PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) A concern proposes to discontinue its business from December 2023 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2023 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) Damaged Inventory should be valued at cost or market price, whichever is lower.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor for personal use should be charged to profit and loss account as an expense.

   (h) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

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(i) Where a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

(j) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

(k) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Theoretical Framework

2. (a) What services can a Chartered Accountant provide to the society?

(b) State the advantages of setting Accounting Standards.

Journal Entries

3. (a) Journalise the following transactions in the books of Gopal Traders:

2023	
April,5	Discounted a bill of exchange of ₹20,000 at 2% through bank.
April,8	Sold goods to Malik costing ₹ 20,000 at 25% above cost less trade discount of 10% plus CGST and SGST @ 6%.
April,10	Purchased goods from trends industries for Rs 8,000 plus CGST and SGST@6% each.
April,16	Received ₹5,800 form Amar Singh in full settlement of his account for ₹ 6,000.
April,19	Goods given as charity costing ₹800, sale price ₹1,000. CGST and SGST @6% each was paid at the time of purchase of such goods.
April,23	Received ₹510 from Ganesh on his account for ₹600.
April,25	Interest on loan from Akash ₹1,000 due but not paid.

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Capital or Revenue Receipt or Expenditure

(b) Classify the following receipts or expenditures as capital or revenue:

(i) Wages incurred by a factory in manufacturing a part for its plant.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) An expenditure intended to benefit the current period.

(iv) Amount paid for removal of stock to a new site.

(v) Amount received from sale of land and building by a real estate dealer.

Subsidiary Books

4. (a) The following are some of the transactions of M/s Sameer traders - a garment dealer. Prepare the sales book.

Sold to M/s. Chawla & Verma on credit:

30 shirts @ ₹ 700 per shirt.

20 trousers @ ₹1,000 per trouser.

Less: Trade Discount @ 10%

Sold furniture to M/s. Mittal & Co. on credit ₹8,000.

Sold 50 shirts to M/s. Nagpal & Sons @ ₹800 per shirt.

Sold typewriter to M/s. Goyal & Co. ₹7,200 for cash

Sold 30 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Madhu & Garg.

50 shirts @ ₹750 per shirt

20 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

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Rectification of Errors

(b) M/s. Beta Chemicals labs were unable to agree the Trial Balance as on 31st March, 2023 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 15,000.

(iii) Goods to the value of ₹ 4,500 returned by a customer, Shiv & Co., had been posted to the debit of Shiv & Co. and also to sales returns.

(iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.

(v) A bill of exchange (received from Ms. Sapna) for ₹ 75,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

Bank Reconciliation Statement

5. On 31 December 2023, Bank Statement of Samar & Co. was showing a favourable balance of ₹1,05,980. This did not agree with the balance in the cash book. On scrutiny of the Cash Book and Bank Statement following discrepancies were found:

(i) A deposit of 30,825 made on 29th December 2023 had not been credited by the bank till 31 December 2023.

(ii) Cheques issued for ₹48,400 not presented for payment till 31 December 2023.

(iii) On 25th September 2023, the firm had entered into Hire Purchase agreement to pay by bank order a sum of ₹ 25,000 on the 10th of each month, commencing from October 2023. For this transaction no entries had been made in cash book.

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(iv) A customer of the firm, who received a cash discount of 4% on his account of ₹2,00,000 paid the firm a cheque on 22 December. The Cashier erroneously entered the gross amount in the bank column of the Cash Book.

(v) Bank Charges amounting to ₹1,250 had not been entered in Cash Book

(vi) Dividend of 25,000 collected by bank was not recorded in cash book.

Prepare Bank Reconciliation Statement as on 31st December 2023. .

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2023 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2023.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2023.

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Depreciation and Amortisation

7. M/s. Mohit Transport Company purchased 10 Buses @ ₹ 25,00,000 each on 1st July 2020. On 1st October, 2022, one of the buses is involved in an accident and is completely destroyed and ₹ 17,50,000 is received from the insurance in full settlement. On the same date, another bus was purchased by the company for the sum of ₹ 30,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year.

   Give the Bus account for two years ending 31st December, 2023.

Bills of Exchange

8. Chavi owed ₹ 1,00,000 to Ritu. Chavi accepted a bill drawn by Ritu for the amount at 3 months. After 3 days, Ritu got the bill discounted with her bank for ₹ 99,000. Before the due date, Chavi approached Ritu for renewal of the bill. Ritu agreed on the conditions that ₹ 50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Chavi should accept a new bill at three months. These arrangements were carried out. But afterwards, Chavi became insolvent and 40% of the amount could be recovered from his estate.

   Pass journal entries (with narration) in the books of Ritu.

Final accounts

9. The following is the trial balance of Mr. Samuel for the year ended 31st March,2024:

Trial Balance as on 31st March,2024

Particulars	Dr.	Cr.
Capital		9,50,000
Sundry Creditors		3,25,000
Purchase Returns		50,000
Loan from Mr. Sahil		4,00,000
Provision for Bad and Doubtful Debts		25,000
Sales		44,20,000

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Bank overdraft		6,00,000
Opening Stock:		
Raw Materials	2,50,000	
Finished goods	4,25,000	
Purchase of Raw Materials	34,00,000	
Land	50,000	
Building	6,00,000	
Loose tools	1,50,000	
Plant & Machinery	3,00,000	
Investments	2,50,000	
Cash in Hand	15,500	
Cash in Bank	43,500	
Furniture & Fixtures	1,25,000	
Sundry Debtors	3,75,000	
Drawings	60,000	
Salaries	90,000	
Coal and Fuel	1,05,000	
Factory rent	77,000	
General Expenses	39,000	
Sales Return	55,000	
Bad Debts	15,000	
Direct Wages (Factory)	1,20,000	
Power	80,000	
Interest Paid on Bank overdraft	90,000	
Carriage Inwards	30,000	
Carriage Outwards	25,000	
	67,70,000	67,70,000

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Additional Information:

(i) Stock of Raw materials and finished goods at the end of the year was ₹ 5,00,000 and ₹ 4,37,500 respectively.

(ii) A provision for doubtful debts at 5% on Sundry Debtors.

(iii) Depreciate building by 10%, Plant and machinery by 15% and Furniture and fixtures by 10%,

(iv) One month Factory rent is outstanding.

(v) Interest has accrued on investment and rate of interest is 10% p.a.

(vi) Interest on loan from Mr. Sahil is payable @ 12% per annum. The loan was taken on 01.10.2023.

You are required to prepare Manufacturing Account, Trading Account, Profit and Loss Account and Balance sheet for the year ended 31 March,2024.

Accounts from Incomplete records

10. Ankur keeps his books of accounts by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2024:

	On 1st April, 2023 ₹	On 31st March, 2024 ₹
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000
Creditors	45,000	31,000
Bills Payable	5,000	Nil

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Ankur introduced ₹ 10,000 as fresh capital on 1st October, 2023. He also withdrew ₹ 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Ankur during the year ended 31st March, 2024 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

Partnership Accounts

11. On 31st March, 2023, the Balance Sheet of X, Y and Z sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	90,000
Mr. X	60,000	Plant and Machinery	60,000
Mr. Y	90,000	Stock of goods	36,000
Mr. Z	60,000	Sundry debtors	33,000
Sundry Creditors	30,000	Cash and Bank Balances	21,000
	2,40,000		2,40,000

On 1st April, 2023, X desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹ 30,000.

(iv) Old credit balances of Sundry creditors, ₹ 6,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 22,650.

(vii) Goodwill of the entire firm is valued at ₹ 42,000 and X's share of the goodwill is adjusted in the A/cs of Y and Z, who would share the future profits equally. No goodwill account being raised.

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(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. X is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Y & Z as on 1.04.2023.

Dissolution of Partnership

12. Seema, Meena & Tina are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹ 13,440, ₹ 8,400, ₹ 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	₹
Trade creditors	2,800
Loan from partners	1,400
Assets:	₹
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. Meena is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Financial Statements of Not for Profit Organizations

13. Hilfiger Sports club gives the following Receipts and Payments account for the year ended March 31,2023:

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Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash and bank balances	1,04,000	By Salaries	3,00,000
To Subscription	6,96,000	By Rent and taxes	1,08,000
To Donations	2,00,000	By Electricity charges	12,000
To Interest on investments	24,000	By Sports goods	40,000
To Sundry receipts	6,000	By Library books	2,00,000
		By Newspapers and periodicals	21,600
		By Miscellaneous expenses	1,08,000
		By Closing cash and bank balances	2,40,400
	10,30,000		10,30,000

Liabilities	As on 31.3.2022 (₹)	As on 31.3.2023 (₹)
Outstanding expense:		
Salaries	20,000	40,000
Newspapers and periodicals	8,000	10,000
Rent and taxes	12,000	12,000
Electricity charges	16,000	20,000
Library Books	2,00,000	-
Sports goods	1,60,000	-
Furniture and fixtures	2,00,000	-
Subscription receivable	1,00,000	2,40,000
Investment government securities	10,00,000	-
Accrued interest	12,000	12,000

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Provide depreciation as follows:

Furniture and fixtures @ 10%

Sports goods @ 20%

Library books @ 10%

Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2022, Income and expenditure Account for the year ended on 31.3.2023 and Balance sheet as on that date.

Issue and Forfeiture of Shares

14. Y. Ltd issued 20,000 shares of ₹ 10 each at premium of 20% per share. Payables as following:

On Application	₹ 2 Per share
On Allotment	₹ 5 per share (including premium)
On First Call	₹ 3 per share
On Final Call	₹ 2 per share

Applications were received for 30,000 shares and pro-rata allotment was made to the application for 24,000 shares. Any excess money paid on application was employed on account of sum due on allotment.

Kamal, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited.

Tamal, the holder of 600 shares, failed to pay the two calls, and his shares were forfeited after the final call. Out of the shares forfeited, 800 shares were issued to Ramesh Credited as fully paid for ₹ 9 per share, the whole of Kamal's shares being included.

Pass the necessary journal entries to record the above transactions.

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Debentures

15. On 1st April 2023, Sapan Ltd. (an unlisted NBFC) took over assets of ₹ 9,00,000 and liabilities of 1,20,000 of Plus Herbs Ltd. for the purchase consideration of ₹ 8,80,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

Sapan Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of Sapan Ltd. for the financial year 2023-24.

Bonus Issue and Right Issue

16. Following are the balances appear in the trial balance of XYZ Ltd. as at 31st March, 2023.

Issued and Subscribed Capital:

	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2023 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2023. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

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Redemption of Preference Shares

17. Sushil Limited had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 80,000 Equity Shares of ₹ 10 each at par.

(ii) 4,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Objectives of preparing Trial Balance.

(iii) Tangible Assets vs. Intangible Assets.

(iv) Liability of LLP and its Partners.

(v) Requirement to create Debenture Redemption Reserve.

SUGGESTED ANSWERS/HINTS

1. (a) **False:** If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

(b) **False:** The Sales book is a register especially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

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(d) **False:** Damaged Inventory should be valued at net releasable value.

(e) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False:** Cash withdrawal for personal use by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(i) **True:** Where in case of a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

(j) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs

(k) **False:** Debenture interest is payable before the payment of any dividend on shares.

2. **(a)** The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently

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taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

3. (a)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April,5	Bank A/c Dr.		19,600	
	Discounting Charges A/c (20,000X2%) Dr.		400	
	To Bills Receivable A/c			20,000
	(Being bill discounted from bank at 2%)			
April,8	Malik's A/c Dr.		25,200	

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	To Sales			22,500
	To Output CGST A/c			1,350
	To Output SGST A/c			1,350
	(Being goods sold at a profit of 25% and trade discount of 10% CGST and SGST at 6% each)			
April,10	Purchases A/c Dr.		8,000	
	Input CGST A/c Dr.		480	
	Input SGST A/c Dr.		480	
	To Trends Industries			8,960
	(Being goods purchased and CGST and SGST payable at 6% each)			
April,16	Cash A/c Dr.		5,800	
	Discount Allowed A/c Dr.		200	
	To Amar Singh			6,000
	(Being cash received form Amar Singh after allowing him discount of ₹ 200)			
April,19	Charity A/c Dr.		896	
	To Purchases A/c			800
	To Input CGST A/c			48
	To Input SGST A/c			48
	(Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)			

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April,23	Cash A/c Dr. Discount allowed A/c To Ganesh's A/c (Being cash received form Ganesh on account)		510 60	 600
April,25	Interest on Loan A/c Dr. To interest on Loan Outstanding A/c (Being interest on loan due but not paid)		1,000	 1,000

(b) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Revenue Receipt.

4. (a) **Sales Book**

Date	Particulars	Details ₹	Amount ₹
2023	M/s. Chawla & Verma		
	30 shirts @ ₹ 700	21,000	
	20 Trousers @ ₹ 1,000	20,000	
		41,000	
	Less: Trade discount @10%	(4,100)	
	Sales as per invoice no. dated		36,900
	M/s. Nagpal & Sons 50 shirts @ ₹ 800		40,000
	Sale as per invoice no. dated		

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	M/s Madhu & Garg		
	50 shirts @ ₹ 750	37,500	
	20 overcoats @ ₹ 5,000	1,00,000	
		1,37,500	
	Less: Trade discount @10%	(13,750)	
	Sales as per invoice no. dated.....		1,23,750
		Total	2,00,650

Note: Cash sale, sale of furniture and sale of typewriter are not entered in Sales Book.

(b) Rectification entries in the books of M/s Beta Chemicals labs

	Particulars	**L.F.**	**Dr.** ₹	**Cr.** ₹
1.	Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		15,000	15,000
3.	Suspense A/c Dr. To Shiv & Co. (Goods returned by Shiv & Co. had been posted wrongly to the debit of her account, now rectified)		9,000	9,000
4.	Profit and Loss Adjustment A/c Dr. To Furniture A/C (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000

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5.	Ms. Sapna. Dr. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		75,000	 75,000

5.

Particulars	Details (₹)	Amount (₹)
Balance as per the Pass Book		1,05,980
Add: Deposited with bank but not credited	30,825	
Payment of Hire Purchases Instalments for 3 months (Oct.to Dec.) not entered in Cash Book (₹ 25,000X3)	75,000	
Discount allowed wrongly entered n Bank Column	8,000	
Bank Charges not entered in the Cash Book	1,250	1,15,075
		2,21,055
Less: cheques issued but not presented for payments	(48,400)	
Dividends directly collected by bank but not entered in the Cash Book	(25,000)	(73,400)
Balance as per Cash Book		1,47,655

6. Statement of Valuation of Stock on 31st March, 2023

		₹	₹
Value of stock as on 15th April, 2023			50,000
Add:	Cost of sales during the period from 31st March, 2023 to 15th April, 2023		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800

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Less:	Purchases during the period from 31st March, 2023 to 15th April, 2023	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. **Buses A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2022			2022		
Jan-01	To balance b/d (W.N.2)	1,75,00,000	Oct-01	By bank A/c	17,50,000
Oct-01	To Profit & Loss A/c - Profit on settlement of Truck (W. Note 1)	3,75,000	Oct-01	By Depreciation on lost assets	3,75,000
Oct-01	To Bank A/c	30,00,000	Dec-31	By Depreciation A/c (W Note 3)	46,50,000
			Dec-31	By balance c/d	1,41,00,000
		2,08,75,000			2,08,75,000
2023			2023		
Jan-01	To balance b/d	1,41,00,000	Dec-31	By Depreciation A/c (W Note 3)	51,00,000
			Dec-31	By balance c/d	90,00,000
		1,41,00,000			1,41,00,000

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Working Note:

1. Profit on settlement of Bus

Original cost as on 1.7.2020	25,00,000
Less: Depreciation for 2020 (6 months)	2,50,000
WDV as on 31.12.2020	22,50,000
Less: Depreciation for 2021	5,00,000
WDV as on 31.12.2021	17,50,000
Less: Depreciation for 2022 (9 months)	3,75,000
WDV as on 31.12.2022	13,75,000
Less: Amount received from Insurance company	17,50,000
Profit on settlement of Bus	3,75,000

2. Calculation of WDV of 10 Bus as on 01.01.2022

	Amount
WDV of 1 Bus as on 31.12.2021 (Refer W.N 1)	17,50,000
WDV of 10 Bus as on 01.01.2022	1,75,00,000

3. Calculation for Depreciation for 2022 and 2023

	Amount
Depreciation for 2022	
On 9 Buses (₹ 25,00,000 x 9 x 20%)	45,00,000
On new Buses (₹ 30,00,000 x 1 x 20% x 3/12)	1,50,000
	46,50,000
Depreciation for 2023	
On 9 Buses (₹ 25,00,000 x 9 x 20%)	45,00,000
On new Buses (Rs 30,00,000 x 1 x 20%)	6,00,000
	51,00,000

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8. **In the books of Ritu**

Journal Entries

Particulars	L.F.		Dr. ₹	Cr. ₹
Bills Receivable A/c		Dr.	1,00,000	
To Chavi A/c				1,00,000
(Being a 3 month's bill drawn on Chavi for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Chavi A/c		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Chavi's inability to pay it)				
Chavi A/c		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Chavi A/c				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Chavi A/c				50,000
(Being the new bill drawn for the balance)				
Chavi A/c		Dr.	50,000	

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To Bills Receivable A/c (Being the dishonour of the bill due to Chavi's insolvency)				50,000
Bank A/c Bad Debts A/c To Chavi A/c (Being the receipt of 40% of the amount due on the bill from Chavi's estate)		Dr. Dr.	20,000 30,000	 50,000

9. In the books of Mr. Samuel

Manufacturing Account for the year ended 31st March,2024

Particulars		₹	Particulars	₹
To Opening Stock of Raw Material		2,50,000	By Closing stock	5,00,000
To Purchase	34,00,000		By Cost of	35,64,000
Less: Purchase Return	50,000	33,50,000	Manufactured goods	
To Carriage Inwards		30,000	Transferred to	
To Direct Wages		1,20,000	Trading A/c	
To Power		80,000		
To Coal and fuel		1,05,000		
To Factory Rent		84,000		
To Depreciation on Machinery		45,000		
		40,64,000		40,64,000

Trading Account for the year ended 31st March,2024

Particulars	₹	Particulars	₹	₹
To Opening Stock of Finished goods	4,25,000	By Sales Less: Sales Return	44,20,000 55,000	43,65,000
To Cost of goods transferred from		By Closing Stock		4,37,500

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Manufacturing A/c	35,64,000			
To Gross Profit c/d	8,13,500			
	48,02,500			48,02,500

Profit and Loss Account for the year ended 31st March 2024

Particulars		₹	₹ Particulars	₹
To Carriage Outward		25,000	By Gross Profit b/d	8,13,500
To General expenses		39,000	By Accrued Interest	25,000
To Salaries		90,000		
To Interest Paid to bank		90,000		
To Interest to Mr. Sahil		24,000		
To Provision for Bad &				
Doubtful Debts	18,750			
Add: Bad Debts	15,000			
Less: Old Provision for				
Doubtful Debts	25,000	8,750		
To Depreciation		72,500		
(60,000+12500)				
To Net Profit c/d		4,89,250		
		8,38,500		8,38,500

Balance Sheet as on 31st March,2024

Capital and Liabilities		₹	₹ Assets		₹
Capital	9,50,000		Land		50,000
Add: Net Profit	4,89,250		Plant & Machinery	3,00,000	

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Less: Drawing	(60,000)	13,79,250	Less: Depreciation	45,000	2,55,000
Sundry Creditors		3,25,000	Building	6,00,000	
Factory rent		7,000	Less: Depreciation	60,000	5,40,000
Outstanding			Furniture & Fixtures	1,25,000	
Loan from Mr. Sahil	4,00,000		Less: Depreciation	12,500	1,12,500
Interest due	24,000	4,24,000	Investments		2,50,000
Bank Overdraft		6,00,000	Accrued Interest		25,000
			Closing Stock		
			Raw materials	5,00,000	
			Finished goods	4,37,500	9,37,500
			Loose Tools		1,50,000
			Sundry Debtors	3,75,000	
			Less: Provision for Bad & Doubtful Debts	18,750	3,56,250
			Cash in Hand		15,500
			Cash at Bank		43,500
		27,35,250			27,35,250

10. **Statement of Profit**

	₹
Capital as on 31st March, 2024 (W.N. 2)	2,17,300
Add: Drawings (₹ 5,000 x 12)	60,000
	2,77,300
Less: Additional capital	(10,000)
	2,67,300
Less: Capital as on 1st April, 2023 (W.N. 1)	(2,05,250)
Profits during the year	62,050

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Working Note 1

Statement of Affairs as on 1st April, 2023

	₹		₹
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal. fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	65,000
	2,55,250		2,55,250

Working Note 2

Statement of Affairs as on 31st March, 2024

Liabilities	₹	Assets	₹	₹
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal. fig.)	2,17,300	Stock		98,700
		Debtors	70,000	
		Less: Provision for doubtful debts	(3,500)	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	(6,500)	58,500
	2,50,100			2,50,100

11. (a) Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2023 April	To Plant & Machinery	18,000	2023 April	By Land and building	18,000
	To Stock of goods	6,000		By Sundry creditors	6,000
	To Provision for bad and doubtful debts	1650		By Cash & Bank - Joint life Policy	22,650

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				surrendered	
	To Capital accounts (profit on revaluation transferred)				
	Mr. X (2/7) 6,000				
	Mr. Y (3/7) 9,000				
	Mr. Z (2/7) 6,000	21,000			-
		46,650			46,650

(b) Partners' Capital Accounts

Dr.									Cr.
Particulars		X	Y	Z	Particulars		X	Y	Z
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	X's Capital A/c - goodwill	-	3,000	9,000	By	Balance b/d	60,000	90,000	60,000
To	Cash & bank A/c - (50% dues paid)	39,000	-	-	By	Revaluation A/c	6,000	9,000	6,000
To	X's Loan A/c - (50% transfer)	39,000	-	-	By	Y & Z's Capital A/cs – goodwill	12,000	-	-
To	Balance c/d	-	1,05,000	1,05,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	9,000	48,000
		78,000	1,08,000	1,14,000			78,000	1,08,000	1,14,000

(c) Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	21,000	By	X's Capital A/c - 50% dues paid	39,000
To	Revaluation A/c –	22,650	By	Balance b/d	61,650

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	surrender value of joint life policy				
To	Y's Capital A/c	9,000			
To	Z's Capital A/c	48,000			
		1,00,650			1,00,650

(d) Balance Sheet of M/s Y & Z as on 01.04.2023

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	90,000	
Mr. Y	1,05,000		Add: Appreciation 20%	18,000	1,08,000
Mr. Z	1,05,000	2,10,000	Plant & Machinery	60,000	
Mr. X's Loan account		39,000	Less: Depreciation 30%	18,000	42,000
Sundry Creditors		24,000	Stock of goods	36,000	
			Less: revalued	6,000	30,000
			Sundry Debtors	33,000	
			Less: Provision for bad debts 5%	1650	31,350
			Cash & Bank balances		61,650
		2,73,000			2,73,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	42,000
Mr. X's Share (2/7)	12,000
Gaining ratio of Y & Z;	
Y = ½ - 3/7 = 1/14	
Z = ½ - 2/7 = 3/14	
Y:Z = 1:3	

Therefore, Y will bear – ¼ × 12000 or ₹3,000

Z will bear = ¾ × 12000 or ₹9,000

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12. Statement of Distribution of Cash

	Realization	*Trade Creditor*	*Loans from partners*	*Partners' Capitals*			
				Seema	*Meena*	*Tina*	*Total*
	₹	₹	₹	₹	₹	₹	₹
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	(1,400)	-				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹ 33,600 less cash available ₹ 1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹ 31,920			(15,960)	(9,576)	(6,384)	(31,920)
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of Seema and Meena written off against Tina				2,520	1,176	(3,696)	-
Amount paid (2)				–	–	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss	26,320						
(₹ 31,920 – ₹ 5,600) allocated							
to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)

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Amounts at credit and cash paid (4)				280	504	4,816	5,600
Balances in capital accounts left unpaid—				13,160	7,896	5,264	26,320
Loss (3 – 4) = (5)							

13. Balance Sheet of Hilfiger Sports Club as on 1st April,2022

Liabilities	₹	₹		₹
Capital fund (bal. fig)		17,20,000	Library books	2,00,000
Outstanding expenses:			Sports goods	1,60,000
Salaries	20,000		Furniture and	2,00,000
Newspapers and			Fixtures	
Periodicals	8,000		Subscriptions	1,00,000
Electricity charges	16,000		Receivable	
Rent and taxes	12,000	56,000	Investment Govt	10,00,000
			Securities	
			Accrued interest	12,000
			Cash in Bank	1,04,000
			balances	
		17,76,000		17,76,000

Income and Expenditure Account for the year ended on 31st March,2023

Expenditure	₹	Income	₹
To Salaries	3,20,000	By Subscription	8,36,000
To Electricity charges	16,000	(W.N.1)	
To Rent and taxes	1,08,000	By Interest on	24,000
To Newspapers and	23,600	Investments (W.N.2)	

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Periodicals		By Sundry receipts	6,000
To Misc expenses	1,08,000		
To Depreciation on fixed Assets (W N 4)	1,00,000		
To Excess of income over Expenditure (Transferred to Capital fund)	1,90,400		
	8,66,000		8,66,000

Balance Sheet of Hilfiger Sports Club as on 31st March,2023

Liabilities	₹	₹	Assets	₹	₹
Capital fund			Fixed assets (W.N.4)		
Opening balance	17,20,000		Furniture and	1,80,000	
Add: Surplus	1,90,400		Fixtures		
Add: Donations	2,00,000	21,10,400	Sports goods	1,60,000	
			Library books	3,60,000	7,00,000
Outstanding			Investment Govt		
Expenses: (W.N.3)			Securities		10,00,000
Salaries	40,000		Accrued interest		12,000
Newspapers and	10,000		Subscriptions		
Periodicals			Receivable		2,40,000
Electricity charges	20,000		Cash and bank Balance		2,40,400
Rent and taxes	12,000	82,000			
		21,92,400			21,92,400

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Working Notes:

(1) Subscriptions for the year ended 31st March,2023:

	₹
Subscription received during the year	6,96,000
Add: Subscriptions receivable on 31.3.2023	2,40,000
	9,36,000
Less: Subscriptions receivable on 31.3.2022	(1,00,000)
	8,36,000

(2) Interest on investments for the year ended 31st March,2023:

	₹
Interest received during the year	24,000
Add: Accrued interest on 31.3.2023	12,000
	36,000
Less: Accrued interest on 31.3.2022	(12,000)
	24,000

(3) Expenses for the year ended 31st March,2023:

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	₹	₹	₹	₹
Paid during the year	3,00,000	12,000	1,08,000	21,600
Add: Outstanding (as on 31.3.2023)	40,000	20,000	12,000	10,000
	3,40,000	32,000	1,20,000	31,600
Less: Outstanding (as on 31.3.2022)	(20,000)	(16,000)	(12,000)	(8,000)
	3,20,000	16,000	1,08,000	23,600

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(4) Depreciation on Fixed assets

Assets	Book value (31.3.2022	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V.as on 31.3.2023
Furniture and fixtures	2,00,000		2,00,000	10%	20,000	1,80,000
Sports Goods	1,60,000	40,000	2,00,000	20%	40,000	1,60,000
Library Books	2,00,000	2,00,000	4,00,000	10%	40,000	3,60,000
Total					1,00,000	7,00,000

14.

