1}{5}$ = 2,500 and so on.

(b) GP for previous accounting period = Net profit for previous accounting period + Insured standing charges. = ₹ 80,000 + ₹ 70,000 = ₹ 150,000

$$\text{GP rate} = \frac{\text{GP}}{\text{Sales}} \times 100 = \frac{1,50,000}{6,00,000} \times 100 = 25\%$$

Short sale = standard turnover – actual turnover for indemnity period.
= ₹(2,40,000 × 125%) – ₹ 70,000 = ₹ 2,30,000

GP Lost = Short sale × GP rate
= ₹ 2,30,000 × 25% = ₹ 57,500

Admissible additional expenses for insurance claim

Least of the following:

i. Actual additional exp.	(₹)	12,000
ii. Sales due to additional expenses × GP rate (₹ 70,000 × 25%)		17,500
iii. Actual additional expenses =	$\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$	
$12000 \times \frac{80,000+70,000}{80,000+1,20,000}$		9,000

Admissible additional expenses

9,000

Gross claim = GP lost + admissible expenses for insurance claim – Saving in standing charges.
= ₹ (57,500 + 9,000 – 2,000) = ₹ 64,500

Insurable value = adjusted annual turnover × GP rate
= (₹ 5,60,000 × 125%) × 25% = ₹ 1,75,000



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$$\begin{aligned}\text{Net Claim} &= \frac{\text{Policy Value}}{\text{Insurable Value}} \times \text{Gross claim} \\ &= \frac{1,40,000}{1,75,000} \times 64,500 = ₹51,600\end{aligned}$$

7.

- (a) **Krishna Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in Four months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 150,000. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 55,000 per month. The machine was purchased at ₹ 2,67,00,000 and ₹ 90,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 15,000 to supervise machinery installation at the factory site. You are required to evaluate the amount at which the Machinery should be capitalized as per AS 10. [7]**
- (b) (i) **XYZ Ltd., an Indian Company obtained long-term loan from ASM private Ltd., a US company amounting to 60 Lakhs. It was recorded at US \$1 = 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2025) was US \$1 = 62.00**
- (ii) **Trade receivable includes amount receivable from Siksha Ltd. 20 lakhs recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = 59.00. The exchange rate on the balance sheet date (31.03.2025) was US \$1 = 62.00.**
- You are required to evaluate the amount of exchange difference and also examine the accounting treatment needed in the above two case as per AS-11 in the books of XYZ Ltd. [7]**

Solution:

(a)

Particulars		₹
Purchase Price	Given	2,67,00,000
Add: Site Preparation Cost	Given	1,50,000
Technician's Salary	Specific/Attributable overheads for 4 months (55,000x 4)	2,20,000
Initial Delivery Cost	Transportation	90,000
Professional fees for Installation	Architect's fees	15,000
Total Cost of Machinery		2,71,75,000

- (b) (i) Exchange difference on account of restatement of loan US \$ 1,00,000 (60,00,000/60) on the date of balance sheet 31.03.2025 = (1,00,000 × 62) - (1,00,000 × 60) = 2,00,000 (loss).
This difference of ₹ 2,00,000 (loss) should be charged to the statement of profit and loss as per AS-11, as it is arising because a loan of US \$ 1,00,000 is being reported at a rate different from the rate at which it was initially recorded.
- (ii) Exchange difference on account of restatement of trade receivable of US \$33,898.30 @62 on the Balance Sheet = (33, 898.3 * 59) - (33, 898.3 * 62) = 1,01,694 (gain)



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This difference of 1,01,694 (gain) arising on account of restatement of receivables should be credited to Statement of Profit and Loss.

8. Short Questions:

- (a) Discuss the relevant Disclosures of Accounting Policies as per AS 1. [5]
- (b) The City Sports Club of Surat had received in 2025-2026 ₹ 50,000 towards subscription. Subscription for 2024- 25 unpaid on 1.4.2025 were ₹ 5,000.
Subscriptions paid in advance on 31.3.2025 were ₹ 1,250 and the same on 31.3.2026 was ₹ 1,000. Subscriptions for 2025- 2026 unpaid on 31.3.2026 were ₹ 2,250.
Prepare a statement showing the amount of subscriptions that would appear in Income and Expenditure Account of the club for the year ended 31.03.2026. [5]
- (c) A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit-sharing ratio between A, B and C becomes 5: 3: 2. Calculate the sacrifice ratio of A and B after admission of C? [4]

Solution:

(a)

- As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.
- Any change in the accounting policies which has a material effect in the current period or which is reasonably 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 statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(b)

Particulars	(₹)
Subscriptions received during the year 2025-2026	50,000
Add: Subscription outstanding on 31.3.2026	2,250
	52,250
Less: Subscription outstanding on 1.4.25	5,000
	47,250
Add: Subscription paid in advance on 31.3.2025	1,250
	48,500
Less : Subscription received in advance on 31.3.2026	1,000
Subscription for 2025-2026	47,500



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(c) Calculation of Sacrificing Ratio of A & B after C's admission

	A :	B :	C
Old Ratio	4 :	3	
New Ratio	5 :	3 :	2

$$A = \frac{4}{7} - \frac{5}{10} = \frac{40-35}{70} = \frac{5}{70}$$

$$B = \frac{3}{7} - \frac{3}{10} = \frac{30-21}{70} = \frac{9}{70}$$

Sacrificing Ratio is 5: 9