Particulars		LF	Dr.	Cr.
Bank A/c	Dr.		60,000	
To Share Application A/c				60,000
(Being application money received)				
Share Application A/c	Dr.		60,000	
To Share Capital A/c				40,000
To Share allotment A/c				8,000
To Bank A/c				12,000
(Being application money Transfer to share capital account)				
Share Allotment A/c	Dr.		1,00,000	
To Share Capital A/c				60,000
To Securities Primmum A/c				40,000
(Being allotment money due)				
Bank A/c (W.N.)	Dr.		90,160	
To Share Allotment A/c				90,160
(Being Allotment money received				
Share First Call A/c	Dr.		60,000	
To Share Capital A/c				60,000
(Being first call money receivable)				

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Bank A/c Dr. To Share First call A/c (Being First call money received)		57,000	 57,000
Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First call A/c To Share Forfeiture A/c (Being Share forfeited for 400 share of Kamal)		3,200 800	 1,840 1,200 960
Share Final Call A/c Dr. To Share Capital A/c (Being Final call money due for 20,000-400 = 19600 shares)		39,200	 39,200
Bank A/c Dr. To Share Final call A/c (Being First call money received)		38,000	 38,000
Share Capital A/c Dr. To Share First call A/c To Share Final call A/c To Share Forfeiture A/c (Being Share forfeited for 600 shares)		6,000	 1,800 1,200 3,000
Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c (Being 800 shares are re-issued)		7,200 800	 8,000
Share Forfeited A/c Dr. To Capital Reserve A/c (Being Profit on re-issue transfer to capital reserve account)		2,160	 2,160

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Working Note:

Calculation of shares applied by Kamal:

Total Shares Applied =24,000 , Share Allotted = 20,000

share applied by Kamal=400 shares *24,000/20,000=480 shares.

Allotment money due to Kamal = 400*5=2,000

Adjustment of excess money of application =80*2=160

Allotment Money Received by Company:

Allotment money due =20,000* 5 =	1,00,000
Adjustment of excess money of application (4,000*2)	(8,000)
Arrear of Allotment money of Kamal	(1,840)
Allotment Money Received	90,160

15. Journal Entries

Date	Particular		L.F	Dr.	Cr.
2023	Sundry Assets A/c	Dr.		9,00,000	
April	Goodwill A/c (Bal. fig)	Dr.		1,00,000	
	To Plus Herbs Ltd. A/c				8,80,000
	To Sundry Liabilities A/c				1,20,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 8,80,000)				
	Plus Herbs Ltd. A/c	Dr.		8,80,000	
	To 8% Debentures A/c				8,00,000
	To Securities Premium A/c				80,000
	(Being 8000; 8% Debenture of ₹ 100 each issued at a premium of 10%				
	Bank A/c	Dr.		1,80,000	
	To Debenture Application A/c				1,80,000
	(Being the application money received for 6000, 8% Debenture)				

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	Debenture Application A/c Dr. To 8% Debenture A/c (Being 6000; 8% Debenture allotted)		1,80,000	 1,80,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 6000; 8% Debentures at 10% discount and redeemable at 5% premium)		3,60,000 90,000	 4,20,000 30,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)		3,60,000	 3,60,000
2024 Mar, 31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)		90,000	 90,000

16. **XYZ Ltd.**

Journal Entries

2023			Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)	Dr.	2,00,000	 2,00,000

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April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Capitalization of profit)			

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

17. **Redemption of Preference Shares**
In the books of Sushil Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Being the issue of 80,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)			
	Bank A/c	Dr.	4,00,000	
	To 12% Debenture A/c			4,00,000
	(Being the issue of 4,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)			

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	10% Redeemable Preference Share Capital A/c	Dr.	10,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			11,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	11,00,000	
	To Bank A/c			11,00,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	1,00,000	
	To Premium on Redemption of Preference Shares A/c			1,00,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss A/c	Dr.	2,00,000	
	To Capital Redemption Reserve A/c (Working Note)			2,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	₹ 10,00,000
Less: Proceeds from new issue	(₹ 8,00,000)
Balance	₹ 2,00,000

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18. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. Consistency: It is assumed that accounting policies are consistent from one period to another.

3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

1. Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the

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posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Distinction between Tangible and Intangible Assets

Tangible Assets	Intangible Assets
Tangible Assets are assets that have a physical substance i.e., they can be seen and touched, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	Intangible Assets are identifiable assets that do NOT have a physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Tangible Assets have a finite life based on expected usage.	Intangible Assets have a finite life based on contractual terms. In some cases, intangible assets could also have an indefinite life e.g. purchased goodwill.

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Useful life is based on expected usage, with no presumption laid down for the same.	Useful life of Intangible Assets is presumed not to exceed 10 years unless evidence exists to the contrary.
Tangible Assets are depreciated over the useful life. In other words, writing off the value of tangible assets on an annual basis is known as depreciation.	Intangible Assets are amortised over the useful life. In other words, writing off the value of intangible assets on an annual basis is known as amortisation.
Examples include Property, Machinery, Vehicles etc.	Examples include software, streaming rights, landing rights, trademarks, patents etc.

(iv) Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent

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purpose, every person who was knowingly a party is punishable with imprisonment and fine.

(v) Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. Section 71 states as follows:

(1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

(3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.

(4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

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PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) A concern proposes to discontinue its business from December 2023 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2023 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) Damaged Inventory should be valued at cost or market price, whichever is lower.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor for personal use should be charged to profit and loss account as an expense.

   (h) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

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(i) Where a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

(j) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

(k) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Theoretical Framework

2. (a) What services can a Chartered Accountant provide to the society?

(b) State the advantages of setting Accounting Standards.

Journal Entries

3. (a) Journalise the following transactions in the books of Gopal Traders:

2023	
April,5	Discounted a bill of exchange of ₹20,000 at 2% through bank.
April,8	Sold goods to Malik costing ₹ 20,000 at 25% above cost less trade discount of 10% plus CGST and SGST @ 6%.
April,10	Purchased goods from trends industries for Rs 8,000 plus CGST and SGST@6% each.
April,16	Received ₹5,800 form Amar Singh in full settlement of his account for ₹ 6,000.
April,19	Goods given as charity costing ₹800, sale price ₹1,000. CGST and SGST @6% each was paid at the time of purchase of such goods.
April,23	Received ₹510 from Ganesh on his account for ₹600.
April,25	Interest on loan from Akash ₹1,000 due but not paid.

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Capital or Revenue Receipt or Expenditure

(b) Classify the following receipts or expenditures as capital or revenue:

(i) Wages incurred by a factory in manufacturing a part for its plant.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) An expenditure intended to benefit the current period.

(iv) Amount paid for removal of stock to a new site.

(v) Amount received from sale of land and building by a real estate dealer.

Subsidiary Books

4. (a) The following are some of the transactions of M/s Sameer traders - a garment dealer. Prepare the sales book.

Sold to M/s. Chawla & Verma on credit:

30 shirts @ ₹ 700 per shirt.

20 trousers @ ₹1,000 per trouser.

Less: Trade Discount @ 10%

Sold furniture to M/s. Mittal & Co. on credit ₹8,000.

Sold 50 shirts to M/s. Nagpal & Sons @ ₹800 per shirt.

Sold typewriter to M/s. Goyal & Co. ₹7,200 for cash

Sold 30 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Madhu & Garg.

50 shirts @ ₹750 per shirt

20 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

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Rectification of Errors

(b) M/s. Beta Chemicals labs were unable to agree the Trial Balance as on 31st March, 2023 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 15,000.

(iii) Goods to the value of ₹ 4,500 returned by a customer, Shiv & Co., had been posted to the debit of Shiv & Co. and also to sales returns.

(iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.

(v) A bill of exchange (received from Ms. Sapna) for ₹ 75,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

Bank Reconciliation Statement

5. On 31 December 2023, Bank Statement of Samar & Co. was showing a favourable balance of ₹1,05,980. This did not agree with the balance in the cash book. On scrutiny of the Cash Book and Bank Statement following discrepancies were found:

(i) A deposit of 30,825 made on 29th December 2023 had not been credited by the bank till 31 December 2023.

(ii) Cheques issued for ₹48,400 not presented for payment till 31 December 2023.

(iii) On 25th September 2023, the firm had entered into Hire Purchase agreement to pay by bank order a sum of ₹ 25,000 on the 10th of each month, commencing from October 2023. For this transaction no entries had been made in cash book.

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(iv) A customer of the firm, who received a cash discount of 4% on his account of ₹2,00,000 paid the firm a cheque on 22 December. The Cashier erroneously entered the gross amount in the bank column of the Cash Book.

(v) Bank Charges amounting to ₹1,250 had not been entered in Cash Book

(vi) Dividend of 25,000 collected by bank was not recorded in cash book.

Prepare Bank Reconciliation Statement as on 31st December 2023. .

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2023 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2023.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2023.

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Depreciation and Amortisation

7. M/s. Mohit Transport Company purchased 10 Buses @ ₹ 25,00,000 each on 1st July 2020. On 1st October, 2022, one of the buses is involved in an accident and is completely destroyed and ₹ 17,50,000 is received from the insurance in full settlement. On the same date, another bus was purchased by the company for the sum of ₹ 30,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year.

   Give the Bus account for two years ending 31st December, 2023.

Bills of Exchange

8. Chavi owed ₹ 1,00,000 to Ritu. Chavi accepted a bill drawn by Ritu for the amount at 3 months. After 3 days, Ritu got the bill discounted with her bank for ₹ 99,000. Before the due date, Chavi approached Ritu for renewal of the bill. Ritu agreed on the conditions that ₹ 50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Chavi should accept a new bill at three months. These arrangements were carried out. But afterwards, Chavi became insolvent and 40% of the amount could be recovered from his estate.

   Pass journal entries (with narration) in the books of Ritu.

Final accounts

9. The following is the trial balance of Mr. Samuel for the year ended 31st March,2024:

Trial Balance as on 31st March,2024

Particulars	Dr.	Cr.
Capital		9,50,000
Sundry Creditors		3,25,000
Purchase Returns		50,000
Loan from Mr. Sahil		4,00,000
Provision for Bad and Doubtful Debts		25,000
Sales		44,20,000

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Bank overdraft		6,00,000
Opening Stock:		
Raw Materials	2,50,000	
Finished goods	4,25,000	
Purchase of Raw Materials	34,00,000	
Land	50,000	
Building	6,00,000	
Loose tools	1,50,000	
Plant & Machinery	3,00,000	
Investments	2,50,000	
Cash in Hand	15,500	
Cash in Bank	43,500	
Furniture & Fixtures	1,25,000	
Sundry Debtors	3,75,000	
Drawings	60,000	
Salaries	90,000	
Coal and Fuel	1,05,000	
Factory rent	77,000	
General Expenses	39,000	
Sales Return	55,000	
Bad Debts	15,000	
Direct Wages (Factory)	1,20,000	
Power	80,000	
Interest Paid on Bank overdraft	90,000	
Carriage Inwards	30,000	
Carriage Outwards	25,000	
	67,70,000	67,70,000

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Additional Information:

(i) Stock of Raw materials and finished goods at the end of the year was ₹ 5,00,000 and ₹ 4,37,500 respectively.

(ii) A provision for doubtful debts at 5% on Sundry Debtors.

(iii) Depreciate building by 10%, Plant and machinery by 15% and Furniture and fixtures by 10%,

(iv) One month Factory rent is outstanding.

(v) Interest has accrued on investment and rate of interest is 10% p.a.

(vi) Interest on loan from Mr. Sahil is payable @ 12% per annum. The loan was taken on 01.10.2023.

You are required to prepare Manufacturing Account, Trading Account, Profit and Loss Account and Balance sheet for the year ended 31 March,2024.

Accounts from Incomplete records

10. Ankur keeps his books of accounts by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2024:

	On 1st April, 2023 ₹	On 31st March, 2024 ₹
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000
Creditors	45,000	31,000
Bills Payable	5,000	Nil

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Ankur introduced ₹ 10,000 as fresh capital on 1st October, 2023. He also withdrew ₹ 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Ankur during the year ended 31st March, 2024 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

Partnership Accounts

11. On 31st March, 2023, the Balance Sheet of X, Y and Z sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	90,000
Mr. X	60,000	Plant and Machinery	60,000
Mr. Y	90,000	Stock of goods	36,000
Mr. Z	60,000	Sundry debtors	33,000
Sundry Creditors	30,000	Cash and Bank Balances	21,000
	2,40,000		2,40,000

On 1st April, 2023, X desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹ 30,000.

(iv) Old credit balances of Sundry creditors, ₹ 6,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 22,650.

(vii) Goodwill of the entire firm is valued at ₹ 42,000 and X's share of the goodwill is adjusted in the A/cs of Y and Z, who would share the future profits equally. No goodwill account being raised.

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(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. X is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Y & Z as on 1.04.2023.

Dissolution of Partnership

12. Seema, Meena & Tina are partners sharing profits and losses in the ratio of 5:3:2. There capitals were ₹ 13,440, ₹ 8,400, ₹ 11,760 respectively.

Liabilities and assets of the firm are as under:

Liabilities:	₹
Trade creditors	2,800
Loan from partners	1,400
Assets:	₹
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. Meena is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

Financial Statements of Not for Profit Organizations

13. Hilfiger Sports club gives the following Receipts and Payments account for the year ended March 31,2023:

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Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash and bank balances	1,04,000	By Salaries	3,00,000
To Subscription	6,96,000	By Rent and taxes	1,08,000
To Donations	2,00,000	By Electricity charges	12,000
To Interest on investments	24,000	By Sports goods	40,000
To Sundry receipts	6,000	By Library books	2,00,000
		By Newspapers and periodicals	21,600
		By Miscellaneous expenses	1,08,000
		By Closing cash and bank balances	2,40,400
	10,30,000		10,30,000

Liabilities	As on 31.3.2022 (₹)	As on 31.3.2023 (₹)
Outstanding expense:		
Salaries	20,000	40,000
Newspapers and periodicals	8,000	10,000
Rent and taxes	12,000	12,000
Electricity charges	16,000	20,000
Library Books	2,00,000	-
Sports goods	1,60,000	-
Furniture and fixtures	2,00,000	-
Subscription receivable	1,00,000	2,40,000
Investment government securities	10,00,000	-
Accrued interest	12,000	12,000

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Provide depreciation as follows:

Furniture and fixtures @ 10%

Sports goods @ 20%

Library books @ 10%

Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2022, Income and expenditure Account for the year ended on 31.3.2023 and Balance sheet as on that date.

Issue and Forfeiture of Shares

14. Y. Ltd issued 20,000 shares of ₹ 10 each at premium of 20% per share. Payables as following:

On Application	₹ 2 Per share
On Allotment	₹ 5 per share (including premium)
On First Call	₹ 3 per share
On Final Call	₹ 2 per share

Applications were received for 30,000 shares and pro-rata allotment was made to the application for 24,000 shares. Any excess money paid on application was employed on account of sum due on allotment.

Kamal, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited.

Tamal, the holder of 600 shares, failed to pay the two calls, and his shares were forfeited after the final call. Out of the shares forfeited, 800 shares were issued to Ramesh Credited as fully paid for ₹ 9 per share, the whole of Kamal's shares being included.

Pass the necessary journal entries to record the above transactions.

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Debentures

15. On 1st April 2023, Sapan Ltd. (an unlisted NBFC) took over assets of ₹ 9,00,000 and liabilities of 1,20,000 of Plus Herbs Ltd. for the purchase consideration of ₹ 8,80,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

Sapan Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of Sapan Ltd. for the financial year 2023-24.

Bonus Issue and Right Issue

16. Following are the balances appear in the trial balance of XYZ Ltd. as at 31st March, 2023.

Issued and Subscribed Capital:

	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2023 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2023. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

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Redemption of Preference Shares

17. Sushil Limited had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 80,000 Equity Shares of ₹ 10 each at par.

(ii) 4,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Objectives of preparing Trial Balance.

(iii) Tangible Assets vs. Intangible Assets.

(iv) Liability of LLP and its Partners.

(v) Requirement to create Debenture Redemption Reserve.

SUGGESTED ANSWERS/HINTS

1. (a) **False:** If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

(b) **False:** The Sales book is a register especially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

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(d) **False:** Damaged Inventory should be valued at net releasable value.

(e) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False:** Cash withdrawal for personal use by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(i) **True:** Where in case of a Non-Profit organization separate trading activity, the profit and loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

(j) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs

(k) **False:** Debenture interest is payable before the payment of any dividend on shares.

2. **(a)** The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently

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taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

3. (a)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April,5	Bank A/c Dr.		19,600	
	Discounting Charges A/c (20,000X2%) Dr.		400	
	To Bills Receivable A/c			20,000
	(Being bill discounted from bank at 2%)			
April,8	Malik's A/c Dr.		25,200	

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	To Sales			22,500
	To Output CGST A/c			1,350
	To Output SGST A/c			1,350
	(Being goods sold at a profit of 25% and trade discount of 10% CGST and SGST at 6% each)			
April,10	Purchases A/c Dr.		8,000	
	Input CGST A/c Dr.		480	
	Input SGST A/c Dr.		480	
	To Trends Industries			8,960
	(Being goods purchased and CGST and SGST payable at 6% each)			
April,16	Cash A/c Dr.		5,800	
	Discount Allowed A/c Dr.		200	
	To Amar Singh			6,000
	(Being cash received form Amar Singh after allowing him discount of ₹ 200)			
April,19	Charity A/c Dr.		896	
	To Purchases A/c			800
	To Input CGST A/c			48
	To Input SGST A/c			48
	(Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)			

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April,23	Cash A/c Dr. Discount allowed A/c To Ganesh's A/c (Being cash received form Ganesh on account)		510 60	 600
April,25	Interest on Loan A/c Dr. To interest on Loan Outstanding A/c (Being interest on loan due but not paid)		1,000	 1,000

(b) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Revenue Receipt.

4. (a) **Sales Book**

Date	Particulars	Details ₹	Amount ₹
2023	M/s. Chawla & Verma		
	30 shirts @ ₹ 700	21,000	
	20 Trousers @ ₹ 1,000	20,000	
		41,000	
	Less: Trade discount @10%	(4,100)	
	Sales as per invoice no. dated		36,900
	M/s. Nagpal & Sons 50 shirts @ ₹ 800		40,000
	Sale as per invoice no. dated		

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	M/s Madhu & Garg		
	50 shirts @ ₹ 750	37,500	
	20 overcoats @ ₹ 5,000	1,00,000	
		1,37,500	
	Less: Trade discount @10%	(13,750)	
	Sales as per invoice no. dated.....		1,23,750
		Total	2,00,650

Note: Cash sale, sale of furniture and sale of typewriter are not entered in Sales Book.

(b) Rectification entries in the books of M/s Beta Chemicals labs

	Particulars	**L.F.**	**Dr.** ₹	**Cr.** ₹
1.	Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		15,000	15,000
3.	Suspense A/c Dr. To Shiv & Co. (Goods returned by Shiv & Co. had been posted wrongly to the debit of her account, now rectified)		9,000	9,000
4.	Profit and Loss Adjustment A/c Dr. To Furniture A/C (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000

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5.	Ms. Sapna. Dr. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		75,000	 75,000

5.

Particulars	Details (₹)	Amount (₹)
Balance as per the Pass Book		1,05,980
Add: Deposited with bank but not credited	30,825	
Payment of Hire Purchases Instalments for 3 months (Oct.to Dec.) not entered in Cash Book (₹ 25,000X3)	75,000	
Discount allowed wrongly entered n Bank Column	8,000	
Bank Charges not entered in the Cash Book	1,250	1,15,075
		2,21,055
Less: cheques issued but not presented for payments	(48,400)	
Dividends directly collected by bank but not entered in the Cash Book	(25,000)	(73,400)
Balance as per Cash Book		1,47,655

6. Statement of Valuation of Stock on 31st March, 2023

		₹	₹
Value of stock as on 15th April, 2023			50,000
Add:	Cost of sales during the period from 31st March, 2023 to 15th April, 2023		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800

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Less:	Purchases during the period from 31st March, 2023 to 15th April, 2023	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. **Buses A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2022			2022		
Jan-01	To balance b/d (W.N.2)	1,75,00,000	Oct-01	By bank A/c	17,50,000
Oct-01	To Profit & Loss A/c - Profit on settlement of Truck (W. Note 1)	3,75,000	Oct-01	By Depreciation on lost assets	3,75,000
Oct-01	To Bank A/c	30,00,000	Dec-31	By Depreciation A/c (W Note 3)	46,50,000
			Dec-31	By balance c/d	1,41,00,000
		2,08,75,000			2,08,75,000
2023			2023		
Jan-01	To balance b/d	1,41,00,000	Dec-31	By Depreciation A/c (W Note 3)	51,00,000
			Dec-31	By balance c/d	90,00,000
		1,41,00,000			1,41,00,000

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Working Note:

1. Profit on settlement of Bus

Original cost as on 1.7.2020	25,00,000
Less: Depreciation for 2020 (6 months)	2,50,000
WDV as on 31.12.2020	22,50,000
Less: Depreciation for 2021	5,00,000
WDV as on 31.12.2021	17,50,000
Less: Depreciation for 2022 (9 months)	3,75,000
WDV as on 31.12.2022	13,75,000
Less: Amount received from Insurance company	17,50,000
Profit on settlement of Bus	3,75,000

2. Calculation of WDV of 10 Bus as on 01.01.2022

	Amount
WDV of 1 Bus as on 31.12.2021 (Refer W.N 1)	17,50,000
WDV of 10 Bus as on 01.01.2022	1,75,00,000

3. Calculation for Depreciation for 2022 and 2023

	Amount
Depreciation for 2022	
On 9 Buses (₹ 25,00,000 x 9 x 20%)	45,00,000
On new Buses (₹ 30,00,000 x 1 x 20% x 3/12)	1,50,000
	46,50,000
Depreciation for 2023	
On 9 Buses (₹ 25,00,000 x 9 x 20%)	45,00,000
On new Buses (Rs 30,00,000 x 1 x 20%)	6,00,000
	51,00,000

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8. **In the books of Ritu**

Journal Entries

Particulars	L.F.		Dr. ₹	Cr. ₹
Bills Receivable A/c		Dr.	1,00,000	
To Chavi A/c				1,00,000
(Being a 3 month's bill drawn on Chavi for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Chavi A/c		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Chavi's inability to pay it)				
Chavi A/c		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Chavi A/c				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Chavi A/c				50,000
(Being the new bill drawn for the balance)				
Chavi A/c		Dr.	50,000	

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To Bills Receivable A/c (Being the dishonour of the bill due to Chavi's insolvency)				50,000
Bank A/c Bad Debts A/c To Chavi A/c (Being the receipt of 40% of the amount due on the bill from Chavi's estate)		Dr. Dr.	20,000 30,000	 50,000

9. In the books of Mr. Samuel

Manufacturing Account for the year ended 31st March,2024

Particulars		₹	Particulars	₹
To Opening Stock of Raw Material		2,50,000	By Closing stock	5,00,000
To Purchase	34,00,000		By Cost of	35,64,000
Less: Purchase Return	50,000	33,50,000	Manufactured goods	
To Carriage Inwards		30,000	Transferred to	
To Direct Wages		1,20,000	Trading A/c	
To Power		80,000		
To Coal and fuel		1,05,000		
To Factory Rent		84,000		
To Depreciation on Machinery		45,000		
		40,64,000		40,64,000

Trading Account for the year ended 31st March,2024

Particulars	₹	Particulars	₹	₹
To Opening Stock of Finished goods	4,25,000	By Sales Less: Sales Return	44,20,000 55,000	43,65,000
To Cost of goods transferred from		By Closing Stock		4,37,500

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Manufacturing A/c	35,64,000			
To Gross Profit c/d	8,13,500			
	48,02,500			48,02,500

Profit and Loss Account for the year ended 31st March 2024

Particulars		₹	₹ Particulars	₹
To Carriage Outward		25,000	By Gross Profit b/d	8,13,500
To General expenses		39,000	By Accrued Interest	25,000
To Salaries		90,000		
To Interest Paid to bank		90,000		
To Interest to Mr. Sahil		24,000		
To Provision for Bad &				
Doubtful Debts	18,750			
Add: Bad Debts	15,000			
Less: Old Provision for				
Doubtful Debts	25,000	8,750		
To Depreciation		72,500		
(60,000+12500)				
To Net Profit c/d		4,89,250		
		8,38,500		8,38,500

Balance Sheet as on 31st March,2024

Capital and Liabilities		₹	₹ Assets		₹
Capital	9,50,000		Land		50,000
Add: Net Profit	4,89,250		Plant & Machinery	3,00,000	

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Less: Drawing	(60,000)	13,79,250	Less: Depreciation	45,000	2,55,000
Sundry Creditors		3,25,000	Building	6,00,000	
Factory rent		7,000	Less: Depreciation	60,000	5,40,000
Outstanding			Furniture & Fixtures	1,25,000	
Loan from Mr. Sahil	4,00,000		Less: Depreciation	12,500	1,12,500
Interest due	24,000	4,24,000	Investments		2,50,000
Bank Overdraft		6,00,000	Accrued Interest		25,000
			Closing Stock		
			Raw materials	5,00,000	
			Finished goods	4,37,500	9,37,500
			Loose Tools		1,50,000
			Sundry Debtors	3,75,000	
			Less: Provision for Bad & Doubtful Debts	18,750	3,56,250
			Cash in Hand		15,500
			Cash at Bank		43,500
		27,35,250			27,35,250

10. **Statement of Profit**

	₹
Capital as on 31st March, 2024 (W.N. 2)	2,17,300
Add: Drawings (₹ 5,000 x 12)	60,000
	2,77,300
Less: Additional capital	(10,000)
	2,67,300
Less: Capital as on 1st April, 2023 (W.N. 1)	(2,05,250)
Profits during the year	62,050

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Working Note 1

Statement of Affairs as on 1st April, 2023

	₹		₹
Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal. fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	65,000
	2,55,250		2,55,250

Working Note 2

Statement of Affairs as on 31st March, 2024

Liabilities	₹	Assets	₹	₹
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal. fig.)	2,17,300	Stock		98,700
		Debtors	70,000	
		Less: Provision for doubtful debts	(3,500)	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	(6,500)	58,500
	2,50,100			2,50,100

11. (a) Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2023 April	To Plant & Machinery	18,000	2023 April	By Land and building	18,000
	To Stock of goods	6,000		By Sundry creditors	6,000
	To Provision for bad and doubtful debts	1650		By Cash & Bank - Joint life Policy	22,650

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				surrendered	
	To Capital accounts (profit on revaluation transferred)				
	Mr. X (2/7) 6,000				
	Mr. Y (3/7) 9,000				
	Mr. Z (2/7) 6,000	21,000			-
		46,650			46,650

(b) Partners' Capital Accounts

Dr.									Cr.
Particulars		X	Y	Z	Particulars		X	Y	Z
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	X's Capital A/c - goodwill	-	3,000	9,000	By	Balance b/d	60,000	90,000	60,000
To	Cash & bank A/c - (50% dues paid)	39,000	-	-	By	Revaluation A/c	6,000	9,000	6,000
To	X's Loan A/c - (50% transfer)	39,000	-	-	By	Y & Z's Capital A/cs – goodwill	12,000	-	-
To	Balance c/d	-	1,05,000	1,05,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	9,000	48,000
		78,000	1,08,000	1,14,000			78,000	1,08,000	1,14,000

(c) Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	21,000	By	X's Capital A/c - 50% dues paid	39,000
To	Revaluation A/c –	22,650	By	Balance b/d	61,650

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	surrender value of joint life policy				
To	Y's Capital A/c	9,000			
To	Z's Capital A/c	48,000			
		1,00,650			1,00,650

(d) Balance Sheet of M/s Y & Z as on 01.04.2023

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	90,000	
Mr. Y	1,05,000		Add: Appreciation 20%	18,000	1,08,000
Mr. Z	1,05,000	2,10,000	Plant & Machinery	60,000	
Mr. X's Loan account		39,000	Less: Depreciation 30%	18,000	42,000
Sundry Creditors		24,000	Stock of goods	36,000	
			Less: revalued	6,000	30,000
			Sundry Debtors	33,000	
			Less: Provision for bad debts 5%	1650	31,350
			Cash & Bank balances		61,650
		2,73,000			2,73,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	42,000
Mr. X's Share (2/7)	12,000
Gaining ratio of Y & Z;	
Y = ½ - 3/7 = 1/14	
Z = ½ - 2/7 = 3/14	
Y:Z = 1:3	

Therefore, Y will bear – ¼ × 12000 or ₹3,000

Z will bear = ¾ × 12000 or ₹9,000

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12. Statement of Distribution of Cash

	Realization	*Trade Creditor*	*Loans from partners*	*Partners' Capitals*			
				Seema	*Meena*	*Tina*	*Total*
	₹	₹	₹	₹	₹	₹	₹
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	(1,400)	-				
		1,400	1,400				
(ii) Sale of furniture	2,800	(1,400)	(1,400)				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹ 33,600 less cash available ₹ 1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹ 31,920			(15,960)	(9,576)	(6,384)	(31,920)
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of Seema and Meena written off against Tina				2,520	1,176	(3,696)	-
Amount paid (2)				–	–	1,680	1,680
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss	26,320						
(₹ 31,920 – ₹ 5,600) allocated							
to partners in the ratio 5 : 3 : 2				(13,160)	(7,896)	(5,264)	(26,320)

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Amounts at credit and cash paid (4)				280	504	4,816	5,600
Balances in capital accounts left unpaid—				13,160	7,896	5,264	26,320
Loss (3 – 4) = (5)							

13. Balance Sheet of Hilfiger Sports Club as on 1st April,2022

Liabilities	₹	₹		₹
Capital fund (bal. fig)		17,20,000	Library books	2,00,000
Outstanding expenses:			Sports goods	1,60,000
Salaries	20,000		Furniture and	2,00,000
Newspapers and			Fixtures	
Periodicals	8,000		Subscriptions	1,00,000
Electricity charges	16,000		Receivable	
Rent and taxes	12,000	56,000	Investment Govt	10,00,000
			Securities	
			Accrued interest	12,000
			Cash in Bank	1,04,000
			balances	
		17,76,000		17,76,000

Income and Expenditure Account for the year ended on 31st March,2023

Expenditure	₹	Income	₹
To Salaries	3,20,000	By Subscription	8,36,000
To Electricity charges	16,000	(W.N.1)	
To Rent and taxes	1,08,000	By Interest on	24,000
To Newspapers and	23,600	Investments (W.N.2)	

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Periodicals		By Sundry receipts	6,000
To Misc expenses	1,08,000		
To Depreciation on fixed Assets (W N 4)	1,00,000		
To Excess of income over Expenditure (Transferred to Capital fund)	1,90,400		
	8,66,000		8,66,000

Balance Sheet of Hilfiger Sports Club as on 31st March,2023

Liabilities	₹	₹	Assets	₹	₹
Capital fund			Fixed assets (W.N.4)		
Opening balance	17,20,000		Furniture and	1,80,000	
Add: Surplus	1,90,400		Fixtures		
Add: Donations	2,00,000	21,10,400	Sports goods	1,60,000	
			Library books	3,60,000	7,00,000
Outstanding			Investment Govt		
Expenses: (W.N.3)			Securities		10,00,000
Salaries	40,000		Accrued interest		12,000
Newspapers and	10,000		Subscriptions		
Periodicals			Receivable		2,40,000
Electricity charges	20,000		Cash and bank Balance		2,40,400
Rent and taxes	12,000	82,000			
		21,92,400			21,92,400

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Working Notes:

(1) Subscriptions for the year ended 31st March,2023:

	₹
Subscription received during the year	6,96,000
Add: Subscriptions receivable on 31.3.2023	2,40,000
	9,36,000
Less: Subscriptions receivable on 31.3.2022	(1,00,000)
	8,36,000

(2) Interest on investments for the year ended 31st March,2023:

	₹
Interest received during the year	24,000
Add: Accrued interest on 31.3.2023	12,000
	36,000
Less: Accrued interest on 31.3.2022	(12,000)
	24,000

(3) Expenses for the year ended 31st March,2023:

Expenses	Salaries	Electricity	Rent and taxes	Newspapers and periodicals
	₹	₹	₹	₹
Paid during the year	3,00,000	12,000	1,08,000	21,600
Add: Outstanding (as on 31.3.2023)	40,000	20,000	12,000	10,000
	3,40,000	32,000	1,20,000	31,600
Less: Outstanding (as on 31.3.2022)	(20,000)	(16,000)	(12,000)	(8,000)
	3,20,000	16,000	1,08,000	23,600

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(4) Depreciation on Fixed assets

Assets	Book value (31.3.2022	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V.as on 31.3.2023
Furniture and fixtures	2,00,000		2,00,000	10%	20,000	1,80,000
Sports Goods	1,60,000	40,000	2,00,000	20%	40,000	1,60,000
Library Books	2,00,000	2,00,000	4,00,000	10%	40,000	3,60,000
Total					1,00,000	7,00,000

14.

Particulars		LF	Dr.	Cr.
Bank A/c	Dr.		60,000	
To Share Application A/c				60,000
(Being application money received)				
Share Application A/c	Dr.		60,000	
To Share Capital A/c				40,000
To Share allotment A/c				8,000
To Bank A/c				12,000
(Being application money Transfer to share capital account)				
Share Allotment A/c	Dr.		1,00,000	
To Share Capital A/c				60,000
To Securities Primmum A/c				40,000
(Being allotment money due)				
Bank A/c (W.N.)	Dr.		90,160	
To Share Allotment A/c				90,160
(Being Allotment money received				
Share First Call A/c	Dr.		60,000	
To Share Capital A/c				60,000
(Being first call money receivable)				

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Bank A/c Dr. To Share First call A/c (Being First call money received)		57,000	 57,000
Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First call A/c To Share Forfeiture A/c (Being Share forfeited for 400 share of Kamal)		3,200 800	 1,840 1,200 960
Share Final Call A/c Dr. To Share Capital A/c (Being Final call money due for 20,000-400 = 19600 shares)		39,200	 39,200
Bank A/c Dr. To Share Final call A/c (Being First call money received)		38,000	 38,000
Share Capital A/c Dr. To Share First call A/c To Share Final call A/c To Share Forfeiture A/c (Being Share forfeited for 600 shares)		6,000	 1,800 1,200 3,000
Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c (Being 800 shares are re-issued)		7,200 800	 8,000
Share Forfeited A/c Dr. To Capital Reserve A/c (Being Profit on re-issue transfer to capital reserve account)		2,160	 2,160

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Working Note:

Calculation of shares applied by Kamal:

Total Shares Applied =24,000 , Share Allotted = 20,000

share applied by Kamal=400 shares *24,000/20,000=480 shares.

Allotment money due to Kamal = 400*5=2,000

Adjustment of excess money of application =80*2=160

Allotment Money Received by Company:

Allotment money due =20,000* 5 =	1,00,000
Adjustment of excess money of application (4,000*2)	(8,000)
Arrear of Allotment money of Kamal	(1,840)
Allotment Money Received	90,160

15. Journal Entries

Date	Particular		L.F	Dr.	Cr.
2023	Sundry Assets A/c	Dr.		9,00,000	
April	Goodwill A/c (Bal. fig)	Dr.		1,00,000	
	To Plus Herbs Ltd. A/c				8,80,000
	To Sundry Liabilities A/c				1,20,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 8,80,000)				
	Plus Herbs Ltd. A/c	Dr.		8,80,000	
	To 8% Debentures A/c				8,00,000
	To Securities Premium A/c				80,000
	(Being 8000; 8% Debenture of ₹ 100 each issued at a premium of 10%				
	Bank A/c	Dr.		1,80,000	
	To Debenture Application A/c				1,80,000
	(Being the application money received for 6000, 8% Debenture)				

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	Debenture Application A/c Dr. To 8% Debenture A/c (Being 6000; 8% Debenture allotted)		1,80,000	 1,80,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 6000; 8% Debentures at 10% discount and redeemable at 5% premium)		3,60,000 90,000	 4,20,000 30,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)		3,60,000	 3,60,000
2024 Mar, 31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)		90,000	 90,000

16. **XYZ Ltd.**

Journal Entries

2023			Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)	Dr.	2,00,000	 2,00,000

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April 15	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Final Call money on 1,00,000 equity shares received)			
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c*	Dr.	1,75,000	
	To Bonus to Shareholders A/c			2,00,000
	(Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)			
April 15	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Capitalization of profit)			

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

17. **Redemption of Preference Shares**
In the books of Sushil Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Being the issue of 80,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)			
	Bank A/c	Dr.	4,00,000	
	To 12% Debenture A/c			4,00,000
	(Being the issue of 4,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)			

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	10% Redeemable Preference Share Capital A/c	Dr.	10,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			11,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	11,00,000	
	To Bank A/c			11,00,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	1,00,000	
	To Premium on Redemption of Preference Shares A/c			1,00,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss A/c	Dr.	2,00,000	
	To Capital Redemption Reserve A/c (Working Note)			2,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	₹ 10,00,000
Less: Proceeds from new issue	(₹ 8,00,000)
Balance	₹ 2,00,000

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18. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. Consistency: It is assumed that accounting policies are consistent from one period to another.

3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

1. Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the

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posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Distinction between Tangible and Intangible Assets

Tangible Assets	Intangible Assets
Tangible Assets are assets that have a physical substance i.e., they can be seen and touched, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	Intangible Assets are identifiable assets that do NOT have a physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Tangible Assets have a finite life based on expected usage.	Intangible Assets have a finite life based on contractual terms. In some cases, intangible assets could also have an indefinite life e.g. purchased goodwill.

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Useful life is based on expected usage, with no presumption laid down for the same.	Useful life of Intangible Assets is presumed not to exceed 10 years unless evidence exists to the contrary.
Tangible Assets are depreciated over the useful life. In other words, writing off the value of tangible assets on an annual basis is known as depreciation.	Intangible Assets are amortised over the useful life. In other words, writing off the value of intangible assets on an annual basis is known as amortisation.
Examples include Property, Machinery, Vehicles etc.	Examples include software, streaming rights, landing rights, trademarks, patents etc.

(iv) Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent

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purpose, every person who was knowingly a party is punishable with imprisonment and fine.

(v) Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. Section 71 states as follows:

(1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

(3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.

(4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

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PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Accrual concept implies accounting on cash basis.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) The provision for bad debts is debited to sundry debtors account.

   (e) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

   (h) Partners can share profits or losses in their capital ratio, when there is no agreement.

   (i) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

   (j) A fixed charge generally covers all the assets of the company including future one.

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Kewal:

(i) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹ 1,000

(iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

(iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

(v) Purchased second hand machinery from Jawahar industries for ₹ 3,00,000 plus CGST and SGST @ 6% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(ii) Amount spent to reduce working expenses.

(iii) Amount paid for removal of stock to a new site.

(iv) Cost of repairs on second-hand car purchased to bring it into working condition.

(v) Amount spent on renewal fee of patent rights.

Cash Book

4. (a) Prepare a Triple Column Cash Book from the following transactions of M/s Ram Agencies and bring down the balance for the start of next month:

2024			₹
March	1	Cash in hand	30,000
	1	Cash at bank	1,20,000
	2	Paid into bank	10,000
	5	Bought furniture and issued cheque	15,000
	8	Purchased goods for cash	5,000
	12	Received cash from Mohan	9,800
		Discount allowed to him	200
	14	Cash sales	50,000
	16	Paid to Lata by cheque	14,500
		Discount received	500
	19	Paid into Bank	5,000
	23	Withdrawn from Bank for Private expenses	6,000
	24	Received cheque from Gupta	14,300
		Allowed him discount	200
	26	Deposited Gupta's cheque into Bank	
	28	Withdrew cash from Bank for Office use	20,000
	30	Paid rent by cheque	8,000

Rectification of Errors

(b) Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

(i) Wages paid for construction of office building debited to wages account ₹ 20,000.

(ii) A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.

(iii) An amount of ₹ 2,000 due from Mahesh Chand which had

been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

(iv) Goods (Cost being ₹ 15,000 and Sales price being ₹ 16,000) distributed as free samples amount prospective customers were not recorded anywhere.

(v) Goods worth ₹ 1,500 returned by Ritu have not been recorded anywhere.

Bank Reconciliation Statement

5. According to the cash-book of Mihir there was balance of ₹ 4,45,000 in his bank on 30th June, 2024 On investigation you find that :

(i) Cheques amounting to 60,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2024

(iii) A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2023) paid by the bank ₹ 2,700 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 500

(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book.

Valuation of Inventories

6. From the following particulars ascertain the value of inventories as on 31st March, 2024 :

Inventory as on 1st April, 2023	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

At the time of valuing inventory as on 31st March, 2023, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20 % on sales.

Depreciation and Amortisation

7. M/s. Deepak Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st October,2020. On 1st January, 2023, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum.

Give the motor truck account for the years ending 31st March, 2023 and 31st March,2024.

Bills of Exchange

8. Aadya owed ₹ 1,00,000 to Aanya. On 1st October, 2023, Aadya accepted a bill drawn by Aanya for the amount at 3 months. Aanya got the bill discounted with his bank for ₹ 99,000 on 3rd October, 2023. Before the due date, Aadya approached Aanya for renewal of the bill. Aanya agreed on the conditions that ₹ 50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and

for the balance, Aadya should accept a new bill at three months. These arrangements were carried out. But afterwards, Aadya became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Aanya (ignore dates).

Final accounts and Rectification of entries

9. The following is the Trial Balance of Mr. Shekhar on 31st March, 2024 :

	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2024)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2024)	17,000	-
Investments 12% (01.8.2023)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2024 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2024, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2024.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2024.

Financial Statements of Not for Profit Organizations

10. The following information of M/s. Sanyam Club are related for the year ended 31st March, 2024:

(1)

Balances	As on 01-04-2023 (₹)	As on 31-3-2024 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024

Accounts from Incomplete Records

11. Shivam Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2023 was as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31st March, 2024:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2023	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2024	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (for the year ended 31st March, 2024).

(ii) Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2024:

Stock	₹ 9,75,000
Trade debtors	₹ 3,43,000
Outstanding expenses	₹ 55,200

(v) Gross profit is to be maintained at 10% on total sales.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2024, and Balance Sheet as on that date.

Partnership Accounts

Calculation of Goodwill

12. A and B are partners in a firm. Their capitals are: A ₹ 6,00,000 and B ₹ 4,00,000. During the year ended 31st March, 2024 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Admission of Partner

13. P and Q are partners, sharing profits and losses in the ratio of 3:1. As at 31st March, 2024, following is the Balance Sheet of P and Q.

Balance Sheet as at 31st March, 2024

Liabilities		(₹)	Assets	(₹)
Capital accounts			Cash in hand	1,15,000
P	2,85,000		Cash at bank	1,10,000
Q	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take R into Partnership on 1st April, 2024 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. R is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to P and Q for their sacrifice in favour of R through R's current account.

(ii) R pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to be appreciated by 20%.

(vi) Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

Issue and Redemption of Shares

14. Happy Limited registered with an authorised equity capital of ₹ 4,00,000 divided into 4,000 shares of ₹ 100 each, issued for subscription of 2,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when

required. Application money on 2,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 200 shares held by him and another shareholder with 100 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Issue and Redemption of Debentures

15. Well Done Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

    You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

16. A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2020. The debentures were due for redemption on 1st March, 2024. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash for remaining debentures. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

17. Following is the extract of Balance Sheet of Goldstar Ltd. as at 31st March, 2024 :

	₹
Authorized capital:	
3,00,000 equity shares of ₹10 each	30,00,000
25,000,10% preference shares of ₹10 each	2,50,000
	32,50,000

Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹ 10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2024, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

18. Write short notes on the following:

(i) Accounting conventions.

(ii) Objectives of preparing Trial Balance.

(iii) posting of journal entries into the Leger.

(iv) Machine Hour Rate method of calculating depreciation.

(v) Contingent Asset and Contingent Liability

SUGGESTED ANSWERS/HINTS

1. **(a)** **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(e) **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

(h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(j) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one

2. **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

3. (a) (i) In the books of Kewal

Journal entries

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Bank A/c	Dr.	9,000	
	Discount allowed A/c	Dr.	1,000	
	To Hari Krishan A/c			10,000
	(Being amount received from Hari Krishan after allowing discount of 1,000).			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Being goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			
(iv)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Being commission received).			

	Commission A/c Dr.	5,000	
	To Commission received in Advance A/c/ Prepaid Commission A/c		5,000
	(Being commission received in advance adjusted).		
(v)	Machinery A/c Dr.	3,00,000	
	Input CGST A/c Dr.	18,000	
	Input SGST A/c Dr.	18,000	
	To Bank A/c		1,00,000
	To Jawahar Industries A/c		2,36,000
	(Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each)		

(b) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

(v) Revenue Expenditure

4. (a) M/s Ram Agencies

Dr. **Cash Book** Cr.

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2024						2024					
Mar 1	To Balance b/d			30,000	1,20,000	Mar 2	By Bank	C		10,000	
Mar 2	To Cash	C			10,000	Mar 5	By Furniture				15,000
Mar 12	To Mohan		200	9,800		Mar 8	By Goods / Purchase			5,000	
Mar 14	To Sales			50,000		Mar 16	By Lata		500		14,500

Mar 19	To Cash	C			5,000	Mar 19	By Bank	C		5,000	
Mar 24	To Gupta		200	14,300		Mar 23	By Drawings				6,000
Mar 26	To Cash	C			14,300	Mar 26	By Bank	C		14,300	
Mar 28	To Bank	C		20,000		Mar 28	By Cash	C			20,000
						Mar 30	By Rent				8,000
						Mar 31	By Balance c/d			89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

(b) Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Building A/c	Dr.	20,000	
	To Wages A/c			20,000
	(Being correction of wrong debit in the wages A/c of the construction of office building)			
(2)	Ramesh	Dr.	2,400	
	To Purchases A/c			1,200
	To Sales A/c			1,200
	(Being correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			
(3)	Mahesh Chand	Dr.	2,000	
	To Bad Debts Recovered A/c			2,000
	(Being correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	15,000	

	To Purchases A/c (Being entry of the goods distributed as free samples omitted from records)			15,000
(5)	Returns Inwards /Sales Return A/c To Green (Being entry of goods returned by Ritu omitted from records)	Dr.	1,500	 1,500

5. (i) In the Books of Mr. Mihir

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	4,45,000	By Insurance premium A/c	2,700
To Dividend A/c	4,000	By Correction of errors	500
To Rent A/c	60,000	By Bank charges	150
To Bill receivable A/c	5,900	By Bill payable	20,000
		By Balance c/d	4,91,550
	5,14,900		5,14,900

Bank Reconciliation Statement as on 30th June, 2024

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2024	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2024	(55,500)
Balance as per pass book	4,96,050

6. Statement of Inventory in trade as on 31st March, 2024

	₹	₹
Inventory as on 31st March, 2023	3,50,000	
Less: Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2024		1,75,000

7. Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
01.04.22	To balance b/d	3,50,00,000	01.01.23	By bank A/c	35,00,000
	To Profit & Loss A/c				
01.01.23	To Profit on settlement of Truck (W. Note 1)	7,50,000	01.01.23	By Depreciation on lost assets	7,50,000
01.01.23	To Bank A/c	60,00,000	31.03.23	By Depreciation A/c (W Note 3)	93,00,000
			31.03.23	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
01.04.23	To balance b/d	2,82,00,000	31.03.24	By Depreciation A/c (W Note 3)	1,02,00,000
			31.03.24	By balance c/d	1,80,00,000

		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of truck

Original cost as on 1.10.2020	50,00,000
Less: Depreciation for 2020 -21 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2021-22	10,00,000
	35,00,000
Less: Depreciation for 2022-23 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.04.2022

	Amount
WDV of 1 truck as on 31.3.2022 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.04.22	3,50,00,000

3. Calculation for Depreciation for 2022-23 and 2023-24

	Amount
Depreciation for 2022-23	
On 9 trucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2023-24	
On 9 tucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (Rs 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

8. **In the books of Aanya**

Journal Entries

Particulars	L.F.		Dr. ₹	Cr. ₹
Bills Receivable A/c		Dr.	1,00,000	
To Aadya A/c				1,00,000
(Being a 3 month's bill drawn on Aadya for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Aadya A/c		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Aadya's inability to pay it)				
Aadya A/c		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				
Bank A/c		Dr.	51,500	
To Aadya A/c				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Aadya A/c				50,000
(Being the new bill drawn for the balance)				
Aadya A/c		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Aadya's insolvency)				
Bank A/c		Dr.	20,000	

Bad Debts A/c		Dr.	30,000	
To Aadya A/c				50,000
(Being the receipt of 40% of the amount due on the bill from Aadya's estate)				

9. Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings A/c			12,000
	(Being entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors A/c			16,000
	(Being entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns A/c			1,000
	To Sales Returns A/c			1,000
	(Being rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses A/c			6,000
	(Being prepaid expenses adjusted)			

Trading, Profit and Loss Account of Mr. Shekhar
for the year ending 31st March, 2024

Dr.					*Cr.*
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	

To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000-1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/d		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation $\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	10,000	24,000	$\left(2,50,000 \times \frac{12}{100} \times \frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2024

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000– 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued on Investment		20,000
			Bank fixed		2,00,000

			deposit		
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

10. Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2023	11,250	
Less: Subscription received in advance on 31.3.2024	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2024	16,500	
Add: Subscription received in advance on 1.4.2023	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2024

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2023	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2024	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2023	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2024	(1,12,500)
Amount of Sports Material appearing in Income &	

Expenditure Account	2,17,500

Balance Sheet of M/s Sanyam Club for the year ended 31st March, 2024 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

11. Trading and Profit and Loss Account of Shivam Enterprises for the year ended 31st March, 2024.

	₹			₹
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N. 2)	125,97,000	Cash	110,70,000	
To Gross profit c/d	13,93,000	Credit (W.N. 1)	28,60,000	139,30,000
(10% of 139,30,000)		By Closing stock		9,75,000
	149,05,000			149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross profit b/d		13,93,000
To Discount allowed	54,000	By Discount received		42,500
To Depreciation (15% ₹ 1,50,000)	22,500			
To Net Profit (b.f.)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Shivam Enterprises as at 31st March, 2024

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500

Less: Drawing	(3,60,000)		Stock	9,75,000
	3,15,000		Trade Debtors	3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance	3,000
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank	1,90,950
Outstanding expenses		55,200		
		16,39,450		16,39,450

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales	28,60,000	By Discount allowed	54,000
(Bal. fig.)		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. Memorandum Trading Account

	₹		₹
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing figure)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. Trade Creditors Account

	₹		₹
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated	125,97,000

To Balance c/d (balancing figure)	8,29,000	in W.N. 2)	
	133,54,500		133,54,500

4. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2023	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2023	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2024	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2024 (Insurance paid till July, 2024) (9,000 x 4/12)	(3,000)
	9,18,750

12. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit x 100}}{\text{Normal Rate of Return}} = \frac{₹\,3,00,000 \times 100}{20} \text{ ₹ } 15,00,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 (A) + ₹ 4,00,000 (B)]

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,00,000 x 2 = ₹ 2,00,000

13. (a) **Revaluation Account**

Particulars	Amount ₹	Particulars	Amount ₹
To Furniture	1,000	By Land and Building	50,000
To Stock	20,000		
To Provision for doubtful debts	8,000		
To Revaluation Profit	21,000		
P (21,000 x ¾) 15,750			
Q (21,000 x ¼) 5,250			
	50,000		50,000

Partners' Capital Accounts

	P ₹	Q ₹	R ₹		P ₹	Q ₹	R ₹
To 'Q's Current A/c (bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	–
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By R's Current A/c (Goodwill)	30,000	10,000	-
				By P's Current A/c (bal fig)	44,250	-	-
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. Calculation of total capital

R's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.

Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by P and Q in the ratio of 3:1 i.e., P's capital ₹ 4,20,000 and Q's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

P = ¾ x 4/5 = 12/20 = 3/5

Q = 1 /4 X 4/ 5 = 4/20 = 1/5

R = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
P	$\frac{3}{5}$	$\frac{3}{4}$	$\frac{-3}{20}$	-
Q	$\frac{1}{5}$	$\frac{1}{4}$	$\frac{-1}{20}$	-
R	$\frac{1}{5}$	-	-	$\frac{1}{5}$

3. Goodwill

R's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through R's Current

Account because capitals of old partners are also adjusted on the basis of R's Capital.

Therefore, Journal entry for goodwill will be

R's Current A/c Dr. 40,000

To P's Capital A/c 30,000

To Q's Capital A/c 10,000

14. Journal entries in the books of Happy Limited

Bank A/c	Dr.	50,000	

To Equity Share Application A/c			50,000
(Money received on application for 2,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Transfer of application money on 2,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Amount due on the allotment of 2,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(First call money due on 2,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	38,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			40,000
To Calls-in-Advance A/c			2,500
(First call money received on 1,800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)			

15. In the books of Well Done Limited

Journal entries

Date	*Particulars*		*₹ '000*	*₹ '000*
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			

April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

16. Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5)]	₹ 7,35,000
Equity shares of ₹ 10 each issued to debenture holders on redemption	
[₹ 7,35,000/ ₹ 15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000 (40,000 x ₹ 105) – 7,35,000] on redemption	₹ 34,65,000

17. In the books of Goldstar Ltd.

Journal Entries

			Dr.	*Cr.*
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Being bonus issue @ two shares for every five shares held by utilizing various reserves			

	as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Being bonus shares issued)			

Journal Entries

Balance Sheet (Extract) as on 1st April, 2024 (after bonus issue)

		Particulars	*Notes*	*Amount (₹)*
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	**Share Capital**		*(₹)*
	Authorized share capital:		
	3,78,000* Equity shares of ₹ 10 each		37,80,000*
	25,000 10% Preference shares of ₹ 10 each		2,50,000
	Total		40,30,000
	Issued, subscribed and fully paid share capital:		
	3,78,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ₹ 10 each		2,40,000
	Total		40,20,000
2	**Reserves and Surplus**		
	Capital Redemption Reserve	1,20,000	Nil
	Less: Utilized	1,20,000	
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil
	General reserve	3,60,000	

	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit & Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		75,000

Note: **Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.*

18. (i) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(ii) Objectives of preparing trial balance

The preparation of trial balance has the following objectives:

1 *Checking of the arithmetical accuracy of the accounting entries:* Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. *Basis for preparation of financial statements:* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is

summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

(v) **Contingent Asset**

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) The debit notes issued are used to prepare sales return book.

   (ii) Sale of office furniture should be credited to Profit and Loss Account.

   (iii) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

   (iv) When closing inventory is overstated, net income for the accounting period will be understated.

   (v) The results and position disclosed by final accounts are not exact.

   (vi) In case of a public holiday, the due date of the bill falls on the next working day.

   (vii) Goodwill is intangible asset therefore it cannot be valued

   (viii) Where a Non-Profit organization is a separate trading activity, the profit / loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

   (ix) The firm will receive surrender value of the joint life policy on the death of the partner.

   (x) Company X Ltd. is incurring huge losses; the Board of Directors are of the opinion that in case of losses, there is no need to pay interest to debenture holders.

Theoretical Framework

2. (a) Distinguish between fundamental accounting assumption and accounting policies.

(b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

(i) A running business was purchased by Mohan with following assets and liabilities:

Cash ₹ 20,000, Land ₹ 40,000, Furniture ₹ 10,000, Stock ₹ 20,000, Creditors ₹ 10,000, Bank Overdraft ₹ 20,000.

(ii) Sold goods to Gagandeep for ₹ 1,00,000 at trade discount of 20% and charged IGST @12%

(iii) Goods distributed by way of free samples, ₹ 10,000.

(iv) goods of list price ₹ 40,000 returned by Gagandeep.

(v) Kuldeep became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 6,000.

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure/receipt:

(i) An extension of railway tracks in the factory area.

(ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension

(iv) Premium received on issue of shares

(v) Rings and Pistons of an engine were changed to get full efficiency.

(vi) Legal fees paid to acquire a property

Subsidiary Books

4. (a) Prepare Sales Book of M/s. Alpha of Kanpur for March, 2024

Mar. 5 Sold to M/s. ABC 10 pieces of Chairs @ ₹5,000/- each less Trade Discount 5%.

Mar.12 Sold to M/s. PQR 25 pieces of Tables @₹2,000/- each less Trade Discount 10%.

Mar.18 Sold to M/s. MTB 5 pieces of Recliner Chairs @ ₹11000/- each less Trade Discount 10%. Payment received through cash.

Mar.28 Sold to M/s. LMS 50 pieces of cupboards @ ₹10,000/- each less Trade Discount 20%.

Rectification of Errors

(b) Mr. Satvik was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(i) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.

(ii) The total of return inward book for July, 2024 ₹ 12,400 was not posted to the ledger.

(iii) A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.

(iv) Receipt of cash from Mr. Preetish was posted to the account of Mr. Ravish ₹ 10,000.

(v) Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.

(vi) While carrying forward the total in the Purchases Account to the next Page ₹ 65,950 was written instead of ₹ 55,950.

(vii) Sale of goods to Mr. Rohan for ₹ 20,000 was omitted to be recorded.

(viii) Freight paid on a machine ₹ 5,600 was posted to the freight Account as ₹ 6,500.

Pass the necessary rectification entries.

Bank Reconciliation Statement

5. From the following particulars of M/s Iqbal enterprises, prepare a Bank reconciliation statement:

(1) Bank overdraft as per Pass Book as on 31st March, 2024 was ₹ 8,800

(2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.

(3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.

(4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.

(5) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

(6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2024.

(7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.

(8) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass Book.

Valuation of Inventories

6. (a) The following are the details of material inventory bought and used by manufacturing company:

Date	Particulars	Unit and Rate
1.10.24	Balance opening inventory	NIL
1.10.24	Material bought	200 unit, ₹60 per unit

2.10.24	Issued for use	100 unit
3.10.24	Material bought	400 unit, ₹80 per unit
4.10.24	Issued for use	200 unit
7.10.24	Issued for use	200 unit

You are required to calculate the value of inventory material as on 7.10.24 by applying weighted average method.

(b) From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	- ₹ 10,00,000
Sales during the year	- ₹ 15,00,000
Opening Inventory	Nil
Closing Inventory at selling price	₹ 2,00,000

Depreciation and Amortisation

7. M/s. Deep lakshmi purchased a second-hand machine on 1st April, 2020 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st Oct, 2020.

On 1st Oct, 2022, the machine installed on 1st April, 2020 was sold for ₹ 1,00,000. Another machine for ₹30,000 was purchased and was installed on 31st December, 2022.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2024.

Bills of Exchange

8. On 1st April,2024, X sells goods to Y for ₹25,000 plus IGST@ 18% and draws two bills of exchange on him; the first bill for ₹15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection

on 1st April,2024. In due course, X receives the information from the bank on the due date of the respective bill that the bill for ₹15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonour of second bill are ₹500. Pass the journal entries along with narrations in the books of X.

Final accounts and Rectification of entries

9. On 31st March, 2024 the trial balance of Mr. Robin was as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2023		Sundry Creditors	4,50,000
Raw Materials	6,30,000	Bills Payables	2,25,000
Work-in-Progress	2,85,000	Sale of scrap	75,000
Finished Goods	4,65,000	Commission received	13,500
Sundry Debtors	7,20,000	Provision for doubtful debts	49,500
Carriages on Purchase	45,000	Capital account	30,00,000
Bills Receivables	4,50,000	Sales	50,16,000
Wages	3,90,000	Bank overdraft	2,55,000
Salaries	3,00,000		
Telephone and Internet Charges	30,000		
Repairs to office furniture	10,500		
Cash at Bank	5,10,000		
Office Furniture	3,00,000		
Repairs to Plant	33,000		
Purchases	25,50,000		
Plant and Machinery	21,00,000		
Rent	1,80,000		
Lighting	40,500		
General Expenses	45,000		
	90,84,000		90,84,000

The following additional information is available:

Stocks on 31st March,2024 were:

Raw material	₹ 4,86,000
Finished goods	₹ 5,43,000
Work-in-progress	₹ 2,34,000

Salaries and wages unpaid for the year ended 31st March,2024 were respectively, ₹ 27,000 and ₹ 60,000. Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2024.

Financial Statements of Not for Profit Organizations

10. The following is the Receipts and payments account of Masters Club for the year ended on 31st March, 2024

Receipts and payments A/c for the year ended on 31st march 2024

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2023:

   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480

   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250

2. Following are the assets and liabilities on 31st March, 2024-

   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180

   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850

3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2022

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2024 in the books of Masters Club.

Accounts from Incomplete Records

11. Following is the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2023 and 31.03.2024.

Balances	**31.03.2023**	**31.03.2024**
Land	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000

Long term loan from FBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	**In ₹**
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Depreciation to be provided as follows:	
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.23 they sold machine having Book Value ₹ 40,000 (as on 31.03.2023) at a loss of ₹ 15,000. New machine was purchased on 01.01.2024.

(ii) Office equipment was sold at its book value on 01.04.2023.

(iii) Loan was partly repaid on 31.03.24 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2024.

Partnership Accounts

Profit and Loss Appropriation Account

12. (a) Akbar and Bali are partners in a firm sharing profits and losses equally. On 1st April, 2023 the balance of their Capital Accounts were : Akbar ₹ 50,000 and Bali ₹ 40,000. On that date the balances of their Current Accounts were: Akbar ₹ 10,000 (credit) and Bali ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2023. Bali is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of Akbar and Bali during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2024 before charging interest on capital but after charging Bali salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024 and show Capital and Current Accounts of the Partners for the year.

Calculation of goodwill

(b) The following information given below:

(i) Total Assets ₹10,00,000

(ii) External Liabilities ₹1,80,000

(iii) Normal Rate of Return 10%

(iv) Average Net Profit of last five years ₹1,00,000

You are required to calculate goodwill by applying:

(i) Capitalization Method and

(ii) 3 year's purchase of super profits.

Admission and Retirement of Partner

13. Acme & Co. is a partnership firm with partners Mr. X, Mr. Y and Mr. Z, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2024 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	30,000
Mr. X	2,40,000		Buildings	6,00,000
Mr. Y	60,000		Plant and machinery	3,90,000
Mr. Z	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. Y will retire from partnership and in his place Mr. P will be admitted as a partner with effect from 1st April, 2024. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. X, Mr. Z and Mr. P in their new profit sharing ratio, which is 2:2:1.

  (i) The surplus funds, if any, will be used for repaying bank overdraft.

  (ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2024.

Dissolution of Partnership

14. Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2024:

Liabilities	₹	₹	**Assets**	₹	₹
Capital Account:			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	60,000	1,60,000	Stock		1,00,000
General Reserve		56,000	Debtors		40,000
Capital Reserve		14,000	Bank		8,000
Sundry Creditors		20,000	Capital Overdrawn:		
Mortgage Loan		80,000	Venus	10,000	
			Pluto	12,000	22,000
		3,30,000			3,30,000

(i) The assets were realised as under:

	₹
Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to ₹ 4,000.

(iii) Further creditors of ₹ 12,000 had to be met.

(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Bank Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray.

Issue and Forfeiture of Shares

15. Kunal Fortune Ltd invited applications for issuing 30,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i)	On Application	₹ 1 per share
(ii)	On Allotment	₹ 2 per share
(iii)	On First call	₹ 3 per share
(iv)	On Second and final Call	₹ 4 per share

The issue was fully subscribed. Arun to whom 300 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Ajeet to whom 450 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 150 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Kunal Fortune Ltd.

Bonus Issue and Redemption of Preference Shares

16. The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3. 2023:

Liabilities	₹	Assets		₹
Share Capital		Fixed Assets	3,00,000	
Authorised		*Less:*Dep	1,00,000	2,00,000
10,000 10% Redeemable Preference		Investments		1,00,000

Shares of ₹ 10 each	1,00,000		
90,000 Equity Shares of ₹10 each	9,00,000		
	10,00,000		
Issued, Subscribed and Paid-up Capital		Current Assets and Loans and Advances	
10,000 10% Redeemable Preference		Inventory	45,000
Shares of ₹ 10 each	1,00,000	Trade receivables	25,000
10,000 Equity Shares of ₹ 10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000		
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3. 2024, the company made a net profit of ₹ 35,000 after providing ₹ 20,000 depreciation.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3. 2024 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3. 2024, was the same as on 31.3.2023.
3. The company redeemed the preference shares at a premium of 10%.

4. The company issued bonus shares in the ratio of two share for every equity share held as on 31.3.2024.

5. To meet the cash requirements of redemption, the company sold investments.

6. Investments were sold at 90% of cost on 31.3.2024.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Issue of Debentures

17. On 1st April 2023, Globex Ltd. took over assets of ₹9,00,000 and liabilities of 1,20,000 of Himalayan Ltd. for the purchase consideration of ₹ 8,80,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date. XY Ltd. issued another 6000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2023-24

18. Write short notes on:

(i) Going Concern concept.

(ii) Objective of Accounting Standards.

(iii) Retirement of bills of exchange.

(iv) Importance of bank reconciliation to an industrial unit.

SUGGESTED ANSWERS/HINTS

1. (i) False: The debit notes issued are used to prepare purchases return book.

(ii) **False**: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

(iii) **False**: It shall be disclosed as a current liability in the opening balance sheet.

(iv) **False**: When closing inventory is overstated, net income for the accounting period will be overstated.

(v) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

(vi) **False:** In case of a public holiday, the due date of the bill falls on the preceding working day.

(vii) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

(viii) **True:** Where in case of the trading activities for Non-Profit organization, the profit/loss from such activity is to be transferred to the Income and Expenditure Account at the time of consolidation.

(ix) **False:** the firm will receive full value of sum assured of the joint life policy on the death of the partner

(x) **False:** Even if the company incurs losses, it has to pay interest on debentures. Debenture being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

2. **(a)**

Fundamental Accounting Assumption	**Accounting Policies**
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different

	accounting policies adopted by different enterprises.
No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the financial statements together with the reasons.	If the policy is changed in subsequent year, the effect of such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a)

			₹	₹
(i)	Cash A/c	Dr.	20,000	
	Land A/c	Dr.	40,000	
	Furniture A/c	Dr.	10,000	
	Stock A/c	Dr.	20,000	
	To Creditors			10,000
	To Bank overdraft			20,000
	To Capital A/c			60,000
(Being commencement of business by Mohan by taking over a running business).				

(ii)	Gagandeep's A/c	Dr.	89,600	
	To Sales A/c			80,000
	To Output GST A/c			9,600
(being goods sold to Gagandeep at trade discount of 20% and charged IGST @12%)				
(iii)	Advertisement Expenses A/c	Dr.	10,000	
	To Purchases A/c			10,000
(Being goods distributed as free sample)				
(iv)	Sales Return A/c	Dr.	32,000	
	Output IGST A/c	Dr.	3,840	
	To Gagandeep A/c			35,840
(Being goods returned by Gagandeep and output IGST charged at the time of sales now reversed)				
(v)	Cash A/c	Dr.	3,000	
	Bad Debts A/c	Dr.	3,000	
	To Kuldeep			6,000
(Being Kuldeep become insolvent)				

(b) (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Premium received on issue of shares is an example of capital receipt.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(vi) Legal fees paid to acquire a property is a part of the cost of that property. Hence, it is taken as capital expenditure.

4. (a) Sales book of M/s. Alpha for March '24

Date	Particulars	Gross Amount (₹)	Trade Discount (₹)	Net Amount (₹)
2024 March				
5	M/s. ABC 10 pieces of Chairs @ ₹ 5,000/- each less Trade Discount 5%	50,000	2,500	47,500
12	M/s. PQR 25 pieces of Tables @ ₹ 2,000/- each less Trade Discount 10%	50,000	5,000	45,000
28	M/s. LMS 50 pieces of cupboards @₹ 10,000/- each less Trade Discount 20%.	5,00,000	1,00,000	4,00,000
	Total	6,00,000	1,07,500	4,92,500

Note : Transaction dated : 18 March will not be recorded in sales book being cash transaction

(b)

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter A/c	Dr.	27,000	
	To Profit and Loss Adjustment A/c			27,000
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹ 27,000, i.e., ₹30,000 less 10% depreciation)			
(2)	Profit & Loss adjustment A/c	Dr.	12,400	
	To suspense A/c			12,400
	(Total of return inward book for July, 2024 omitted to be recorded now rectified).			
(3)	Profit & Loss Adjustment A/c	Dr.	40,000	
	To X's A/c			40,000
	(Credit purchase from X ₹20,000, entered as sales last year, now rectified)			
(4)	Ravish's A/c	Dr.	10,000	
	To Preetish's A/c			10,000
	(Amount received from Mr. Preetish wrongly posted to the account of Mr. Ravish; now rectified)			
(5)	Suspense A/c	Dr.	10,000	
	To Chandu's A/c			10,000
	(₹ 5,000 received from Chandu wrongly debited to his account; now rectified)			

(6)	Suspense A/c To Profit & Loss Adjustment A/c (Carry forward of total of purchase a/c to next page 65,950 instead of 55,950 now rectified)	Dr.	10,000	10,000
(7)	Rohan's A/c To Profit & Loss Adjustment A/c (Sales to Rohan omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c (Freight paid for machine 5,600 was posted to freight A/c at 6,500 now rectified)	Dr. Dr.	5,600 900	6,500
(9)	Profit & Loss Adjustment A/c To Satvik's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	11,100	11,100
(10)	Satvik's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to Capital Account)	Dr.	8,500	8,500

5. Bank Reconciliation Statement as on 31st March, 2024

Particulars			Amount ₹
Overdraft as per Pass Book			8,800
Add:			
(i)	Cheques issued but not presented till 31st March	5,800	
(ii)	Transfer from fixed deposit	2,000	
(iii)	Direct deposit by M/s Rajesh Trader	400	8,200
			17,000
Less:			
(i)	Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii)	Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii)	Interest on overdraft debited in Pass Book only	930	
(iv)	Corporation tax paid appeared in Pass Book only	1,200	6,200
Overdraft as per Cash Book			10,800

6. (a) Calculation of value of inventory as on 7.1.2024 of manufacturing company.

Date	Receipts	Rate	Amount	Issue	Rate	Amount (₹)	Balance Units	Rate	Amount (₹)
1.10.24	Balance						Nil		
1.10.24	200	60	12,000				200	60	12,000
2.10.24				100	60	6000	100	60	6,000
3.10.24	400	80	32,000				500	76	38,000
4.10.24				200	76	15200	300	76	22,800
7.10.24				200	76	15200	100	76	7,600

The value of 100 units of inventory as on 7.10.24 ₹ 7,600

(b)

Sales	15,00,000
Add: Closing inventory (at selling price)	2,00,000
Selling price of goods available for sale:	17,00,000
Less: Cost of goods available for sale	10,00,000
Gross margin	7,00,000

$$\text{Rate of gross margin} = \frac{7,00,000}{17,00,000} \times 100 = 41.18\%$$

Cost of closing inventory = 2,00,000 less 41.18% of ₹ 2,00,000
= ₹ 1,17,640

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 1,17,640

OR as 41.17% in that case, the closing inventory will be valued at ₹ 1,17,640

7. Machinery Account in the books of M/s. Deep Lakshmi

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2020	To Bank A/c	1,60,000	31.03.2021	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.03.2021	By Balance c/d	2,56,000
1.10.2020	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.4.2021	To Balance b/d	2,56,000	31.03.2022	By Depreciation A/c	28,000
				(₹ 20,000 + ₹ 8,000)	
			31.03.2022	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000

1.4.2022	To	Balance b/d	2,28,000	1.10.2022	By	Bank A/c	1,00,000
31.12.2022	To	Bank A/c	30,000	1.10.2022	By	Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
				31.03.2023	By	Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				31.03.2023	By	Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
			2,58,000				2,58,000
1.4.2023	To	Balance b/d	89,250	31.3.2024	By	Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				31.3.2024	By	Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
			89,250				89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	2,00,000	80,000	30,000
Depreciation for 2020-21	20,000	4,000	
Written down value as on 31.03.2021	1,80,000	76,000	
Depreciation for 2021-22	20,000	8,000	
Written down value as on 31.03.2022	1,60,000	68,000	
Depreciation for 2022-23 (Mach I- 6	10,000	8,000	750

months)			
Written down value as on 01.10.2022	1,50,000		
Written down value as on 31.03.2023		60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8.

Date 2024	Particulars	L.F	Dr. ₹	Cr. ₹
Apr.1	Y Dr.		29,500	
	To Sales A/c			25,000
	To Output IGST A/c			4,500
	(Being the inter-state sale of goods to Y, charged to IGST@ 18%)			
Apr 1	Bills Receivable (No. 1) A/c Dr.		15,000	
	Bills Receivable (No. 2) A/c Dr.		14,500	
	To Y			29,500
	(Being the two bills acceptance-one for ₹ 15,000 and the other for ₹ 14,500 received)			
Apr.1	Bills sent for collection A/c Dr.		29,500	
	To Bills Receivable (No. 1) A/c			15,000
	To Bills Receivable (No.2) A/c			14,500
	(Being the Bills sent to bank for collection)			
July.4	Bank A/c Dr.		15,000	
	To Bills sent for collection A/c			15,000
	(Being the amount duly collected by bank on first bill)			

Aug.4	Y Dr. To Bills sent for collection A/c To Bank A/c (Being the second bill dishonored and bank paid ₹ 500 as noting charges)		15,000	 14,500 500

9. In the books of Mr. Robin

Manufacturing Account for the year ended 31st March, 2024

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	2,34,000
To Opening Stock of Raw Materials	6,30,000		By Sale of Scrap	75,000
Add: Purchases	25,50,000		By Cost of goods Manufactured (Transferred to Trading Account)	35,70,000
Less: Closing Stock	4,86,000	26,94,000		
To Opening Stock of WIP		2,85,000		
To Wages	3,90,000			
Add: Outstanding Wages	60,000	4,50,000		
To Carriage on Purchases		45,000		
To Repairs to Plant		33,000		
To Rent (3/4)		1,35,000		
To Lighting (2/3)		27,000		
To Depreciation of Plant		2,10,000		
		38,79,000		38,79,000

Trading Account for the year ended 31st March, 2024

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	4,65,000	By Sales	50,16,000
To Cost of goods transferred from Manufacturing A/c	35,70,000	By Closing Stock	5,43,000
To Gross Profit c/d	15,24,000		
	55,59,000		55,59,000

Profit and Loss Account for the year ended 31st March, 2024

Particulars		₹	Particulars	₹
To Salaries	3,00,000		By Gross Profit b/d	15,24,000
Add: Outstanding	27,000	3,27,000	By Commission	13,500
To Telephone & Internet Charges		30,000		
To Repairs to Furniture		10,500		
To Depreciation of furniture		22,500		
To Rent (1/4)		45,000		
To Lighting (1/3)		13,500		
To General Expenses		45,000		
To Provision for doubtful Debts: Required (1% of ₹50,16,00)	50,160			
Less: Existing Provision	49,500	660		
To Net Profit		10,43,340		
		15,37,500		15,37,500

10. **In the books of Masters Club**

Income and expenditure Account for the year ended on 31st March, 2024

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as at 31st March, 2024

Liabilities		Amount (₹)	Assets	Amount (₹)
Opening capital	1,13,880		Sports Equipment	50,500
Less: Deficit	(2,550)	1,11,330	Furniture	11,180
Entrance fees		13,000	7% Investments	65,000
Outstanding electricity charges		3,800	Subscription in arrears	5,200
Subscription in advance		4,850	Cash	1,100
		1,32,980		1,32,980

Working notes

1. Investments made $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. **Balance sheet as at 31st March, 2023**

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	1,25,530		1,25,530

3. **Calculation of depreciation of Sports equipment**

Particulars	Amount (₹)
Sports equipment as on 31st, March 2023	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2024	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2024	9,000

Calculation of depreciation of Furniture

Particulars	Amount (₹)
Furniture as on 31st, March 2023	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2024	(11,180)
Depreciation on furniture for the year ended 31st, March 2024	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2024

Dr. Subscription A/c (year ended on 31st March, 2024) **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2023)	7,600	By Advance at the beginning (2023)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2025)	4,850	By Outstanding at the end (2024)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2024	15,600
Add: Outstanding charges for year 2024	3,800
Less: Outstanding charges for year 2023	(5,400)
Electricity charges to be debited to Income and Expenditure A/c	14,000

11. In the Books of Moonlight Traders

Trading Account for the year ended 31.03.2024

Particulars	₹	Particulars	₹
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000x25/125)	2,50,000		
	13,15,000		13,15,000

Profit and Loss Account for the year ended 31.03.2024

Particulars		₹	Particulars	₹
To Discount		5,500	By Gross profit	2,50,000
To Salaries Expenses	32,000		By Discount	4,500
To Office expenses (W.N.3)	37,000			
To Selling expenses	15,000	84,000		
To Interest on loan (12% on ₹1,60,000)		19,200		
To Loss on sale of Machinery (WN4(c)		15,000		
To Depreciation:				
Plant & Machinery (W.N 4b)	23,750			
Office Equipment (W.N. 5)	12,750	36,500		
To Net profit after tax		94,300		
		2,54,500		2,54,500

Balance sheet as at 31.3.2024

Liabilities	₹	₹	Assets	₹
Capital (W.N. 6)	8,95,500		Land	5,00,000
Add: Net Profit	94,300	9,89,800	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250

Outstanding expenses		15,000	Debtors (W.N. 7)	2,25,000
Loan from FBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		12,10,300		12,10,300

Working Notes:

1. Calculation of Total Sales

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus, total Sales (2,50,000 x 100/20)	12,50,000
Credit Sales (12,50,000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c (bal fig)	37,000
	57,000		57,000

4. (a) Plant and Machinery Account

	₹		₹
To Bal b/d	2,20,000	By Sale	40,000
To Purchases (bal fig)	1,50,000	By Bal c/d	3,30,000
	3,70,000		3,70,000

(b) Depreciation calculations on Plant & Machinery

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Amount (₹)		Amount (₹)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	23,000
	40,000		40,000

5. Depreciation calculations on Office Equipments

	₹
Opening Balance	1,05,000
Less: Closing Balance	(85,000)
Sale of Office Equipments	20,000
Balance of Office Equipments after sale	85,000
Depreciation @15%	12,750

6. Balance Sheet as on 31.03.2023

	₹		₹
Creditors	95,000	Land	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. Sundry Debtors A/c

		₹			₹
To	Balance b/d	1,55,500	By	Bank	9,25,000
To	Sales	10,00,000	By	Discount	5,500
			By	Bal. c/d	2,25,000
		11,55,500			11,55,500

8. Sundry Creditors A/c

		₹			₹
To	Bank	5,25,000	By	Balance b/d	95,000
To	Discount	4,500	By	Purchases	5,40,000
To	Balance c/d	1,05,500			
		6,35,000			6,35,000

9. Bank Account

		₹			₹
To	Balance b/d	25,000	By	Creditors	5,25,000
To	Debtors	9,25,000	By	Office Expenses	42,000
To	Cash Sales	2,50,000	By	Salary Expense	32,000
To	Sale of Machinery (W.N. 4c)	23,000	By	Selling Expenses	15,000

To	Sale of equipment	20,000	By	Purchases (cash)	3,60,000
			By	Purchase of Machinery	1,50,000
			By	Bank Loan & Interest (60,000+19,200)	79,200
			By	Balance c/d	39,800
		12,43,000			12,43,000

12. (a) Profit and Loss Appropriation Account

for the year ended 31st March, 2024

		₹	₹		₹
To	Salary - Bali		3,000	By Net profit	73,000
To	Interest on Capitals:				
	Akbar	2,500			
	Bali	2,000	4,500		
To	Reserve (10% of 65,500)		6,550		
To	Partners' current accounts:				
	Akbar	29,475			
	Bali	29,475	58,950		
			73,000		73,000

Partners' Capital Account

Date		Akbar	Bali	Date		Akbar	Bali
31.03.24	To Balance c/d	50,000	40,000	01.04.23	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Account

Date		Akbar	Bali	Date		Akbar	Bali
01.04.23	To Balance b/d	-	3,000	01.04.23	By Balance b/d	10,000	
31.03.24	To Drawings A/c	1,000	2,000	31.03.24	By Interest on Capital	2,500	2,000
31.03.24	To Balance c/d	40,975	29,475	31.03.24	By Salary		3,000
				31.03.24	By Profit and Loss App A/c	29,475	29,475
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to Bali = 70,000+3,000 =73,000

(b) Goodwill as per Capitalization Method:

(i) Capital Employed (Net Assets)

= Total Assets – External Liabilities

= ₹ 10,00,000 – ₹ 1,80,000 = ₹ 8,20,000

Normal Profit = 10% of ₹ 8,20,000 = ₹ 82,000

Super Profit = Average Profit – Normal Profit

= ₹ 1,00,000 – ₹ 82,000

= ₹ 18,000

Goodwill = Super Profit x 100/Normal rate of Return

= 18,000 X 100/10= ₹1,80,000

(ii) Goodwill as per 3 year's purchase of super profits:

Goodwill = Super Profit x Number of Year's purchased

= ₹ 18,000 x 3 = ₹ 54,000

13. **Revaluation Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Buildings A/c	30,000	By Investments A/c	9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	83,400	X 91,200	
		Y 54,720	
		Z 36,480	1,82,400
	1,91,400		1,91,400

Partners' Capital A/c

Particulars	X	Y	Z	P	Particulars	X	Y	Z	P
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To X and Y's Capital A/c	-		60,000	60,000	By Z and P's Capital A/c	30,000	90,000	-	-
To Y's Loan A/c		68,280	-	-	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

Particulars	Amount ₹	Particulars	Amount ₹
To X's capital A/c	31,200	By Bank overdraft A/c	1,32,000
To Z's capital A/c	2,34,480	By Balance c/d	3,13,680
To P's capital A/c	1,80,000		
	4,45,680		4,45,680

Balance Sheet of Acme & Co.

as at 1st April, 2024

Liabilities	₹	Assets	₹
Capital Accounts:		Land	30,000
X 2,40,000		Buildings	5,70,000
Z 2,40,000		Plant and Machinery	3,12,000
P 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade payables	5,10,000	Trade receivables 4,17,000	
Y's Loan Account	68,280	Less: Provision for Doubtful Debts (83,400)	3,33,600
		Balance at Bank	3,13,680
	20,78,280		20,78,280

14. **Realisation Account**

	₹		₹	₹
To Sundry assets A/c (transfer):		By Sundry creditors A/c		20,000
		By Mortgage loan		80,000
Premises	1,20,000	By Bank A/c (assets realised):		
Furniture	40,000			
Stock	1,00,000	Premises	90,000	
		Furniture	16,000	
Sundry Debtors	40,000	Stock	60,000	
To Bank A/c (creditors paid)	32,000	Debtors	24,000	1,90,000
To Bank A/c (Mortgage loan)	80,000	By Loss transferred to Capital Accounts:		

To Bank A/c (expenses)	4,000		Neptune	54,000	
			Jupiter	36,000	
			Venus	18,000	
			Pluto	18,000	1,26,000
	4,16,000				4,16,000

Bank Account

		₹		₹
To Balance b/d		8,000	By Realisation A/c (creditors)	32,000
To Realisation A/c			By Realisation A/c (expenses)	4,000
(assets realised)		1,90,000	By Mortgage loan	80,000
To Capital A/c(realisation loss			By Neptune's Capital A/c	1,18,857
made good):			By Jupiter's Capital A/c	73,143
Neptune	54,000			
Jupiter	36,000			
Pluto	18,000	1,08,000		
To Pluto's Capital A/c		2,000		
		3,08,000		3,08,000

Partners' Capital Account

Particulars	Neptune	Jupiter	Venus	Pluto	Particulars	Neptune	Jupiter	Venus	Pluto
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d	–	–	10,000	12,000	By Balance b/d	1,00,000	60,000	–	–

To	Realisastion A/c (loss)	54,000	36,000	18,000	18,000	By General reserve A/c (3 : 2 : 1 :1)	24,000	16,000	8,000	8,000
To	Venus's Capital A/c (loss) (W.N.1)	11,143	6,857	–	–	By Capital reserve A/c (3 : 2 : 1 :1)	6,000	4,000	2,000	2,000
To	Bank A/c	1,18,857	73,143	–	–	By Bank A/c (loss on realization)	54,000	36,000	–	18,000
						By Neptune's Capital A/c	–	–	11,143	–
						By Jupiter's Capital A/c	–	–	6,857	–
						By Bank A/c	–	–	–	2,000
		1,84,000	1,16,000	28,000	30,000		1,84,000	1,16,000	28,000	30,000

W.N. 1: Statement showing distribution of Loss of Venus

Particulars	Neptune	Jupiter
Opening Capital	1,00,000	60,000
General Reserve	24,000	16,000
Capital reserve	6,000	4,000
Total	1,30,000	80,000
Ratio	13	8
Loss of Venus of ₹ 18,000 is to be distributed in the ratio of (13:8)	11,143	6,857

15. In the books of Kunal Fortune Ltd.

Journal Entries

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c Dr.		30,000	
To Equity Share Application A/c			30,000
(Money received on applications for			

30,000 shares @ ₹ 1 per share)				
Equity Share Application A/c	Dr.		30,000	
To Equity Share Capital A/c				30,000
(Transfer of application money of 30,000 shares to share capital)				
Equity Share Allotment A/c	Dr.		60,000	
To Equity Share Capital A/c				60,000
(Amount due on the allotment of 30,000 shares @ ₹ 2 per share)				
Bank A/c	Dr.		59,400	
To Equity Share Allotment A/c				59,400
(Allotment money received on 29,700 shares)				
OR	Dr.		59,400	
Bank A/c	Dr.		600	
Calls in arrears A/c				60,000
To Equity Share Allotment A/c				
(Allotment money received except 300 shares)				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				300
To Equity Shares Allotment A/c				600
(300 Shares of Arun forfeited)				
OR				
Equity Share Capital A/c	Dr.		900	
To Shares Forfeiture A/c				300
To Calls in arrears A/c				600
(300 shares forfeited due to non-payment of allotment money)				
Equity Share First Call A/c	Dr.		89,100	

To Equity Share Capital A/c (First call made due on 29,700 shares at ₹ 3 per share)				89,100
Bank A/c	Dr.		87,750	
To Equity Share First Call A/c (First call money received on 29,250 shares at ₹ 3 per share)				87,750
OR				
Bank A/c	Dr.		87,750	
Calls in arrears A/c	Dr.		1,350	
To Equity Share First Call A/c (First Call money received except 450 shares)				89,100
Equity Share Capital A/c	Dr.		2,700	
To Share Forfeiture A/c				1350
To Equity Share First Call A/c (450 Shares of Ajeet forfeited)				1350
OR				
Equity Share Capital A/c				
To Share Forfeiture A/c	Dr.		2,700	
To Calls in arrears A/c				1,350
(450 shares forfeited due to non - payment of First call money)				1,350
Equity Share Second and Final Call A/c	Dr.		1,17,000	
To Equity Share Capital A/c (Second and Final call made due on 29,250 shares at ₹ 4 per share)				1,17,000
Bank A/c	Dr.		1,16,400	
To Equity Share Second and				1,16,400

Final Call A/c				
(Second and Final call money received on 29,100 shares at ₹ 4 per share)				
OR				
Bank A/c	Dr.		1,16,400	
Calls in arrears A/c	Dr.		600	
To Equity Shares Second and Final call A/c				1,17,000
(Second and Final call money received except 150 shares)				
Equity Share Capital A/c	Dr.		1,500	
To Share Forfeiture A/c				900
To Equity Share Second and Final Call A/c				600
(150 Shares of Mohan forfeited)				
OR				
Equity Share Capital A/c				
To Shares Forfeiture A/c	Dr.		1,500	
To Calls in arrears A/c				900
(50 shares forfeited due to non-payment of Second and final call money)				600
Bank A/c	Dr.		8,100	
Share Forfeiture A/c	Dr.		900	
To Equity Share Capital A/c				9,000
(900 shares reissued at ₹ 9 per share)				
Share Forfeiture A/c	Dr.		1,650	
To Capital Reserve A/c (W.N.1)				1,650
(Profit on re-issue transferred to Capital Reserve)				

Working Note-1:

Calculation of amount to be transferred to Capital Reserve:

Surplus out of 300 shares of Arun forfeited	₹ 300
Surplus out of 450 shares of Ajeet forfeited	₹ 1,350
Surplus out of 150 shares of Mohan forfeited	₹ 900
	₹ 2,550
Less: Loss on re-issue of shares	₹ 900
Transferred to Capital Reserve	₹1,650

16. Journal Entries in the Books of Trinity Ltd.

Particulars		Dr.	Cr.
		₹	₹
Dividend A/c	Dr.	10,000	
To Bank A/c			10,000
(Dividend on preference paid)			
Profit & Loss A/c	Dr.	10,000	
To Dividend A/c			10,000
(Dividend on preference shares written off to profit and loss account)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Amount payable to preference shareholders on redemption)			
Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Amount of premium payable on redemption of preference shares)			

Bank A/c	Dr.	90,000	
Profit and Loss A/c	Dr.	10,000	
To Investments A/c			1,00,000
(Amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Payment made to preference shareholders)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve A/c			1,00,000
(Transfer to the Capital redemption reserve account on redemption of shares)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
Securities Premium A/c	Dr.	70,000	
General Reserve A/c	Dr	20,000	
Profit & Loss A/c	Dr.	10,000	
To Bonus to Equity Shareholders A/c			2,00,000
(Amount adjusted by issuing bonus shares in the ratio of 2:1)			
Bonus to Equity Shareholders A/c	Dr.	2,00,000	
To Equity Share Capital			2,00,000
(Balance on former account transferred to latter)			

17. In the books of XY Ltd.

Journal Entries

Date	Particular		L.F	Dr.	Cr.
2023	Sundry Assets A/c	Dr.		9,00,000	
April	Goodwill A/c (Bal. fig)	Dr.		1,00,000	
	To Himalayan Ltd. A/c				8,80,000

	To Sundry Liabilities A/c			1,20,000
	(Assets and liabilities taken over for a net consideration of ₹ 8,80,000)			
	Himalyan Ltd. A/c Dr.		8,80,000	
	To 8% Debentures A/c			8,00,000
	To Securities Premium A/c			80,000
	(8000; 8% Debenture of ₹ 100 each issued at a premium of 10%			
	Bank A/c Dr.		1,80,000	
	To Debenture Application A/c			1,80,000
	(Application money received for 6000, 8% Debenture)			
	Debenture Application A/c Dr.		1,80,000	
	To 8% Debenture A/c			1,80,000
	(6000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		3,60,000	
	Loss on issue of debenture A/c Dr.		90,000	
	To 8% Debentures A/c			4.20,000
	To Premium on redemption of debentures A/c			30,000
	(Allotment money due on 6000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c Dr.		3,60,000	
	To Debentures Allotment A/c			3,60,000
	(Allotment money received)			
2024				
Mar,31	Profit and Loss A/c Dr.		90,000	

	To Loss on issue of Debenture A/c (Loss on issue of debenture written off)			90,000

18. (i) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

(ii) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(iii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/ discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Accounting Standards for non-corporate entities in India are issued by the Central Government.

   (b) Cash book is a subsidiary book as well as a principal book.

   (c) Debit balance as Cash Book is same as overdraft as per passbook.

   (d) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) A Promissory note can be made payable to bearer.

   (g) Provision for Bad Debts is debited to Sundry Debtors A/c

   (h) Goodwill is intangible asset therefore it cannot be valued.

   (i) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

   (j) A person holding preference shares of a company cannot hold equity shares of the same company.

   (k) A Company is not allowed to issue shares at a discount to the public in general.

Theoretical Framework

2. (a) Under what circumstances can an enterprise change its accounting policy?

(b) Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Harpreet

(i) Customer's cheque for ₹ 4,000 returned dishonoured for insufficient funds in his accounts. The customer had availed a cash discount of ₹ 400.

(ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.

(iii) Defective goods worth ₹ 5,000 are sold for 3,000.

(iv) Purchase of goods from Sunny of the list price of ₹ 20,000. He allowed 5% trade discount, ₹ 200 cash discount was also allowed for quick payment.

(v) Purchased goods from Sarah industries for ₹ 50,000 plus CGST and SGST@6% each.

(vi) Goods given as charity costing ₹ 1,600, sale price ₹ 2,000. CGST and SGST @ 6% each was paid at the time of purchase of such goods

Capital or Revenue Receipt or Expenditure

(b) Classify the following transactions either as capital or revenue expenditures or as capital or revenue receipts;

(i) Dividend received from XYZ limited during the year.

(ii) Amount spent for replacement of a petrol driven engine by CNG kits.

(iii) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

(iv) Overhauling expenses of second-hand machine purchased.

(v) Insurance claim received on account of inventory damaged by fire.

(vi) Entrance fees of ₹35,000 received by society club.

Trial Balance

4. (a) From the following information, draw up a Trial Balance in the books of Shri Mohan Das as on 31st March,2024:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	9,80,000	Purchases	2,52,000
Discount Allowed	8,400	Carriage Inward	60,900
Carriage Outwards	16,100	Sales	4,20,000
Return Inward	2,100	Return Outwards	4,900
Rent and Taxes	8,400	Plant and Machinery	5,64,900
Stock on 1st April 2023	1,08,500	Sundry Debtors	1,41,400
Sundry Creditors	84,000	Investments	25,200
Commission Received	12,600	Cash in Hand	700
Cash at bank	70,700	Motor Cycle	2,42,200
Stock on 31st March, 2024	1,43,500		

Rectification of Errors

(b) Mr. Mathur's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹ 7,165 was carried forward to the next page as ₹ 7,615.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 1,595 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) A cheque of ₹ 500 issued to a suppliers A/c (shown under trade payables) towards his dues has been wrongly debited to purchases.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on sale.

(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

Bank Reconciliation Statement

5. From the following information (as on 31.3.2024), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	16,25,000
Cheques deposited, but not yet credited	22,37,500
Cheques issued but not yet presented for payment	17,81,000
Bank charges debited by bank but not recorded in the cash-book	6,250
Dividend directly collected by the bank	62,500
Insurance premium paid by bank as per standing instruction not intimated	7,950
Cash sales wrongly recorded in the Bank column of the cash-book	1,27,500

Customer's cheque dishonoured by bank not recorded in the cash-book	65,000
Wrong credit given by the bank	75,000

Also show the bank balance that will appear in the trial balance as on 31.3.2024.

Valuation of Inventories

6. Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2024 was completed by 10th April, 2024, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2024.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2024.

Depreciation and Amortisation

7. The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April,2023. The Books of Accounts of the Factory are closed on 31st March every year and depreciation @ 10% per annum is charged under the Diminishing Balance Method. On 1st September,2023 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September,2023 a machine which had cost ₹ 21,87,000 on 1st April,2021 was sold for ₹ 3,75,000. Another machine which had cost

₹ 21,85,000 on 1st April,2022 was scrapped on 1st September,2023 and it realized nothing.

Prepare Machinery Account for the year ended 31st March,2024. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

Bills of Exchange

8. On October, 2024, Samar sells goods to Amar for ₹ 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill fort ₹ 15,000 for 2 months and second bill for the balance for 3 months. Amar accepts and returns these bills to Samar. Both the bills are sent to the bank for collection on 1st October, 2024. In due course, Samar receives the information from the bank on the due date of the respective bill that the bill for ₹ 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are ₹ 500. Pass the journal entries in the books of Samar along with narration.

Final accounts

9. Charu decided to start business of fashion garments under the name of M/s. Bella Wear on 1st April, 2023. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2023	-	₹ 15,000 principal+ ₹ 9,000 interest
30th September, 2023	-	₹ 15,000 principal+ ₹ 8,550 interest
31st December, 2023	-	₹ 15,000 principal+ ₹ 8,100 interest
31st March, 2024	-	₹ 15,000 principal+ ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of

₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

(i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2024: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31st March, 2024 and Balance Sheet as on that date.

Financial Statements of Not for Profit Organizations

10. From the following Receipts and Payments Account of Finance Professionals Club.

Receipts and Payments Account

for the year ended 31st March, 2024

Receipts	₹	Payments	₹
To Cash in Hand (Opening)	67,500	By Salaries	7,42,500
To cash at Bank (Opening)	18,90,000	By Stationery	1,34,550
To Subscriptions	22,86,000	By Billard Table	8,70,750

To Donations	10,80,000	By Investments	9,29,700
To Interest on Investments	27,000	By Miscellaneous Expenses	1,12,500
To Entrance Fees	2,70,000	By Furniture	18,45,000
To Interest Received from Bank	94,500	By Insurance Premium	40,500
To Sale of Old Newspapers	13,500	By Cash in Hand (Closing)	49,500
		By Cash at Bank (Closing)	10,03,500
	57,28,500		57,28,500

(i) Subscriptions in arrears for the year ended 31st March, 2024- ₹2,02,500 and Subscriptions received in advance during the year ended 31st March,2024 - ₹58,500.

(ii) Insurance Premium prepaid is ₹ 4,500.

(iii) The detail with respect to Stationery of Accountants Club is as follows:

	1st April,2023 (₹)	31st March,2024 (₹)
Stock of Stationery	7,500	45,000
Creditors for Stationery	39,000	60,000
Advance paid for Stationery purchased during the year	---	10,500

Prepare the Income and Expenditure Account for the year ended 31st March, 2024. As per the club rules, donations are to be capitalized and entrance fees is the income of club.

Accounts from Incomplete records

11. Saraswati Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2024 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	67,500	Furniture & fixtures	15,000
Trade creditors	75,750	Stock	91,500
Outstanding expenses	6,750	Trade debtors	31,200
		Prepaid insurance	300
		Cash in hand & at bank	12,000
	1,50,000		1,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	₹	Payments	₹
To Cash in hand & at Bank on 1st April, 2024	12,000	By payment to trade creditors	12,48,300
To Cash sales	11,07,000	By Sundry expenses	93,105
To amount paid to debtors	2,77,500	By Drawings	36,000
		By Cash in hand & at Bank on 31st March, 2025	19,095
	13,96,500		13,96,500

Additional Information:

1. Discount allowed to trade debtors and received from trade creditors amounted to ₹5,400 and ₹4,250 respectively, (for the year ended 31st March, 2025)
2. Annual fire insurance premium of ₹900 was paid every year on 1st August for the renewal of the policy. These expenses are included in sundry expenses.
3. Furniture & fixtures were subject to depreciation @ 15% p.a. or diminishing balance method.

4. The following are the balances as on 31st March, 2025:

Stock	₹97,500
Trade debtors	₹34,300
Outstanding expenses	₹5,520

5. Gross profit ratio of 10% on sales in maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

Partnership Accounts

12. Seema, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2024. The Balance Sheet of Firm as at 31st March 2024 stood as

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Seema	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Provision for doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at ₹ 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at ₹ 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Seema and Yedhant.

(v) Zoya's share of profit from 1st April 2024, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2024	2023	2022	2021	2020
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2024.

13. Agarwal, Samuel and Khan are partners in a firm. On 1st April 2022 their fixed capital stood at ₹ 2,50,000, ₹ 1,25,000 and ₹ 1,25,000 respectively.

As per the provision of partnership deed:

(1) Khan was entitled for a salary of 25,000 p.a.

(2) All the partners were entitled to interest on capital at 5% p.a.

(3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2023 of ₹ 1,65,000 and 31st March,2024 of ₹ 2,25,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

Dissolution of Partnership

14. Aman, Yaman and Zaman who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March,2024 when their Balance Shet was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,50,000
Aman 1,80,000		Machinery	90,000
Yaman 1,35,000		Tools	12,000
Zaman 90,000	4,05,000	Car	18,000
Creditors	51,000	Debtors	93,000
		Stock	55,500
		Bank	37,500
	4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	₹
Tools	7,500
Machinery	1,23,000
Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

(a) Creditors accepted stock in settlement of their dues.

(b) There was an unrecorded asset valued at ₹ 4,500 which was taken by Aman for ₹3,000.

(c) There was an old furniture which had been written off from the books. Yaman agreed to take it at ₹ 12,000.

(d) Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Issue and Forfeiture of Shares

15. Ambiance Limited invited applications for issuing 2,25,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 9,00,000 equity shares were received. Applications for 6,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 4,500 shares applied by Mr. Kabir. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of Ambiance Limited.

Debentures

16. Strawberry farms Ltd. issued 20,000 11% debentures of ₹ 100 each at a discount of 5%, payable ₹ 50 on application and ₹ 45 on allotment redeemable after 3 years.

(i) at a premium of 2%

(ii) at a discount of 2%

Pass necessary journal entries for issue of debentures.

Redemption of Preference Shares

17. The extract of Balance Sheet of Hari Om Ltd. as on 31st March 2024 is as follows

Sr. No.	Particulars	Notes	₹	₹
I]	EQUITY AND LIABILITIES			
(1)	Shareholders' funds			
a)	Share Capital	1		350,000

b)	Reserve & Surplus	2		64,000
II]	ASSETS			
(1)	Non-current assets			
a)	PPE & Intangible Assets			
	i) PPE			2,25,000
b)	Non-Current Investments			60,000

Notes to accounts:

Sr. No.	Particulars	₹
1.	Share capital	
	Authorized Share Capital	
	40,000 Equity shares of ₹ 10 each fully paid up	4,00,000
	1,000 8% Preference shares of ₹ 100 each fully paid up	1,00,000
		5,00,000
	Issued, Subscribed Called Up and Paid up Share Capital	
	1000, 8% Preference shares of ₹ 100 each fully paid up	1,00,000
	25,000 Equity shares of ₹ 10 each fully paid up	2,50,000
	Total	3,50,000
2.	Reserve and Surplus	
	Securities Premium Reserves	9,000
	Profit and Loss Account	55,000
	Total	64,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investment of ₹ 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

18. Write short notes on the following:

(i) Double entry system.

(ii) Importance of bank reconciliation to an industrial unit.

(iii) Bill of exchange and the various parties to it.

(iv) Features of Single Entry System.

(v) Advantages and Disadvantages of Right Issue.



SUGGESTED ANSWERS

1. (a) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

(b) **True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.

(c) **False:** Debit balance as per cash book should be represented by credit or favourable balance in passbook.

(d) **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

(e) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written

down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **False:** A promissory note cannot be made payable to bearer. It is payable to or to do the order of certain person.

(g) **False:** Provision for Bad debts is debited to P&LA/c. In Balance Sheet it is shown as deduction from "Debtors".

(h) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

(i) **False**: It shall be disclosed as a current liability in the opening balance sheet.

(j) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

(k) **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

2. **(a)** A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

(b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by

professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities.

3. (a) Journal Entries in the books of Harpreet

	Particulars	**Dr.**	**Cr.**
		Amount (₹)	**Amount (₹)**
(i)	Customers (Debtors) A/c Dr.	4,400	
	To Bank A/c		4,000
	To Discount Allowed A/c		400
	(Being customer cheque returned unpaid by bank, cash discount allowed earlier)		
(ii)	Drawings A/c Dr.	8,500	
	To Petty Cash A/c		8,500
	(Being the income tax of proprietor paid out of business money)		
(iii)	Cash A/c Dr.	3,000	
	Profit and Loss A/c	2,000	
	To Sales A/c		5,000
	(Being defective goods costing ₹ 5,000 were sold for a loss of ₹ 2,000)		

(iv)	Purchase A/c Dr.	19,000	
	To Bank A/c		18,800
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for ₹ 19,000 @ 5% trade discount and cash discount of ₹ 200)		
(v)	Purchases A/c Dr.	50,000	
	Input CGST A/c Dr.	6,000	
	Input SGST A/c Dr.	6,000	
	To Sarah Industries		62,000
	(Being goods purchased and CGST and SGST payable at 6% each)		
(vi)	Charity A/c Dr.	1,792	
	To Purchases A/c		1,600
	To Input CGST A/c		96
	To Input SGST A/c		96
	(Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)		

(b) 1. Revenue Receipts

2. Capital Expenditure

3. Capital Expenditure

4. Capital Expenditure

5. Revenue Receipts

6. Capital Receipts.

4. **(a)** Trial Balance of Shri. Mohan Das as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		9,80,000

Purchases	2,52,000	
Discount Allowed	8,400	
Carriage Inward	60,900	
Carriage Outwards	16,100	
Sales		4,20,000
Return Inward	2,100	
Return Outwards		4,900
Rent and taxes	8,400	
Plant and Machinery	5,64,900	
Stock on 1st April,2023	1,08,500	
Sundry Debtors	1,41,400	
Sundry Creditors		84,000
Investments	25,200	
Commission Received		12,600
Cash in Hand	700	
Cash at Bank	70,700	
Motor Cycle	2,42,200	
	15,01,500	15,01,500

Note: Stock as on 31st March,2024 will not appear in trail balance.

(b) Journal Entries in the books of Mr. Mathur

	Particulars	***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(i)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹ 7,615 carried forward instead of ₹ 7,165)		450	450

(ii)	Profit & Loss Adjustment A/c	Dr.		540	
	Customer's A/c	Dr.		1,102	
	To Suspense A/c				1,642
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)				
(iii)	Suspense A/c	Dr.		3,190	
	To Profit & Loss Adjustment A/c				3,190
	(Correction of error by which Returns Inward Account was debited by ₹1,595 instead of Returns Outwards Account being credited by ₹1,595)				
(iv)	Trade payables A/c	Dr.		500	
	To Purchases A/c				500
	(Being payments made to a supplier wrongly credited to purchases now rectified)				
(v)	Customer's (debtors) A/c	Dr.		1,400	
	To Profit & Loss Adjustment A/c				1,400
	(Rectification of the error arising from non-preparation of invoice for goods delivered)				
(vi)	Profit & Loss Adjustment A/c	Dr.		1,600	
	To Customer's A/c				1,600
	(The Customer's A/c credited with goods not yet purchased by him)				

(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1,280	1280
(viii)	R's A/c/Trade receivable A/c To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3,000	3,000
(ix)	Profit & Loss Adjustment A/c To Mathur's Capital A/c (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		7,180	7,180

5. **Cash Book as on 31.3.2024**

(After making necessary adjustments)

Dr.			**Cr.**
Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To Balance b/d	16,25,000	By Bank charges	6,250
To Dividend	62,500	By Insurance premium	7,950
		By Trade receivables (cheque dishonoured)	65,000
		By Cash A/c (wrongly recorded cash sales)	1,27,500
		By Balance c/d	14,80,800
	16,87,500		16,87,500

Bank Reconciliation Statement as on 31.3.2024

Particulars	Details	Amount ₹
Bank balance as per the cash book		14,80,800
Add: Cheques issued but not yet presented for payment	17,81,000	
Wrong credit given by bank	75,000	18,56,000
		33,36,800
Less: Cheques deposited but not yet credited by bank		(22,37,500)
Balance as per the pass book		10,99,300

The bank balance of ₹ 14,80,800 will appear in the trial balance as on 31st March, 2024.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c	Dr	1,27,500	
To Sales A/c			1,27,500

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c	Dr.	1,27,500	
To Bank A/c			1,27,500

6. Statement showing the valuation of stock as on 31st March, 2024

Particulars	₹
Value of Stock as on 10th April, 2024	5,02,500

Add: Cost of sales after 31st March, till stock taking (₹ 20,625 – ₹ 5,156)	15,469
Less: Purchases for the next period (net)	(24,300)
Less: Cost of Sales Returns (900-225)	(675)
Less: Loss on revaluation of slow moving inventories (3,375-1,575)	(1,800)
Less: Reduction in value on account of default (4,650-3,750)	(900)
Value of Stock on 31st March, 2024	4,90,294

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. Plant and Machinery Account for the year ended 31st March,2024

		₹			₹
01-04-23	To Balance b/d	95,00,000	01-09-24	By Bank (Sales)	3,75,000
01-09-23	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
			31-03-24	By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2023		
			₹
	Cost on 1-4-2021		21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
	W.D.V. on 31-03-2022		19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
	W.D.V. on 31-03-2023		17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2023		(3,75,000)
	Loss		13,22,659
(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2022		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2023		19,66,500
	Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
	Loss		18,84,562
(iii)	Depreciation		
	Balance of machinery account on 1-4-2023		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2023		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

8. Journal Entries in the books of Samar

Date	Particulars L.F.	Dr. ₹	Cr. ₹
2024 Oct.1	Amar A/c Dr.	29,500	
	To Sales A/c		25,000
	To Output IGST A/c		4,500
	(Being the inter-state sale of goods to Amar, charged to IGST @ 18%)		
Oct.1	Bills Receivable (No. 1) A/c Dr.	15,000	
	Bills Receivable (No. 2) A/c Dr.	14,500	
	To Amar A/c		29,500
	(Being the two bills acceptance - one for ₹15,000 and the other for ₹14,500 received)		
Oct.1	Bills sent for collection A/c Dr.	29,500	
	To Bills Receivable (No.1) A/c		15,000
	To Bills Receivable (No.2) A/c		14,500
	(Being the bills sent to bank for collection)		
Dec.4	Bank A/c Dr.	15,000	
	To Bills sent for collection A/c		15,000
	(Being the amount duly collected by bank on first bill)		
2025 Jan.4	Amar A/c Dr.	15,000	
	To Bills sent for collection A/c		14,500
	To Bank A/c		500
	(Being the second bill dishonored and bank paid ₹500 as noting charges)		

9. In the books of M/s Bella Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2024)

			₹			₹
To	Purchases		17,00,000	By	Sales	20,00,000
To	Gross profit		8,50,000	By	Closing stock	5,50,000
			25,50,000			25,50,000
To	Interest (9,000+8,550+8,100+7,650)		33,300	By	Gross profit	8,50,000
To	Telephone charges		50,000			
To	Travelling expenses		45,000			
To	Maintenance expenses		25,000			
To	Entertainment expenses		5,000			
To	Electricity exp	40,000				
	Add: outstanding	20,000	60,000			
To	Carriage outward		60,000			
To	Depreciation					
	Building 5%	30,000				
	Furniture 10%	1,000	31,000			
To	Misc. exp		15,000			
To	Net profit		5,25,700			
			8,50,000			8,50,000

Balance Sheet as on 31st March, 2024

LIABILITIES	₹	₹	**ASSETS**	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000

Bank Loan	3,00,000		Security deposit-Telephone		7,000
Less: repayment	60,000	2,40,000	Bank		89,700
outstanding electricity exp		20,000	Closing stock		5,50,000
		12,25,700			12,25,700

Working note:

Bank Account

	PARTICULARS	₹		PARTICULARS	₹
To	Capital	3,00,000	By	Building	6,00,000
To	Further capital	2,00,000	By	Furniture	10,000
To	Bank loan	3,00,000	By	Bank loan repaid	60,000
To	Sales	20,00,000	By	Interest	33,300
			By	Security deposit	7,000
			By	Drawings	60,000
			By	Purchase	17,00,000
			By	Telephone charges	50,000
			By	Travelling expenses	45,000
			By	Maintenance expenses	25,000
			By	Entertainment expenses	5,000
			By	Electricity expenses paid	40,000
			By	Carriage outward	60,000
			By	Misc. expenses	15,000
			By	Balance c/d	89,700
		28,00,000			28,00,000

10. **Finance Professionals Club**

Income and Expenditure Account

for the year ended 31st March, 2024

Expenditure	₹	**Income**	₹
To Salaries	7,42,500	By Subscriptions 22,86,000	
To Stationery (WN. 2)	1,07,550	Add: Arrears 2,02,500	
To Miscellaneous Expenses	1,12,500	24,88,500	
To Insurance Premium 40,500	-	Less: Advance (58,500)	24,30,000
Less: Prepaid (4,500)	36,000	By Entrance Fees	2,70,000
To Surplus - Excess of Income over Expenditures	18,36,450	By Interest on Investments	27,000
	-	By Interest Received from Bank	94,500
	-	By Sale of Old Newspapers	13,500
	-		
	28,35,000		28,35,000

Working Note:

Computation of consumption of Stationery during the year

1. **Creditors for Stationery Account**

Particulars	₹	Particulars	₹
To bank A/c (Paid)	1,34,550	By Balance b/d	39,000
To Balance c/d	60,000	By Stock of Stationery A/c (Balancing Figure)	1,45,050
		By advance paid for stationary purchased	10,500
	1,94,550		1,94,550

2. Stock of Stationery Account

Particulars	₹	Particulars	₹
To Balance b/d	7,500	By Income and Expenditure A/c (Bal. Fig.) (Stationery Consumed)	1,07,550
To Creditors for Stationery A/c (Transfer)	1,45,050	By Balance c/d	45,000
	1,52,550		1,52,550d

11. Trading and Profit and Loss Account

for the year ended 31st March,2025

Particulars	**₹**	**Particulars**		**₹**
To Opening stock	91,500	By Sales		
To Purchases (bal fig)	12,59,700	Cash	11,07,000	
		Credit	2,86,000	13,93,000
To Gross Profit @ 10%	1,39,300	By Closing stock		97,500
	14,90,500			14,90,500
To Expenses (WN .2)	90,975	By Gross Profit		1,39,300
To Insurance (WN .3)	900	By Discount Received		4,250
To Discount Allowed	5,400			
To Depreciation	2,250			
To Net profit (bal fig)	44,025			
	1,43,550			1,43,550

Balance Sheet as on 31st March,2025

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Capital A/c			Furniture	15,000	
Opening balance	67,500		(-) Depreciation	(2,250)	12,750

(+) Profit	44,025		Debtors		34,300
	1,11,525		Stock		97,500
(-) Drawings	(36,000)	75,525	Bank		19,095
Creditors		82,900	Prepaid Insurance		300
Outstanding exp		5,520			
		1,63,945			1,63,945

W. N. 1 Creditors A/c

Particulars	₹	Particulars	₹
To Bank a/c	12,48,300	By Bal b/d	75,750
To Discount	4,250	By Purchase	12,59,700
To Bal c/d (bal fig)	82,900		
	13,35,450		13,35,450

W.N. 2 Expenses A/c

Particulars	₹	Particulars	₹
To Bank (93,105-900)	92,205	By Outstanding expenses as per opening balance sheet	6,750
To Payable	5,520	By P&L (bal fig)	90,975
	97,725		97,725

W.N.3 Insurance A/c

Particulars	₹	Particulars	₹
To Prepaid as per opening Balance Sheet	300	By Prepaid (900*4/12)	300

To Bank	900	By P&L (bal fig)	900
	1,200		1,200

W.N. 4 Debtors A/c

Particulars	₹	Particulars	₹
To Bal b/d	31,200	By bank	2,77,500
To Credit Sales (Bal fig)	2,86,000	By Discount	5,400
		By Bal c/d	34,300
	3,17,200		3,17,200

12. (a) Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Seema	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Seema	Yedhant	Zoya	Particulars	Seema	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's	-	-	98,125	By General reserve	4,000	4,000	4,000
Executor				By Seema & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875

				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Balance Sheet of Firm as on 1st July,2024

Particulars	₹	Particulars	₹
Seema	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March.

31.3.2020	28,750
31.3.2021	35,000
31.3.2022	22,500
31.3.2023	20,000
31.3.2024	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Seema and Yedhant in their gaining Ratio

Seema = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

13.

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2022-23,2023-24)	1,30,000	1,30,000	1,30,000	3,90,000
Amount which should have been credited:				
Khan's Salary (2022-23,2023-24)			50,000	50,000
Interest on Capital (2022-23,2023-24)	25,000	12,500	12,500	50,000
Share of Profit	1,45,000	72,500	72,500	2,90,000
	1,70,000	85,000	1,35,000	
Net effect (I-II)	(40,000)	45,000	(5,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Samuel's Current A/c	45,000	
To Agarwal's Current A/c		40,000
To Khan's Current A/c		5,000
(Salary to Khan's, Interest on capital charged and profit shared among partners in the ratio of capital)		

14. **Realisation Account**

Particulars			Particulars		
To Sundry Assets – Transfer:			By Creditors		51,000
Debtors	93,000		By bank A/c –		

			Assets Realised:		
Stock	55,500		Machinery	1,23,000	
Tools	12,000		Car	37,500	
Car	18,000		Debtors	88,500	
Machinery	90,000		Tools	7,500	
Building	1,50,000	4,18,500	Building	1,26,000	
To bank A/c (outstanding Salary)		12,000	Goodwill	90,000	4,72,500
To gain (Profit) on realization transferred to			By Yaman's Capital A/c (Old Furniture)		12,000
Aman's Capital A/c	54,000		By Aman's Capital A/c Unrecorded Asset		3,000
Yaman's Capital A/c	36,000				
Zaman's Capital A/c	18,000	1,08,000			
		5,38,500			5,38,500

Partners Capital Accounts

Particulars	Aman (₹)	Yaman (₹)	Zaman (₹)	Particulars	Aman (₹)	Yaman (₹)	Zaman (₹)
To Realisation A/c	3,000	12,000		By Balance b/d	1,80,000	1,35,000	90,000
To Bank A/c	2,31,000	1,59,000	1,08,000	By Realisation A/c (Gain)	54,000	36,000	18,000
	2,34,000	1,71,000	1,08,000		2,34,000	1,71,000	1,08,000

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	37,500	By Realisation A/c (Outstanding Salary)	12,000
To Realisation A/c	4,72,500	By Aman's Capital A/c	2,31,000

Assets Realised	-	By Yaman's Capital A/c	1,59,000
	-	By Zaman's Capital A/c	1,08,000
	5,10,000		5,10,000

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

15. Journal Entries in the books of Ambiance Ltd.

			Dr. ₹	***Cr.*** ₹
1	Bank Account	Dr.	81,00,000	
	To Share Application & Allotment A/c			81,00,000
	(Being Application money on 9,00,000 shares at ₹ 9 per share received.)			
2	Share Application & Allotment A/c	Dr.	81,00,000	
	To Share Capital A/c (225,000 x ₹ 4)			9,00,000
	To Securities premium A/c (225,000 x ₹ 5)			11,25,000
	To Bank A/c (6,00,000 x ₹ 9)			54,00,000
	To Share First & Final Call A/c			6,75,000
	(Being application money transferred)			
3	Share First & Final Call A/c (225,000 x6)	Dr.	13,50,000	
	To Share Capital Account			13,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)			
4	Bank Account A/c	Dr.	6,64,875	
	Calls in arrear A/c	Dr.	10,125	
	To Share First & Final Call Account			6,75,000
	(Being Receipt of the amounts due on first call)			
5	Equity share capital A/c	Dr.	33,750	

	To Share forfeiture A/c			23,625
	To Calls in arrear A/c			10,125
	(Being 3,375 shares forfeited for non payment of final call.)			
6	Bank Account A/c (3,375 x ₹ 6)	Dr.	20,250	
	Share forfeiture A/c (3,375 x ₹ 4)		13,500	
	To Share Capital Account (3,375 x ₹ 10)			33,750
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		10,125	
	To Capital reserve A/c			10,125
	(Being share forfeiture transferred to capital reserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
6,00000	-	54,00,000	-	-	-	-	-	54,00,000
3,00,000	225,000	27,00,000	9,00,000	11,25,000	6,75,000	13,50,000	12,75,000	-
9,00,000	2,25,000	81,00,000	9,00,000	11,25,000	6,75,000	13,50,000	13,39,875*	54,00,000

* ₹ 13,50,000 less ₹ 10,125.

2. **Number of shares allotted to Mr. Kabir** = 4,500 x 225,000 / 3,00,000 = 3,375 shares

3. Calculation of calls in arrear

Application money received from Kabir	(4,500 x9)	40,500
Less: actual application money	3,375 x9	30,375
Excess Application & Allotment Money Adjusted with first and final call		70,875
Final call due from Kabir		20,250
Less: Adjusted with final call		(10,125)
Calls in arrear		10,125

16. (i) Books of Strawberry Farms Ltd.

Journal

Particulars	L.F.	Debit Amount	Credit Amount
Bank A/c Dr. To Debenture Application A/c (Debentures application money received)		10,00,000	10,00,000
Debenture Application A/c Dr. To 11% Debentures A/c (Application money transferred to 11% debentures account)		10,00,000	10,00,000
Debenture Allotment A/c Dr. Discount on issue of debentures Dr Loss on issue of debenture A/c Dr. To 11% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)		9,00,000 1,00,000 40,000	 10,00,000 40,000

Bank A/c	Dr.		8,80,000	
To Debenture Allotment A/c				8,80,000
(Allotment amount received)				

Working Notes:

Amount of discount on issue = 20,000 X ₹100 X 5% = ₹ 1,00,000

Loss on issue of debentures = 20,000 X ₹100 X 2% = ₹ 40,000

Alternatively, the discount on issue of debentures, can be combined with loss on issue of debentures A/c as both discount and redemption premium represent loss to the company. In that case the journal entries will be

Debenture Allotment A/c	Dr.	9,00,000	
Loss on issue of debenture A/c	Dr.	1,40,000	
To 11% Debentures A/c			10,00,000
To Debenture redemption premium A/c			40,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			

(ii) Books of Strawberry Farms Ltd.

Journal

Particulars	**L.F.**	**Debit Amount**	**Credit Amount**
Bank A/c Dr.		10,00,000	
To Debenture Application A/c			10,00,000
(Debentures application money received)			
Debenture Application A/c Dr.		10,00,000	
To 11% Debentures A/c			10,00,000
(Application money transferred to 11% debentures account)			

Debenture Allotment A/c	Dr.		9,00,000	
Discount on issue of debentures	Dr		1,00,000	
To 11% Debentures A/c				10,00,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)				
Bank A/c	Dr.		9,00,000	
To Debenture Allotment A/c				9,00,000
(Allotment amount received)				

17. **In the books of Hari Om Ltd.**

Journal Entries

Particulars		Cr. (`)	Cr. (`)
Bank A/c	Dr.	55,000	
To Equity Share Application and Allotment A/c			55,000
(Being Application money received)			
Equity Share Application A/c	Dr.	55,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			5,000
(Being capitalization of equity share application money received)			
Bank A/c	Dr.	70,800	
To Investments A/c			60,000
To Profit on sale of investments A/c			10,800
(Being Investments Sold)			
8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
Premium on Redemption of Preference		10,000	

Shares A/c			
To 8% Preference Shareholders A/c			1,10,000
(Being amount payable to preference share holders on redemption of 10% premium)			
Preference Shareholders A/c	Dr.	1,10,000	
To Bank A/c			1,10,000
(Being amount paid to Preference Shareholders)			
Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference Share A/c			10,000
(Being Premium on Redemption of preference shares written off out of profit)			
Profit and Loss A/c	Dr.	50,000	
To Capital Redemption Reserve A/c (W.N.)			50,000
(Being amount transferred to Capital Redemption Reserve)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	₹ 1,00,000
Less: Proceeds from new issue	₹ (50,000)
Total Balance	₹ 50,000

18. **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic

and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances

of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) Single entry system is an inaccurate and unsystematic method of recording business transactions. Features of Single entry system are as follows:

(i) It is an inaccurate, unscientific and unsystematic method of recording business transactions.

(ii) There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.

(iii) Cash book mixes up business and personal transactions of the owners.

(iv) There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.

(v) Profit under this system is only an estimate based on available information and therefore true and correct profits

cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

(v) Advantages of Right Issue

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of Right Issue

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

   (b) Outstanding Expenditure is a nominal Account.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors.

   (e) Land is also a depreciable asset.

   (f) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

   (g) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

   (h) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

Theoretical Framework

2. (a) Briefly explain the following Concepts of Accounting:

   (i) Money Measurement Concept

(ii) Periodicity Concept.

(b) Differentiate between Provisions and Contingent Liabilities

Journal Entries

3. (a) You are required to pass necessary journal entries of the following

(i) Employees had taken stock worth ₹ 50,000 (Cost price ₹ 45,000) on the eve of New year and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery ₹ 16,000.

(iii) Withdrawn for personal use: Goods(Sales Price 8,000, Cost 6,000) Cash 1,000

(iv) Purchase of goods from Sandeep of the list price of ₹ 60,000. He allowed 10% trade discount, ₹1,500 cash discount was also allowed for quick payment.

(v) Purchased second hand machinery from Jawahar industries for ₹ 3,00,000 plus CGST and SGST @ 6% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

(1) Inauguration expenses of a new manufacturing unit in an existing Business

(2) Installation of a new central heating system.

(3) Providing drainage for a new piece of water-extraction equipment.

(4) An extension of railways track in the factory.

Trial Balance

4. (a) One of your clients Mr. Hari Om asked you to finalize his account for the year ended 31st March,2025. As a basis for the audit, Mr. Hariom furnished you with the following statement:

	Dr.	*Cr.*
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	
Leasehold Premises	11,250	
Sales		41,250
Due from customers		7,950
Purchases	18,885	
Purchase Return	3,960	
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable	7,920	
Bills Payable	1,500	
Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory		3,960
Rent and Rates	6,945	
Sales Return		1,470
	81,810	81,810

The closing inventory was ₹ 8,612. Mr. Hari om claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

Rectification of Errors

(b) Write out the Journal Entries to rectify the following errors, using a suspense Account.

(1) Goods of the value of ₹15,000 returned by Mr. Aman were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Ashish, who returned the goods;

(3) The total of "Discount Allowed" column in the Cash Book for the month of June,2025 amounting to ₹27,500 was not posted, though correctly recorded in Debtors Account.

(4) Bad Debts aggregating ₹8,000 were written off during the year was not posted to Bad Debts Account.

(5) A sale of ₹30,000 made to Ms. Aavya was correctly entered in the Sales Day Book but wrongly posted to the debit of Ms. Aadya as ₹ 3,000;

(6) Supplier account has been overcast by Rs. 225.

Bank Reconciliation Statement

5. The Cash-book of M/s Mazars shows ₹ 27,570 as the balance at Bank as on 31st March, 2025. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2025 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2025 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s Mazars, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s Mazars a cheque on 24th March, 2025. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2025 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to Ravi for ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 900 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2025, but advice was received on 1st April, 2025.

(ix) Bank recorded a Cash deposit of ₹ 1,650 as ₹ 1,560.

Prepare Bank Reconciliation Statement on 31st March, 2025.

Valuation of Inventories

6. From the following particulars ascertain the value of inventories as on 31st March, 2025 :

Inventory as on 1st April, 2024	₹ 10,50,000
Purchase made during the year	₹ 36,00,000
Sales	₹ 55,50,000
Manufacturing Expenses	₹ 3,00,000
Selling and Distribution Expenses	₹ 1,50,000
Administration Expenses	₹ 2,40,000

At the time of valuing inventory as on 31st March, 2024, a sum of ₹ 60,000 was written off on a particular item which was originally purchased for ₹ 1,65,000 and was sold during the year for ₹ 1,50,000.

Except the above mentioned transaction, gross profit earned during the year was 20% on sales.

Depreciation and Amortisation

7. A purchased machinery on 01.01.2021 for ₹1,94,000 and spent ₹6,000 on its erection. On 01.07.2021, additional Machinery costing ₹1,00,000 were purchased. On 01.01.2023, the Machinery purchased on 01.01.2021 having become obsolete was auctioned for ₹1,00,000. On 01.07.2023, a new machinery was purchased at a cost of ₹1,50,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the Machinery. In 2024, A changed the method of writing off 15% p.a. in the written down show the Machinery Account for the Calendar Yare 2021 to 2024.

Bills of Exchange

8. Mr. Kabir accepted a bill for ₹ 10,000 drawn on him by Mr. Samarveer on 1st August, 2024 for 3 months. This was for the amount which Kabir owed to Samarveer. On the same date Mr. Samarveer got the bill discounted at his bank for ₹ 9,800.

   On the due date, Kabir approached Samarveer for renewal of the bill. Mr. Kabir agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2024, Kabir became insolvent and his estate paid 40%.

   Prepare Journal Entries in the books of Mr. Samarveer.

Final accounts and Rectification of entries

9. The following is the Trial Balance of M/s Thomas & Associates on 31st March,2025:

	Dr. ₹	Cr. ₹
Capital	-	45,00,000
Drawings	5,25,000	-
Fixed Assets (Opening)	10,50,000	-
Fixed Assets (Additions 01.10.2024)	15,00,000	-
Opening Stock	4,50,000	-

Purchases	1,20,00,000	-
Purchases Returns	-	5,17,500
Sales	-	1,65,00,000
Sales Returns	7,42,500	-
Debtors	18,75,000	-
Creditors	-	16,50,000
Expenses	4,80,000	-
Fixed Deposit with Bank	15,00,000	-
Interest on Fixed Deposit	-	1,50,000
Bank Overdraft	-	60,000
Suspense A/c	-	15,000
Rent (17 months upto 31.8.2025)	1,27,500	-
Investments 12% (01.8.2024)	18,75,000	-
Bank Balance	12,67,500	-
	2,33,92,500	2,33,92,500

Stock on 31st March,2025 was valued at ₹ 7,50,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) ₹ 1,50,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 90,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 1,20,000 was not recorded in the books of account upto 31.03.2025, but the goods were included in stock.

(iii) Purchase returns of ₹ 7,500 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 45,000 in respect of the period after 31st March,2025.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2025.

Financial Statements of Not for Profit Organizations

10. Dr. Malik started private practice on 1st April, 2024 with ₹ 8,00,000 of his own fund and ₹ 12,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own Capital	8,00,000	Medicines Purchased	9,80,000
Loan	12,00,000	Surgical Equipment	10,00,000
Prescription Fees	26,40,000	Motor Car	12,80,000
Visiting Fees	10,00,000	Motor Car Expenses	4,80,000
Lecture Fees	96,000	Wages and Salaries	4,20,000
Pension Received	12,00,000	Rent of Clinic	2,40,000
		General Charges	1,96,000
		Household Expenses	7,20,000
		Household Furniture	1,00,000
		Expenses on Daughter's Marriage	8,60,000
		Interest on Loan	1,44,000
		Balance at Bank	4,40,000
		Cash in Hand	76,000
	69,36,000		69,36,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2025 was valued at ₹ 3,80,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2025. Ignore depreciation on fixed assets.

Accounts from Incomplete Records

11. Freeze Limited gives you the following information

Particulars	₹	Particulars	₹
Debtors as on 1st April (Opening Balance)	1,57,500	Discount allowed by Suppliers	15,750
Creditors as on 1st April (Opening Balance)	1,82,250	Discount allowed to Customers	20,250
Bills Receivable received during the year	1,05,750	Endorsed Bills Receivable dishonoured	6,750
Bills Payable issued during the year	1,19,250	Sales Return	24,750
Cash received from Customers	3,51,000	Bills Receivable Discounted	18,000
Cash paid to Suppliers	3,87,000	Discounted Bills Receivable	4,500
Bad Debts Recovered	36,000	Cash Sales	3,79,125
Bills Receivables endorsed to Creditors	60,750	Cash Purchases	4,45,050
Bills Receivables dishonoured by Customers	11,250	Debtors on 31st March (Closing Balance)	1,84,500
		Creditors as on 31st March (Closing Balance)	2,13,750

You are required to calculate total sales and total purchases.

Partnership Accounts

Retirement of Partner

12. On 31st March, 2025, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	75,000

Mr. P	50,000	Plant and Machinery	50,000
Mr. Q	75,000	Stock of goods	30,000
Mr. R	50,000	Sundry debtors	27,500
Sundry Creditors	25,000	Cash and Bank Balances	17,500
	2,00,000		2,00,000

On 1st April, 2025, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹25,000.

(iv) Old credit balances of Sundry creditors, ₹5,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 18,875.

(vii) Goodwill of the entire firm is valued at ₹35,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2025.

Death of Partner

13. The partnership deed of a firm consisting of 3 partners - Alfa, Beta and Gamma (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 90,000, ₹ 36,000 and ₹ 24,000 respectively provides as follows:

(i) The partners are allowed interest @ 8% p.a. on their fixed capitals, but no interest is to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 75,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

Alfa died on 30th September, 2024. The amount standing to the credit of his current account as on 31st December, 2023 was ₹ 15,000 and from that date to the date of death he had withdrawn₹ 90,000 from the business.

An unrecorded liability of ₹ 18,000 was discovered on 30th September, 2024 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2021 Profit ₹ 88,020

2022 Profit ₹ 79,410

2023 Loss ₹ 24,960

2024 Profit ₹ 40,410

You are required to prepare an account showing the amount due to Alfa's legal heir as of 31 December 2024.

Note: Impact for unrecorded liability not to be given in earlier years.

Issue and Redemption of Shares

14. A Limited is a company with' an authorised share capital of ₹ 2,50,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid up on 31st March, 2025. The company proposes to make a further issue of 337,500 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

(i) ₹ 2 per share payable on application, to be received by 31st May, 2025;

(ii) Allotment to be made on 10th June, 2025 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2025.

Applications were received for 14,00,000 shares and dealt with as follows:

(1) Applicants for 25,000 shares received allotment in full;

(2) Applicants for 125,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 12,50,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Issue and Redemption of Debentures

15. On 1st April 2025 Weavers Ltd. issued 5,00,000 12% debentures of ₹ 100 each at a discount of 5%, redeemable on 31st March, 2030. Issue was oversubscribed by 1,00,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

    (i) Journal Entries at the time of issue of debentures.

    (ii) Discount on issue of Debenture Account

    (iii) Interest account and Debenture holder Account assuming TDS is deducted @10%

16. XYZ Ltd. has issued 2,500, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 50,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 50,000 debenture holders.

17. Following is the extract of Balance Sheet of Super Ltd. as at 31st March, 2025 :

	₹
Authorized capital:	
7,50,000 equity shares of ₹10 each	75,00,000
62,500,10% preference shares of ₹10 each	6,25,000
	81,25,000
Issued and subscribed capital:	
6,75,000 equity shares of ₹ 10 each fully paid up	67,50,000
60,000, 10% preference shares of ₹ 10 each fully paid up	6,00,000
	73,50,000

Reserves and surplus:	
General reserve	9,00,000
Capital redemption reserve	3,00,000
Securities premium (collected in cash)	1,87,500
Profit and loss account	15,00,000
	28,87,500

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Retirement of bills of exchange.

(iii) Petty cash book and its advantages.

(iv) Machine Hour Rate method of calculating depreciation.

(v) When Garner V/s Murray rule not applicable incase of dissolution of partnership firm.

SUGGESTED ANSWERS/HINTS

1. ***(a)*** **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

(b) **False:** Outstanding Expenditure is a personal account of representative nature because it represents a liability due to some person.

(c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

(e) **False:** Land is not a depreciable asset because its useful life is not limited to few years.

(f) **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

(g) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(h) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

2. **(a)** As per money measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

According to periodicity concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

(b) The distinction between Provision and Contingent Liability is as follows:

	Provision	**Contingent liability**
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.

(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

3. (a)

	Particulars	**Dr.**	**Cr.**
		Amount (₹)	**Amount (₹)**
(i)	Salaries A/c Dr.	45,000	
	To Purchase A/c		45,000
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c Dr.	16,000	
	To Bank A/c		16,000
	(Being wages paid for erection of machinery)		

(iii)	Drawings A/c	7,000	
	To Purchases A/c		6,000
	To Cash A/c		1,000
	(Being goods and cash withdrawn for personal use)		
(iv)	Purchase A/c	54,000	
	To Bank A/c		52,500
	To Discount Received A/c		1,500
	(Being the goods purchased from Sandeep for ₹ 60,000 @ 10% trade discount and cash discount of ₹ 1,500)		
(v)	Machinery A/c Dr.	3,00,000	
	Input CGST A/c Dr.	18,000	
	Input SGST A/c Dr.	18,000	
	To Bank A/c		1,00,000
	To Jawahar Industries A/c		2,36,000
	(Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each)		

(b) (1) Inauguration expenses of new unit of existing business: Revenue Expenditure.

(2) Installation of new heating system: Capital Expenditure

(3) Drainage for new equipment: Capital Expenditure.

(4) An extension of Railway track in factory area: Capital Expenditure

4. (a) Corrected Trial Balance of Mr. Hari Om as on 31st March, 2025

Particulars	Dr. Amount ₹	Cr. Amount ₹
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	
Leasehold premises	11,250	
Sales		41,250
Due from customers	7,950	
Purchases	18,885	
Purchases returns		3,960
Loan from Bank		3,840
Trade expenses	10,500	
Trade Payable		7,920
Bills payable		1,500
Salaries and Wages	9,000	
Cash at Bank	3,390	
Inventory (1.4.2024)	3,960	
Rent and rates	6,945	
Sales return	1,470	
	81,810	81,810

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.

5. Inventory (opening) represents assets, so it will have a debit balance.

6. Sales return account always shows a debit balance because assets come in.

(b)

	Particulars	***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(1)	Sales A/c Dr. Sales Returns A/c To Suspense A/c (Goods returned by Mr. Aman wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)		15,000 15,000	 30,000
(2)	Suspense A/c Dr. To Mr. Ashish (Wrong debit to Mr. Ashish for goods returned by him, now rectified)		15,000	15,000
(3)	Discount A/c Dr. To Suspense A/c (The total of Discount allowed during June, 2025 not posted from the Cash Book; error now rectified)		27,500	27,500
(4)	Bad Debts A/c Dr. To Suspense A/c (Bad Debts written off not posted to bad debts A/c, now rectified)		8,000	8,000

(5)	Ms. Aavya Dr. To Ms. Aadya To Suspense A/c (Omission of debit to Ms. Aavya and wrong credit to Ms. Aadya for sale of ₹ 30,000, now rectified)		30,000	 3,000 27,000
(6)	Supplier A/c Dr. To Suspense A/c (Supplier account overcast by ₹225 now rectified)		225	 225

5. (i) Bank Reconciliation Statement on 31st March, 2025 (₹)

Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of ₹ 2,156 brought forward as credit balance on 20th March, 2025 in the Cash Book	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2025	(350)	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	(100)	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	(200)	
	(vii)	Insurance Premium paid directly by bank under standing instructions	(900)	

	(viii)	Discounted B/R dishonoured; not entered in Cash Book	(1,530)	
	(ix)	Bank recorded short cash deposit	(90)	(3,170)
Balance as per Bank Statement				40,687

6. Statement of Inventory in trade as on 31st March, 2025

	₹	₹
Inventory as on 31st March, 2024	10,50,000	
Less: Book value of abnormal inventory		
(₹ 1,65,000 - ₹ 60,000)	(1,05,000)	9,45,000
Add: Purchases		36,00,000
Manufacturing Expenses		3,00,000
		48,45,000
Less: Cost of goods sold:		
Sales as per books	55,50,000	
Less: Sales of abnormal item	(1,50,000)	
	54,00,000	
Less: Gross Profit @ 20%	(10,80,000)	(43,20,000)
Inventory in trade as on 31st March, 2025		5,25,000

7. Machinery Account

Date	Particulars	Amount	Date	Particulars	Amount
01.01.2021	To Bank A/c	1,94,000	31.12.2021	By Depreciation A/c(WN1)	25,000
01.01.2021	To Bank A/c (M1)	6,000	31.12.2021	By Balance c/d	2,75,000
01.07.2021	To Bank A/c (M2) (Purchase Price)	1,00,000			
		3,00,000			3,00,000
01.01.2022	To Balance b/d	2,75,000	31.12.2022	By Depreciation A/c	30,000
			31.12.2022	By Balance c/d	2,45,000
		2,75,000			2,75,000

01.01.2023	To Balance b/d	2,45,000	01.01.2023	By Bank A/c (Sale)(M1)	1,00,000
01.07.2023	To Bank A/c (M3)	1,50,000	01.01.2023	By P&L A/c Loss on sale of machinery	60,000
			31.12.2023	By Depreciation A/c on remaining machineries	17,500
			31.12.2022	By Balance c/d	2,17,500
		3,95,000			3,95,000
01.01.2024	To Balance b/d	2,17,500	31.12.2024	By Depreciation (15%X2,17,500)	32,625
			31.12.2024	By Balance c/d	1,84,875
		2,17,500			2,17,500

Working Notes:

1. Calculation of Depreciation (10% per annum on the Original Cost)

Machinery purchased on	M1 01.01.2021	M2 01.07.2021	M3 01.07.2023
Cost	2,00,000	1,00,000	1,50,000
Depreciation for Year 2021	20,000	5,000	-
Depreciation for Year 2022	20,000	10,000	-
Depreciation for Year 2023	-		
M2 = 2 months		10,000	
M3 = 5.5 months			7,500

2. Calculation of Loss on Sale of Machinery

Particulars	**Amount**
Original Cost (including Erection Charges)	2,00,000
Less: Total Depreciation (on M1) [Year 1 & Year 2]	40,000
Written Down Value on the Sale of machinery	1,60,000
Less: Sale Proceeds	1,00,000
Loss on Sale of Machinery	60,000

8. Journal Entries in the Books of Mr. Samaveer

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2024					
August	1	Bills Receivable A/c Dr.		10,000	
		To Kabir			10,000
		(Being the acceptance received from Kabir to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	Kabir Dr.		10,000	
		To Bank Account			10,000
		(Being the Kabir's acceptance is to be renewed)			
November	4	Kabir Dr.		240	
		To Interest Account			240
		(Being the interest due from Kabir for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To Kabir			10,240
		(Being amount and acceptance of new bill received from Kabir)			
December	31	Kabir A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being Kabir became insolvent)			
December	31	Bank A/c Dr.		3,200	
		Bad debts A/c Dr.		4,800	
		To Kabir			8,000
		(Being the amount received and written off on Kabir's insolvency)			

9. **Journal Entries**

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	90,000	
	To Drawings			90,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	1,20,000	
	To Creditors			1,20,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	15,000	
	To Purchase Returns			7,500
	To Sales Returns			7,500
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	45,000	
	To Expenses			45,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of M/s Thomas & Associates

for the year ending 31st March, 2025

Dr.					*Cr.*
		₹			₹
To Opening Stock		4,50,000	By Sales	1,65,00,000	
To Purchases	1,20,00,000		Less: Sales Return		
Add: Amount not recorded	1,20,000		(7,42,500– 7,500)	7,35,000	1,57,65,000
	1,21,20,000		By Closing Stock		7,50,000
Less: Purchases Returns					
(5,17,500+7,500)	5,25,000	1,15,95,000			
To Gross Profit c/f		44,70,000			
		1,65,15,000			1,65,15,000
To Expenses		5,25,000	By Gross Profit		
(4,80,000 – 45,000 + 90,000)					44,70,000
To Rent		90,000	By Interest on Fixed		1,50,000

(1,27,500 –37,500)			Deposit		
To Depreciation	1,05,000		By Interest on		
Add: Further	75,000	1,80,000	Investments		
Depreciation			$(18,75,000 \times \frac{12}{100} \times \frac{8}{12})$		1,50,000
$(15,00,000 \times \frac{10}{100} \times \frac{6}{12})$					
To Net Profit		39,75,000			
		47,70,000			47,70,000

Balance Sheet as on 31st March, 2025

Liabilities		₹	***Assets***		₹
Capital	45,00,000		Fixed Assets	10,50,000	
Add: Net Profit	39,75,000		Additions	15,00,000	
Less: Drawings				25,50,000	
(5,25,000–90,000)	(4,35,000)	80,40,000	Less: Depreciation	(1,80,000)	23,70,000
Creditors	16,50,000		Stock		7,50,000
Add: Purchases not recorded	1,20,000	17,70,000	Debtors		18,75,000
			Investments		18,75,000
Overdraft		60,000	Interest accrued		1,50,000
			Bank fixed deposit		15,00,000
			Prepaid Expenses (45,000+37,500)		82,500
			Bank		12,67,500
		98,70,000			98,70,000

10. **Income and Expenditure Account**

for the year ended 31st March, 2025

		₹		₹
To Medicines consumed			By Prescription fees	26,40,000
Purchases	9,80,000			
Less: Stock on 31.3.25	(3,80,000)	6,00,000	By Visiting fees	10,00,000
To Motor car expense		3,20,000	By Fees from lectures	96,000
To Wages and salaries (4,20,000 – 30,000)		3,90,000		
To Rent for clinic		2,40,000		
To General charges		1,96,000		
To Interest on loan		1,44,000		

To Net Income	18,46,000		
	37,36,000		37,36,000

Capital Account

for the year ended 31st March, 2025

	₹		₹
To Drawings:		By Cash/bank	8,00,000
Motor car expenses	1,60,000	By Cash/ bank (pension)	12,00,000
(one-third of ₹ 4,80,000)		By Net income from practice (derived from income and expenditure A/c)	18,46,000
Household expenses	7,20,000		
Daughter's marriage exp.	8,60,000		
Wages of domestic servants	30,000		
Household furniture	1,00,000		
To Balance c/d	19,76,000		
	38,46,000		38,46,000

11. Total Debtors A/c

Particulars	₹	Particulars	₹
To balance b/d (given)	1,57,500	By Cash / Bank A/c (Cash Received)	3,51,000
To Bills Receivable A/c (Dishonoured)	11,250	By Discount Allowed A/c	20,250
To Creditors A/c (Dishonour of endorsed B/R	6,750	By Bills Receivable A/c (B/R Received)	1,05,750
To Bank A/c (Discounted B/R dishonoured)	4,500	By Sales Returns A/c	24,750
To Sales A/c (bal. fig. = Credit Sales)	5,06,250	By balance c/d (given)	1,84,500
Total	6,86,250	Total	6,86,250

Total Creditors A/c

Particulars	₹	Particulars	₹
To Cash / Bank A/c (Payment)	3,87,000	By balance b/d	1,82,250
To Discount Received A/c	15,750	By Debtors A/c (Dishonour of endorsed B/R)	6,750
To Bills Payable A/c (Issued)	1,19,250	By Purchases A/c (bal. flg. = Credit Purc.)	6,07,500
To Bills Receivable (Endorsement)	60,750		
To balance c/d (given)	2,13,750		
Total	7,96,500	Total	7,96,500

1. Total Sales = Credit Sales ₹5,06,250 + Cash Sales ₹ 3,79,125 = ₹ 8,85,375

2. Total Purchases = Credit Purchases ₹ 6,07,500 + Cash Purchases ₹ 4,45,050= ₹ 10,52,550

12. (a) **Revaluation Account**

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2025			*2025*		
April	To Plant & Machinery	15,000	April	By Land and building	15,000
	To Stock of goods	5,000		By Sundry creditors	5,000
	To Provision for bad and doubtful debts	1,375		By Cash & Bank - Joint life Policy surrendered	18,875
	To Capital accounts (profit on revaluation transferred)				
	Mr. P (2/7) 5,000				
	Mr. Q (3/7) 7,500				
	Mr. R (2/7) 5,000	17,500			
		38,875			38,875

(b) Partners' Capital Accounts

Dr.									*Cr.*
Particulars		***P***	***Q***	***R***	***Particulars***		***P***	***Q***	***R***
		(₹)	***(₹)***	***(₹)***			***(₹)***	***(₹)***	***(₹)***
To	P's Capital A/c - goodwill	-	2,500	7,500	By	Balance b/d	50,000	75,000	50,000
To	Cash & bank A/c - (50% dues paid)	32,500	-	-	By	Revaluation A/c	5,000	7,500	5,000
To	P's Loan A/c - (50% transfer)	32,500	-	-	By	Q & R's Capital A/cs - goodwill	10,000	-	-
To	Balance c/d	-	87,500	87,500	By	Cash & bank A/c - amount brought in (Balancing figures)	-	7,500	40,000
		65,000	90,000	95,000			65,000	90,000	95,000

(c) Cash and Bank Account

Particulars		**₹**	**Particulars**		**₹**
To	Balance b/d	17,500	By	P's Capital A/c - 50% dues paid	32,500
To	Revaluation A/c – surrender value of joint life policy	18,875	By	Balance b/d	51,375
To	Q's Capital A/c	7,500			
To	R's Capital A/c	40,000			
		83,875			83,875

(d) Balance Sheet of M/s Q & R as on 01.04.2025

Liabilities		**₹**	**Assets**		**₹**
Partners' Capital account			Land and Building	75,000	

Mr. Q	87,500		*Add:* Appreciation 20%	15,000	90,000
Mr. R	87,500	175,000	Plant & Machinery	50,000	
Mr. P's Loan account		32,500	*Less:* Depreciation 30%	15,000	35,000
Sundry Creditors		20,000	Stock of goods	30,000	
			Less: revalued	5,000	25,000
			Sundry Debtors	27,500	
			Less: Provision for bad debts 5%	1,375	26,125
			Cash & Bank balances		51,375
		227,500			227,500

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	35,000
Mr. P's Share (2/7)	10,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear = ¼ × 10,000 = ₹2,500

R will bear = ¾ × 10,000 = ₹7,500

13. Alfa's Capital Account

2024		₹	2024		₹
Sep. 30	To Current A/c (90,000 - 15000)	75,000	Jan. 1	By Balance b/d	90,000
			Dec. 31	By Profit and Loss A/c :	
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	9000		Interest on Capital	7,200
			Dec. 31	Share of Profit	14,205

Dec. 31	To Balance Transferred to Alfa's Executor's A/c	1,15,395		BETA & Gamma (Goodwill)	35,490
			Dec. 31	Insurance Policies A/c	52,500
		1,99,395			1,99,395

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest	Interest	Profit after interest
2021	88020	12000	76020
2022	79410	12000	67410
2023	-24960	12000	-36960
	142470	36000	106470

	₹
Average Profit	35490
Goodwill at two years purchase of average net profits	70980
Share of ALFA in the goodwill	35490

(ii) Profit on Separate Life Policy

Alfa's policy	75,000	
Beta and Gamma's policy @ 20% of ₹ 50,000	30,000	1,05,000
Share of Alfa (1/2)		52,500

(iii) Share in profit for 2024:

Profit for the year	40410
Less: Interest on capitals	-12000
	28,410
Alfa's share in profit (1/2)	14205

Note: An unrecorded liability of 18,000 has been charged to Capital Accounts through Profit and Loss Adjustment A/c, no further adjustment in current year's profit is required.

14. Journal of A Limited

Date 2025	**Particulars**		**Dr. ₹**	**Cr. ₹**
May 31	Bank A/c (Note 1 – Column 3)	Dr.	28,00,000	
	To Equity Share Application A/c			28,00,000
	(Being application money received on 14,00,000 shares @ ₹ 2 per share)			
June 10	Equity Share Application A/c	Dr.	28,00,000	
	To Equity Share Capital A/c			675,000
	To Equity Share Allotment A/c			
	(Note 1 - Column 5)			13,75,000
	To Bank A/c (Note 1–Column 6)			7,50,000
	(Being application money on 3,37,500 shares transferred to Equity Share Capital Account; on 687,500 shares adjusted with allotment and on 375,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	16,87,500	
	To Equity Share Capital A/c			3,37,500

	To Securities Premium a/c (Being allotment money due on 3,37,500 shares @ ₹ 5 each including premium at ₹ 4 each as per Board's Resolution No....dated...)			13,50,000
	Bank A/c (Note 1 – Column 8)	Dr.	3,12,500	
	To Equity Share Allotment A/c			3,12,500
	(Being balance allotment money received)			
Dec. 31	Equity Share Final Call A/c	Dr.	23,62,500	
	To Equity Share Capital A/c			23,62,500
	(Being final call money due on 3,37,500 shares @₹ 7 per share as per Board's Resolution No.....dated....)			
	Bank A/c	Dr.	23,62,500	
	To Equity Share Final Call A/c			23,62,500
	(Being final call money on 3,37,500 shares @₹ 7 each received)			

Working Note:

Calculation for Adjustment and Refund

Cate-gory	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	25,000	25,000	50,000	50,000	Nil	Nil	1,25,000	1,25,000
(ii)	1,25,000	62,500	2,50,000	1,25,000	1,25,000	Nil	3,12,500	1,87,500
(iii)	12,50,000	2,50,000	25,00,000	5,00,000	12,50,000	7,50,000	12,50,000	Nil
TOTAL	14,00,000	3,37,500	28,00,000	6,75,000	13,75,000	7,50,000	16,87,500	3,12,500

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹ 2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

15. (i) Journal in the Books of Weavers Ltd.

Date	Particulars	LF	(₹ 00)	(₹ 00)
2025				
Apr 1	Bank A/c Dr.		5,70,000	
	To Debenture Application A/c			5,70,000
	(Being debenture application money received for 6,00,000 debentures)			
	Debenture Application A/c Dr.		5,70,000	
	Discount on Issue of Debenture A/c Dr.		25,000	
	To 12% Debenture A/c			5,00,000
	To Bank A/c			95,000
	(Being application money transferred to debenture account and excess refunded)			

(ii) Discount on Issue of Debenture A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
1.4.25	To 12% Debentures A/c	25,000	31.3.26	By Profit & Loss A/c	5,000
			31.3.26	By Balance c/d	20,000
		25,000			25,000
1.4.26	To Balance b/d	20,000	31.3.27	By Profit & Loss A/c	5,000
			31.3.27	By Balance c/d	15,000
		20,000			20,000
1.4.27	To Balance b/d	15,000	31.3.28	By Profit & Loss A/c	5,000
			31.3.28	By Balance c/d	10,000
		15,000			15,000
1.4.28	To Balance b/d	10,000	31.3.29	By Profit & Loss A/c	5,000
			31.3.29	By Balance c/d	5,000
		10,000			10,000

1.4.29	To Balance b/d	5,000	31.3.30	By Profit & Loss A/c	5,000
		5,000			5,000

(iii) Interest A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
31.3.26	To Debenture holder A/c	60,000	31.3.26	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.27	To Debenture holder A/c	60,000	31.3.27	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.28	To Debenture holder A/c	60,000	31.3.28	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.29	To Debenture holder A/c	60,000	31.3.29	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.30	To Debenture holder A/c	60,000	31.3.30	By Profit & Loss A/c	60,000
		60,000			60,000

Debenture holder A/c

Date	Particulars	₹'00	Date	Particulars	₹'00
31.3.26	To Bank A/c	54,000	31.3.26	By Interest A/c	60,000
31.3.26	To TDS A/c	6,000			
		60,000			60,000
31.3.27	To Bank A/c	54,000	31.3.27	By Interest A/c	60,000
31.3.27	To TDS A/c	6,000			
		60,000			60,000
31.3.28	To Bank A/c	54,000	31.3.28	By Interest A/c	60,000
31.3.28	To TDS A/c	6,000			
		60,000			60,000
31.3.29	To Bank A/c	54,000	31.3.29	By Interest A/c	60,000
31.3.29	To TDS A/c	6,000			
		60,000			60,000
31.3.30	To Bank A/c	54,000	31.3.30	By Interest A/c	60,000
31.3.30	To TDS A/c	6,000			
		60,000			60,000

16.

	Number of debentures
Debenture holders opted for conversion (50,000 /100)	500
Option for conversion	20%
Number of debentures to be converted (20% of 500)	100

Redemption value of 40 debentures at a premium of 5% [100 x (100+5)]	₹ 10,500
Equity shares of ₹ 10 each issued on conversion [₹ 10,500/ ₹ 20]	525 shares

Calculation of cash to be paid:	₹
Number of debentures	500
Less: number of debentures to be converted into equity shares	(100)
	400

Redemption value of 400 debentures (400 × ₹ 105) ie. ₹ 42,000

17. **In the books of Super Ltd.**

Journal Entries

			Dr.	*Cr.*
April 1	Capital Redemption Reserve A/c	Dr.	3,00,000	
	Securities Premium A/c	Dr.	1,87,500	
	General Reserve A/c	Dr.	9,00,000	
	Profit and Loss A/c (b.f.)	Dr.	13,12,500	
	To Bonus to Equity Shareholders A/c			27,00,000
	(Being bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	27,00,000	
	To Equity Share Capital A/c			27,00,000
	(Being bonus shares issued)			

Journal Entries

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

		Particulars	Notes	Amount (₹)
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	1,00,50,000
	b	Reserves and Surplus	2	1,87,500

Notes to Accounts

1	**Share Capital**		*(₹)*
	Authorized share capital*:		
	9,45,000 Equity shares of ₹ 10 each		94,50,000
	62,500 10% Preference shares of ₹ 10 each		6,25,000
	Total		1,00,75,000
	Issued, subscribed and fully paid share capital:		
	9,45,000 Equity shares of ₹ 10 each, fully paid (Out of above, 2,70,000 equity shares @ ₹ 10 each were issued by way of bonus)		94,50,000
	60,000 10% Preference shares of ₹ 10 each		6,00,000
	Total		1,00,50,000
2	**Reserves and Surplus**		
	Capital Redemption Reserve	3,00,000	Nil
	Less: Utilized	(3,00,000)	
	Securities Premium	1,87,500	
	Less: Utilised for bonus issue	(1,87,500)	Nil
	General reserve	9,00,000	
	Less: Utilised for bonus issue	(9,00,000)	Nil
	Profit & Loss Account	15,00,000	

	Less: Utilised for bonus issue	(13,12,500)	1,87,500
	Total		71,87,500

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 19,50,000 (94,50,000 – 75,00,000) in the above solution.

18. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the

date of payment and date of maturity. The interest/ rebate/ discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.

- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

(i) Saving of time of the chief cashier

(ii) Saving in labour in writing up the cash book and posting into the ledger

(iii) Control over small payments

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus, depreciation is

calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹\,10,00,000}{50,000\ \text{hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

(v) Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.

Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) The concept of conservatism when applied to the balance sheet results in understatement of assets.

   (b) M/s Raj Yog & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 25 to 28. The total expenditure incurred was ₹ 50,000 and was treated as a revenue expenditure.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) The provision for bad debts is debited to sundry debtors account.

   (e) Depreciation is a non-cash expense and does not result in any cash outflow.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

   (h) The firm will receive surrender value of the joint life policy on the death of the partner.

(i) Where a Non-Profit organization separate trading activity, the profit/loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

(j) A fixed charge generally covers all the assets of the company including future one.

Theoretical Framework

2. (a) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(b) Distinguish between Going concern and cost concept.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Mahesh:

(i) Cheque amounting ₹ 24,000 from Shankar in full settlement of his account for ₹ 25,000.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 9,000, Cost ₹ 6,000), cash ₹ 3,000

(iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

(iv) Received commission ₹ 15,000, half of which does not relate of current year and is received in advance.

(v) Income tax liability of proprietor ₹ 18,500 was paid out of petty cash.

(vi) Purchase of goods from Sunny of the list price of ₹ 15,000. He allowed 10% trade discount, ₹ 200 cash discount was also allowed for quick payment.

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

- Legal fees on the acquisition of land.
- Complete repaint of existing building.

- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.
- Carriage costs on a replacement part for a piece of machinery.

Subsidiary Books

4. (a) Prepare Sales Book of M/s. Kabir of Almora for January 2025:

Jan. 5 Sold to M/s ABC 10 pieces of Chairs @ 5,000/- each less Trade Discount 5%.

Jan. 12 Sold to M/s PQR 25 pieces of Tables @ 2,000/- each less Trade Discount 10%.

Jan. 18 Sold to M/s MTB 5 pieces of Recliner Chairs @ 11,000/- each less Trade Discount 10%. Payment received through cheque.

Jan. 28 Sold to M/s LMN 50 pieces of cupboards @ 10,000/ each less Trade Discount 20%.

Rectification of Errors

(b) Mr. Lalit was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by ₹ 16,000.

(ii) Sale of goods to Ms. Rashmi for ₹ 5,000 was omitted to be recorded.

(iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 6,100.

(vi) A credit purchase of goods from Mr. David for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

Bank Reconciliation Statement

5. According to the cash-book of Arun there was balance of ₹ 8,90,000 in his bank on 30th June, 2025 On investigation you find that :

(i) Cheques amounting to 1,20,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 2,21,000 out of which cheques amounting to ₹ 1,10,000 only collected by bank up to 30th June 2025

(iii) A dividend of ₹ 8,000 and rent amounting to 1,20,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2024) paid by the bank ₹ 5,400 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 1,000

(vi) Bank charges ₹ 300 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 40,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 12,000 had been discounted with the bank at a cost of ₹ 200 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book.

Valuation of Inventories

6. Puneet closed his books of account on 31stMarch, each year. Inventory taking for the year ended 31st March, 2025 was completed by

10th April, 2025 on which date value of the stock available in godown was of ₹ 4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2025 and 10th April, 2025:

(i) Goods sold to customers ₹1,10,000.

(ii) Sales return ₹ 10,000.

(iii) Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).

(iv) Purchases return amounted to ₹ 2,500.

(v) Goods costing 20,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.

(vi) After the stock was taken, it was found that there was certain very old slow- moving items costing ₹ 16,000, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2025.

Depreciation and Amortisation

7. M/s. Alankrit Transport Company purchased 10 Buses @ ₹ 50,00,000 each on 1st October,2021. On 1st January, 2024, one of the Buses is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another bus is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum.

Give the Bus Account for the years ending 31st March, 2024 and 31st March,2025.

Bills of Exchange

8. On October, 2025, X sells goods to Y for 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill fort 15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on

1st October, 2025. In due course, X receives the information from the bank on the due date of the respective bill that the bill for 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are 500. Pass the journal entries in the books of X.(Ignore date Column)

Final accounts

9. The following are the balances extracted from the books of Shri Mohan Gupta as on 31.03.2025, who carries on business under the name and style of M/s Gupta & Associates at Jaipur:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	

Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2024	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2025 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2024

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2024 to 30.06.2025.

Financial Statements of Not for Profit Organizations

10. The following is the Receipts and Payments Account of a Sports Club for the year ended 31st December, 2025.

Receipts	₹	Payments	₹
To Balance b/d	7,500	By Salaries	14,000
To Subscriptions (including ₹ 2,000 for the year 2024)	40,000	By Match Expenses	28,000
		By Sports Materials	15,000
To Donations	15,000	By Printing & Stationery	12,000
To Life Membership Fees	35,000	By Honorarium	5,000
		By Furniture	15,000
To Sale of Furniture at book value	5,000	By Magazines & Journals	10,000
To Entrance Fees	10,000	By Books	35,000
To Interest on 10% Investments for the full year	20,000	By Municipal Taxes	6,000
		By Balance c/d	80,000
To Match Fund	40,000		
To Donation for Building Fund	45,000		
To Sale of Newspapers	2,500		
	2,20,000		2,20,000

Additional Information:

(i) The position of the Club on January 1, 2025 was as follows:

Subscriptions due	₹ 3,000
Furniture	₹ 10,000
Books	₹ 20,000
Building	₹ 1,25,000
Stock of Sports Materials	₹ 4,500
Creditors for Printing	₹ 2,500

(ii) The Club has 1,000 members each paying an annual subscription of ₹ 50. 20 members paid their subscription in advance in 2024. In the year 2025, subscription was received in advance from 15 members.

(iii) Municipal Taxes paid on 1st April every year.

(iv) One member donated a Billiard Table worth ₹ 50,000.

(v) Books were worth ₹ 46,000 on 31st December, 2025 and stock of sports materials on that date amounted to ₹ 4,000.

Prepare Income and Expenditure Account for the year ended 31st December, 2025 and Balance Sheet as on that date.

Accounts from Incomplete Records

11. Deep Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2024 was as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	3,37,500	Furniture & fixtures	75,000
Trade creditors	3,78,750	Stock	4,57,500
Outstanding expenses	33,750	Trade debtors	1,56,000
		Prepaid insurance	1,500
		Cash in hand & at bank	60,000
	7,50,000		7,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2024	60,000	Payment to trade creditors	62,41,500

Cash sales	55,35,000	Sundry expenses paid	4,65,525
Receipts from trade debtors	13,87,500	Drawings	1,80,000
		Cash in hand & at Bank on 31st March, 2025	95,475
	69,82,500		69,82,500

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 27,000 and ₹ 21,250 respectively (for the year ended 31st March, 2025).

(ii) Annual fire insurance premium of ₹ 4,500 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2025:

Stock	₹ 4,87,500
Trade debtors	₹ 1,71,500
Outstanding expenses	₹ 27,600

(v) Gross profit is to be maintained at 10% on total sales.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

Partnership Accounts

Calculation of Goodwill

12. Sita, Gita and Rita are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.03.2025 was as follows:

Balance Sheet of M/s Sita, Gita and Rita as at 31st March,2025

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Sita	2,55,000	Inventory	3,00,000
Gita	9,45,000	Trade receivables	1,50,000
Rita	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 during 2024-25 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Dissolution of Partnership Firm

13. A, B and C are partners sharing profits and losses in the ratio of 2:2:1 respectively. The Balance Sheet of the firm as at 31st March, 2025 is as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixed Assets	2,00,000
			Current Assets:	
A	1,46,000		Stock	1,25,000
B	54,000		Debtors	1,25,000
C	50,000	2,50,000		
C's Loan Account		25,000	Cash	5,000
Mrs. A's Loan A/c		50,000	Advance to B	20,000
Sundry Creditors		1,25,000		
Provision for Bad Debts		25,000		
		4,75,000		4,75,000

The firm was dissolved on 31st March,2025. After preparing the Balance Sheet as on 31st March, 2025; it was discovered that purchases amounting to ₹ 20,000 in March, 2025 were not recorded in the books, though the goods were received during March, 2025.

Fixed Assets realised ₹ 1,00,000, Stock ₹ 1,05,000 and Debtors ₹ 1,02,500. Creditors were paid after deduction of discount @2%, The realisation expenses amounted ₹ 5,400. A agreed to take over the loan of Mrs. A. B is insolvent and his estate is unable to contribute anything. Prepare Realisation A/c, Partners Capital A/c and Cash A/c applying the principles of Garner v. Murray.

Issue and Redemption of Shares

14. Greenrock Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2024. The company proposed to make a further issue of 2,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2024;

(ii) Allotment to be made on 10th July, 2024 and a further ₹ 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 31th March, 2025.

Applications were received for 8,40,000 shares and were dealt with as follows:

(1) Applicants for 40,000 shares received allotment in full;

(2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Greenrock limited.

15. Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Windy Whale Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹ 8 per share.

(ii) A Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Kamal had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Tamal as fully paid up for ₹ 6 per share.

Issue and Redemption of Debentures

16. A company had issued 80,000, 12% debentures of ₹ 100 each on 1st April, 2021. The debentures were due for redemption on 1st March, 2025. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash for remaining debentures. 100 debentures holders holding totally 10,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Redemption of Preference Shares

17. The following balances appeared in the Books of Silver Stone Ltd. as on 31st December, 2024:

	Amount (₹)
1,600,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	1,20,00,000
4,00,000 Equity share of ₹ 100 each fully paid up	4,00,00,000
Securities Premium	13,00,000
Capital Redemption Reserve	84,00,000
General Reserve	1,70,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2025 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 1,20,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2025. The issue was fully subscribed and the allotment made on 1st March,2025. The amount due on allotment was duly received by 25th March,2025.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2025. Ignore date column in Journal.

18. Write short notes on the following:

(i) Rules of posting of journal entries into Ledger.

(ii) Importance of bank reconciliation statement to an industrial unit.

(iii) Periodic Inventory System Vs Perpetual Inventory System

(iv) Trade bill vs. Accommodation bill.

(v) Contingent Asset and Contingent Liability

SUGGESTED ANSWERS/HINTS

1. **(a)** **False**: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of income and assets.

(b) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, this renovation expense is capital expenditure in nature.

(c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False:** The provision for bad debts is debited to Profit and loss Account and in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(e) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow.

(f) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

(h) **False:** the firm will receive full value of sum assured of the joint life policy on the death of the partner.

(i) **True:** Where in case of the Trading activities for Non-Profit organization, the profit / loss from such activity is to be transferred to the income Expenditure Account at the time of consolidation.

(j) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one

2. Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(b) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, it should be disclosed in the financial statements.

Cost concept: It means that the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity.

3. (a) (i) In the books of Mahesh

Journal entries

	Particulars		Dr.	Cr.
			Amount₹	Amount₹
(i)	Bank A/c	Dr.	24,000	
	Discount allowed A/c	Dr.	1,000	
	To Shankar A/c			25,000
	(Being amount received from Shankar after allowing discount of 1,000).			
(ii)	Drawings	Dr.	9,000	
	To Purchases A/c			6,000
	To Cash A/c			3,000
	(Being goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			
(iv)	Bank A/c	Dr.	15,000	
	To Commission A/c			15,000
	(Being commission received).			
	Commission A/c	Dr.	7,500	
	To Commission received in Advance A/c/ Prepaid Commission A/c			7,500
	(Being commission received in advance adjusted).			

(v)	Drawings A/c	18,500	
	To Petty Cash A/c		18,500
	(Being the income tax of proprietor paid out of business money		
(vi)	Purchase A/c	13,500	
	To Bank A/c		13,300
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for ₹ 15,000 @ 10% trade discount and cash discount of ₹ 200)		

(b)
- Legal fees on acquisition of land: Capital Expenditure
- Complete repaint: Revenue Expenditure
- Repainting van: Revenue Expenditure
- Drainage for new equipment: Capital Expenditure
- Carriage costs on replacement part: Revenue Expenditure

4. (a) Sales Book of M/s Kabir for January, 2025

Date	Particulars	Details ₹	L.F.	Amount ₹
2025	M/s. ABC			
	10 chairs @ ₹5000	50,000		
	Less: 5% Trade Discount	(2,500)		47,500
	(Sales as per invoice no. dated .....)			
	M/s. PQR			
	25 Chairs @ ₹2,000	50,000		
	Less: 10% Trade Discount	5,000		45,000
	(Sale as per invoice no. dated .....)			

	M/s LMN			
	50 Cupboards @ ₹10,000	5,00,000		
	Less: 20% Trade Discount	(1,00,000)		
	(Sales as per invoice no. dated……)			4,00,000
		Total		4,92,500

(b) Journal Entries in the books of Mr. Lalit

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense*A/c			16,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rashmi's Account	Dr.	5,000	
	To Profit & Loss Adjustment A/c			5,000
	(Sales to Rashmi omitted last year; now adjusted)			
(iii)	Anubhav's Account	Dr.	1,200	
	To Ashok's Account			1,200
	(Amount received from Ashok wrongly posted to the account of Anubhav now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			

(v)	Profit & Loss Adjustment A/c	Dr.	6,100	
	To Machinery A/c			6,100
	(Repairs to Machinery was wrongly debited to Machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. David A/c			6,000
	Credit purchase of goods from Mr. David sale last year, now rectified)			
(vii)	Lalit's Capital A/c	Dr.	23,550	
	To Profit and Loss Adjustment Account			23,550
	(Being balance in P & L Adjustment Account transferred to Lalit's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	16,450	
	To Lalit's Capital A/c			16,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

*****Considering that the difference was posted to Suspense account.*

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	16,000	By Rashmi's A/c	5,000
To Suspense A/c	450	By Lalit's Capital A/c (Bal. Transfer)	23,550
To Machinery A/c	6,100		
To Mr. David's A/c	6,000		
	28,550		28,550

2. Suspense Account

	₹		₹
To Lalit's Capital A/c (Balance Transfer)	16,450	By P & L Adj. A/c	16,000
		By P & L Adj. A/c	450
	16,450		16,450

5. (i) In the Books of Mr. Arun

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	8,90,000	By Insurance premium A/c	5,400
To Dividend A/c	8,000	By Correction of errors	1,000
To Rent A/c	1,20,000	By Bank charges	300
To Bill receivable A/c	11,800	By Bill payable	40,000
		By Balance c/d	9,83,100
	10,29,800		10,29,800

Bank Reconciliation Statement as on 30th June, 2025

	₹
Adjusted balance as per cash book	9,83,100
Add: Cheques issued but not presented for payment till 30th June, 2025	1,20,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2025	(1,11,000)
Balance as per pass book	9,92,100

6. Statement of Valuation of Inventory as on 31st March, 2025

Particulars	Amount (₹)	Amount (₹)
Value of stock as on 10th April, 2025		4,50,000

Add: Cost of sales during the period from 31st March, 2025 to 10th April, 2025:		
Sales (₹ 1,10,000 - ₹ 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(20,000)	80,000
		5,30,000
Less: Purchases during the period from 31st March, 2025 to 10th April, 2025 (85,000- 2,500)	82,500	
Unsold stock out of goods received on consignment basis (40% of ₹ 20,000)	8,000	
Loss on revaluation of slow-moving inventories (16,000-9,500)	6,500	(97,000)
		4,33,000

7. **Buses A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.23	To balance b/d	3,50,00,000	01.01.24	By bank A/c	35,00,000
	To Profit & Loss A/c				
01.01.24	To Profit on settlement of Truck (W. Note 1)	7,50,000	01.01.24	By Depreciation on lost assets	7,50,000
01.01.24	To Bank A/c	60,00,000	31.03.24	By Depreciation A/c (W Note 3)	93,00,000
			31.03.24	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
01.04.24	To balance b/d	2,82,00,000	31.03.25	By Depreciation A/c (W Note 3)	1,02,00,000
			31.03.25	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of Bus

Original cost as on 1.10.2021	50,00,000
Less: Depreciation for 2021 -22 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2022-23	10,00,000
	35,00,000
Less: Depreciation for 2023-24 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of Bus	7,50,000

2. Calculation of WDV of 10 Buses as on 01.04.2023

	Amount
WDV of 1 truck as on 31.3.2023 (Refer W.N 1)	35,00,000
WDV of 10 Buses as on 01.04.23	3,50,00,000

3. Calculation for Depreciation for 2023-24 and 2024-25

	Amount
Depreciation for 2023-24	
On 9 Buses (₹ 50,00,000 x 9 x 20%)	90,00,000
On new Bus (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2024-25	
On 9 Bus (₹ 50,00,000 x 9 x 20%)	90,00,000
On new Bus (₹ 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

8. **In the books of X**

Journal Entries

Particulars		L.F.	Dr. ₹	Cr. ₹
Y A/c			29,500	
To Sales A/c				25,000
To Output IGST A/c				4,500
(Being the inter-state sale of goods to Y, charged to IGST @ 18%)				
Bills Receivable (No. 1) A*lc*			15,000	
Bills Receivable (No. 2) A*lc*			14,500	
To Y A/c				29,500
(Being the two bills acceptance- one for ₹ 15,000 and the other for ₹ 14,500 received)				
Bills sent for collection A*lc*	Dr.		29,500	
To Bills Receivable (No.1) A/c				15,000
To Bills Receivable (No.2) A/c				14,500
(Being the Bills sent to bank for collection)				
Bank A/c	Dr.		15,000	
To Bills sent for collection A/c				15,000
(Being the bill cancelled up due to Y's inability to pay it)				
Y A/c	Dr.		15,000	
To Bills sent for collection A/C				14,500
To Bank A/c				500
(Being the second bill dishonored and bank paid ₹500 as noting charges)				

9. **M/s Gupta & Associates**

Trading Account for the year ended 31st March 2025

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	

To Purchases	12,00,000		Less: Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight Inwards		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Gupta & Associates

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

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			

To Net Profit transferred to Capital A/c		8,700 3,34,000			3,34,000

Balance Sheet of M/s Gupta & Associates

as at 31st March 2025

Liabilities	Details	Amount	Assets	Details	Amount
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)

Less: Prepaid for 3 months

$\left(\frac{6,000}{15} \times 3\right)$ (1,200)

Transfer to Profit and Loss A/c 4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	= 4,500
Less: interest as per Trial Balance	= (4,400)
Amount (Outstanding)	100

(4) Provision for bad debts A/c

Particulars	Amount (₹)		Amount (₹)
To bad debts A/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

10. Income and Expenditure Account

Expenditure		₹	Income	₹
To Salaries		14,000	By Subscriptions (1,000 × 50)	50,000
To Sports Materials	15,000		By Interest on 10% Investments	20,000
Add: Opening Stock	4,500			
	19,500	15,500	By Sale of old newspapers	2,500
Less: Closing stock	4,000			

To Printing and Stationery	12,000			
Less: Creditors in the beginning	(2,500)	9,500		
To Honorarium		5,000		
To Magazines and Journals		10,000		
To Depreciation on Books (20,000 + 35,000 - 46,000)		9,000		
To Municipal Taxes	6,000			
Add: Prepaid in previous year (6,000×3/12)	1,500			
	7,500			
Less: Prepaid for next year	1,500	6,000		
To Excess of Income over Expenditure (Surplus)		3,500		
		72,500		72,500

Balance Sheet as at 31st December, 2025

Liabilities		₹	**Assets**		₹
Capital Fund (W.N. 1)	3,68,000		Building		1,25,000
Add: Surplus	3,500		Furniture	10,000	
	3,71,500		Additions during the year	15,000	
Add: Life Membership Fees	35,000			25,000	
Add: Entrance Fees	10,000	4,16,500	Less: Sold	(5,000)	20,000
Donation for Building Fund		45,000	Books		46,000
Donation for Billiards Table		50,000	Stock of Sports Materials		4,000
Donations		15,000	Billiards Table		50,000
Match Fund	40,000		10% Investment		2,00,000
Less: Match Expenses	(28,000)		Prepaid Municipal Taxes (6,000 x 3/12)		1,500
		12,000			
Subscription in Advance (15x ₹ 50)		750	Subscriptions Outstanding (WN 2)		12,750
			Cash in Hand		80,000
		5,39,250			5,39,250

Working Notes:

1. Calculation of Capital Fund as on 1st January,2025

Balance Sheet as at January 1, 2025

Liabilities	₹	Assets	₹
Capital Fund (balancing figure)	3,68,000	Building	1,25,000
		Furniture	10,000
Creditors for Printing and Stationery	2,500	Books	20,000
		10% Investments	2,00,000
Subscriptions in Advance (20 x ₹ 50)	1,000	Stock of Sports Materials	4,500
		Subscriptions Due	3,000
		Prepaid Municipal Taxes	1,500
		Cash in Hand	7,500
	3,71,500		3,71,500

2. Calculation of Subscriptions Outstanding

Subscription Account

Particulars	₹	Particulars	₹
To Subscriptions Due A/c (in the beginning)	3,000	By Subscriptions received in Advance A/c (20×50) (2024)	1,000
To Income and Expenditure A/c (1,000× ₹ 50)	50,000	By Cash A/c	40,000
To Subscriptions in Advance (15× ₹ 50) (2025)	750	By Subscriptions Outstanding (2025)	12,750
	53,750		53,750

11. Trading and Profit and Loss Account of Deep Enterprises for the year ended 31st March, 2025.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	4,57,500	By Sales		
To Purchases (W.N. 2)	62,98,500	Cash	55,35,000	
To Gross profit c/d	6,96,500	Credit (W.N. 1)	14,30,000	69,65,000
(10% of 69,65,000)		By Closing stock		4,87,500
	74,52,500			74,52,500
To Sundry expenses (W.N. 4)	4,59,375	By Gross profit b/d		6,96,500
To Discount allowed	27,000	By Discount received		21,250
To Depreciation (15% ₹ 75,000)	11,250			
To Net Profit (b.f.)	2,20,125			
	7,17,750			7,17,750

Balance Sheet of Deep Enterprises as at 31st March, 2025

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	75,000	
Opening balance	3,37,500		Less: Depreciation	(11,250)	63,750
Less: Drawing	(1,80,000)		Stock		4,87,500
	1,57,500		Trade Debtors		1,71,500
Add: Net profit for the years	2,20,125	3,77,625	Unexpired insurance		1,500
Trade creditors (W.N. 3)		4,14,500	Cash in hand & at bank		95,475
Outstanding expenses		27,600			
		8,19,725			8,19,725

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	1,56,000	By Cash/Bank	13,87,500
To Credit sales	14,30,000	By Discount allowed	27,000
(Bal. fig.)		By Balance c/d	1,71,500
	15,86,000		15,86,000

2. Memorandum Trading Account

	₹		₹
To Opening stock	4,57,500	By Sales	69,65,000
To Purchases (Balancing figure)	62,98,500	By Closing stock	4,87,500
To Gross Profit (10% on sales)	6,96,500		
	74,52,500		74,52,500

3. Trade Creditors Account

	₹		₹
To Cash/Bank	62,41,500	By Balance b/d	3,78,750
To Discount received	21,250	By Purchases (as calculated	62,98,500
To Balance c/d		in W.N. 2)	
(balancing figure)	4,14,500		
	66,77,250		66,77,250

4. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash and Bank book)	4,65,525
Add: Prepaid expenses as on 31–3–2024	1,500
	4,67,025

Less: Outstanding expenses as on 31–3–2024	(33,750)
	4,33,275
Add: Outstanding expenses as on 31–3–2025	27,600
	4,60,875
Less: Prepaid expenses as on 31–3–2025 (Insurance paid till July, 2024) (4,500 x 4/12)	(1,500)
	4,59,375

12. (i)

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2024	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2024	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Sita, Gita & Rita	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

13. Rectification Entry:

		₹	₹
A's Capital A/c	Dr.	8,000	
B's Capital A/c	Dr.	8,000	
C's Capital A/c	Dr.	4,000	
To Sundry Creditors A/c			20,000

(Being the omission to record purchases, now rectified)

Dr. **Realisation Account** **Cr.**

Particulars	₹	Particulars	₹
To Fixed Assets	2,00,000	By Sundry Creditors A/c (1,25,000 +20,000)	1,45,000
To Stock	1,25,000		
To Debtors	1,25,000	By Mrs. A's Loan A/c	50,000
To Cash A/c (S. Creditors) [(1,25,000 + 20,000) × 98/100]	1,42,100	By Provision for Bad Debts A/c	25,000
To Cash A/c (R. Expenses)	5,400	By Cash A/c:	
		Fixed Assets 1,00,000	
		Stock 1,05,000	
		Debtors 1,02,500	3,07,500
To A's Capital A/c (Mrs. A's Loan)	50,000	By Capital Accounts: (Loss on Realisation)	
		A 48,000	
		B 48,000	
		C 24,000	1,20,000
	6,47,500		6,47,500

Dr. **Cash Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	5,000	By Realisation A/c	1,42,100
To Realisation A/c	3,07,500	By Realisation A/c	5,400
To A's Capital A/c (Cash brought in by A)	48,000	By C's Capital A/c	25,000
To C's Capital A/c (Cash brought in by C)	24,000	By A's Capital A/c	1,71,500
		By C's Capital A/c	40,500
	3,84,500		3,84,500

Dr. **Partners' Capital Account** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Sundry Creditors	8,000	8,000	4,000	By Balance b/d	1,46,000	54,000	50,000
To Balance c/d	1,38,000	46,000	46,000				
	1,46,000	54,000	50,000		1,46,000	54,000	50,000
To Advance to B A/c	-	20,000	-	By Realisation A/c (Mrs. A's Loan)	50,000	-	-
To Realisation Loss A/c	48,000	48,000	24,000	By Balance b/d	1,38,000	46,000	46,000
To B's Capital A/c	16,500	-	5,500	By Cash A/c	48,000	-	24,000
To Cash A/c (Final Payment)	1,71,500	-	40,500	By A's Capital A/c (WN)	-	16,500	-
				By C's Capital A /c (WN)	-	5,500	-
	2,36,000	68,000	70,000		2,36,000	68,000	70,000

Working Note (WN): Since B is insolvent, his deficiencies is to be borne by A & C in capital sharing ratio (after rectification) i.e.

A's Share $22,000 \times \frac{1,38,000}{1,84,000} = 16,500$

C's Share $22,000 \times \frac{46,000}{1,84,000} = 5,500$

14. **Journal of Greenrock Limited**

Date 2024	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	16,80,000	
	To Equity Share Application A/c			16,80,000
	(Being application money received on 8,40,000 shares @ ₹ 2 per share)			

July 10	Equity Share Application A/c	Dr.	16,80,000	
	To Equity Share Capital A/c			5,20,000
	To Equity Share Allotment A/c (Note 1- Column 5)			8,00,000
	To Bank A/c (Note 1– Column 6)			3,60,000
	(Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			7,80,000
	To Securities Premium a/c			5,20,000
	(Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	5,00,000	
	To Equity Share Allotment A/c			5,00,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			13,00,000
	(Being final call money due on 2,60,000 shares @ ₹ 5 per share as per Board's Resolution No....dated....)			

March 31st	Bank A/c To Equity Share Final Call A/c (Being final call money on 2,60,000 shares @ ₹ 5 each received)	Dr.	13,00,000	 13,00,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

15. (i) Journal Entries in the books of Windy Whale Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	9,000	
	To Equity Share Allotment money A/c (900 x ₹ 3)			2,700
	To Equity Share Final Call A/c (900 x ₹ 4)			3,600
	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.....dated.....)			

(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No.....dated.....)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii) Journal Entries in the Books of A ltd.

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No..... dated.....)			
(b)	Bank A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No.....dated.....)			

(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹ 750
Less: Forfeiture of 150 shares	(₹ 600)
Profit on re-issue of shares	₹ 150

16. Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	80,000
Less: Debenture holders not opted for conversion	(10,000)
Debenture holders opted for conversion	70,000
Option for conversion	20%
Number of debentures to be converted (20% of 70,000)	14,000

Redemption value of 14,000 debentures at a premium of 5% [14,000 x (100+5)]	₹ 14,70,000
Equity shares of ₹ 10 each issued to debenture holders on redemption	
[₹ 14,70,000/ ₹ 15]	98,000 shares
Amount of cash to be paid	
Amount to be paid into cash [84,00,000 (80,000 x ₹ 105) – 14,70,000] on redemption	₹ 69,30,000

17. Journal Entries In the books of Silver Stone Ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c	Dr.	40,00,000	
To 10% Preference Share Capital A/c			40,00,000
(Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			
Bank A/c	Dr.	40,00,000	
To 10% Preference Share Final Call A/c			40,00,000
(Being receipt of final call money on preference shares)			
Bank A/c	Dr.	30,00,000	
To Equity Share Application A/c			30,00,000
(Being receipt of application money on 1,20,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	30,00,000	
To Equity Share Capital A/c			30,00,000
(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	54,00,000	
To Equity Share Capital A/c			42,00,000
To Securities Premium A/c			12,00,000
(Being allotment money due on 1,20,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	54,00,000	
To Equity Share Allotment A/c			54,00,000
(Being receipt of allotment money on equity shares)			

General Reserve A/c To Capital Redemption Reserve A/c (Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 1,60,00,000 - 30,00,000 – 42,00,000)	Dr.	88,00,000	 88,00,000
10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	1,60,00,000 8,00,000	 1,68,00,000
Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	1,68,00,000	 1,68,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	8,00,000	 8,00,000

Notes to Accounts:

			₹
1	**Share <u>Capital:</u>** Equity Share Capital Issued, Subscribed & Paid Up: 4,00,000 Equity Shares of ₹ 100 each fully paid up 1,20,000 Equity Shares of ₹ 100 each, ₹ 60 called up & paid up	 4,00,00,000 <u>72,00,000</u>	 4,72,00,000

2	**Reserves and Surplus:**		
	Securities Premium	13,00,000	
	Add: Amount received @ - 10 per share on 1,20,000 Equity Shares	12,00,000	25,00,000
	Capital Redemption Reserve	84,00,000	
	Add: Transferred on Redemption (WN-1)	88,00,000	1,72,00,000
	General Reserve	1,70,00,000	
	Less: Transferred to Capital Redemption Reserve	(88,00,000)	
	Less: Adjustment of Premium payable on Redemption	(8,00,000)	74,00,000
			2,71,00,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 1,60,000 Preference Shares Redeemed	1,60,00,000
Less: Proceeds of 1,20,000 Equity Shares issued, - 60 called up & paid up	72,00,000
Transfer to Capital Redemption Reserve	88,00,000

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

18. (i) Rules regarding posting of entries into ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii)

	Periodic Inventory System	**Perpetual Inventory System**
1.	This system is based on physical verification.	It is based on book records.

2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

(iv) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(v) Contingent Asset

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

   (b) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.

   (c) Bank reconciliation statement are prepared to arrive at the bank balance.

   (d) The provision for bad debts is debited to sundry debtors account.

   (e) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

   (h) The firm will receive surrender value of Joint Life Policy on the death of the partner.

   (i) Fees received for Life Membership are a revenue receipt as it is of recurring nature.

   (j) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are

appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

(b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Batra:

(i) Employees had taken stock worth ₹ 25,000 (Cost price ₹ 22,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Sold goods to Manik costing 20,000 at 25% above cost less trade discount of 10% plus CGST and SGST @6% each and cash discount of 5%.Manik did not avail cash discount.

(iii) Goods costing ₹ 6,000 (Sale price ₹ 8,000) distributed as free samples.

(iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

(v) Purchased second hand machinery from Swayam industries for ₹ 4,00,000 plus CGST and SGST @ 4% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(ii) Drainage for new equipment.

(iii) Amount paid for removal of stock to a new site.

(iv) Cost of repairs on second-hand car purchased to bring it into working condition.

(v) Carriage costs on a replacement part for a piece of machinery.

(vi) Repainting of a delivery van

Subsidiary Books

4. (a) From the following information prepare the Purchase Book of M/s Victory & Company who deals in eye care business:

(i) Purchased from Pink & Company on credit:

10 pairs of black sun glasses @ ₹ 800 per Pair.

5 pairs of brown sun glasses @ 900 per pair

Less: Trade Discount @ 10%

(ii) Purchased Computer from M/s. Glory. Enterprises on credit for ₹ 20,000.

(iii) Purchased from Blue & Company in cash:

5 pairs of black lens @ ₹ 700 per pair

15 pairs of brown lens@ ₹ 100 per pair

Less: Trade Discount @ 15%

Rectification of Errors

(b) Pass the Journal entries in the books of Mr. Dhuria to rectify the following errors detected during preparation of the Trial Balance:

(i) Wages paid for construction of office building debited to wages account ₹ 20,000.

(ii) A purchase of goods from Seema amounting to ₹ 10,000 has been wrongly entered through the sales book.

(iii) Sale of goods to Nikhil at the list price of ₹ 2,40,000/- less 10% trade discount. Out of the amount due 50% is received,

out of which three-fourth is received by cheque and the balance amount is received in cash. CGST and SGST applicable is 6% each.

(iv) Goods (Cost being ₹ 15,000 and Sales price being ₹ 16,000) distributed as free samples amount prospective customers were not recorded anywhere.

(V) A bill of Exchange (received from SS & Co.) for ₹ 10,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

(vi) A Bills Receivable for ₹ 2,500 was passed through Bills Payable Book. The Bill was given by Hans

(vii) Sushil has been issued a credit note allowing rebate of ₹ 16,000/- as goods supplied to him was found defective. CGST and SGST charged @ 4% each.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement for Vibha Traders as on 31st March, 2025. The Cash Book of Vibha Traders shows a debit balance of ₹ 3,29,000 at Bank as on 31st March, 2025, but it does not agree with the balance as per the Bank Pass Book. After checking, the following differences were found:

1. On 12th March, 2025, the payment side of the Cash Book was undercast by ₹ 12,000.
2. A cheque of ₹ 85,000 issued on 23rd March, 2025 was not taken in the bank column.
3. On 22nd March, 2025, the debit balance of ₹ 18,500 as on the previous day was brought forward as a credit balance.
4. Out of the total cheques amounting to 42,000 issued in the last week of March, 2025, cheques aggregating 28,500 were encashed in March, 2025.
5. Dividends of 35,000 collected by the Bank and Fire Insurance Premium of 20,000 paid by the Bank were not recorded in the Cash Book.

6. One cheque issued to a creditor of ₹ 1,29,000 was recorded twice in the Cash Book.

7. A cheque from a customer for ₹ 12,000 was deposited in the Bank on 28th March, 2025 but was dishonoured and advice was received from the Bank on 5th April, 2025.

8. The Bank paid a credit card bill of ₹ 2,500 which was not recorded in the Cash Book.

9. The Bank wrongly credited a cheque of ₹ 25,000 of another customer in our account.

10. ₹ 500 discount received was wrongly entered in the bank column in the Cash Book.

11. A Debtor Mr, X deposited a cheque for ₹ 32,000 in the bank directly in the month of March 2025, without intimating to Rani traders and the same cheque was dishonoured by bank due to insufficient fund in the month of March itself

Valuation of Inventories

6. Lavender Ltd. prepared their accounts financial year ended on 31st March 2025. Due to unavoidable circumstances actual stock has been taken on 10th April 2025, when it was ascertained at ₹ 2,50,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back. Purchases are entered in the Purchase Book on the day the Invoices are received.

(ii) Sales between 1st April 2025 to 9th April 2025 amounting to ₹ 60,000 as per Sales Day Book.

(iii) Free samples for business promotion issued during 1st April 2025 to 9th April 2025 amounting to ₹ 4,000 at cost.

(iv) Purchases during 1st April 2025 to 9th April 2025 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.

(v) Invoices for goods purchased amounting to ₹ 55,000 were entered on 28th March 2025 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March 2025

Depreciation and Amortisation

7. A firm purchased a second-hand machinery on April 1, 2023 for ₹ 30,00,000, subsequent to which ₹ 4,00,000 were spent on its repairs and installation. On October 1, 2023, another machinery was purchased for ₹ 18,00,000 and the cost of installing the machine in a new plant was ₹ 40,000. The firm also shifted the machinery purchased on April 1, 2023 to the new plant and incurred freight of ₹ 20,000 and loading charges of ₹ 30,000.

They adopted a policy of charging depreciation @ 12% per annum on the diminishing balance method.

On April 1, 2025, it was decided to change the method and rate of depreciation to the straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased, with no scrap value.

On October 1, 2025, the first machine became outdated and was sold for ₹ 5,00,000. On the same date, another machinery was purchased for ₹ 17,00,000. The estimated useful life of the machine is 10 years and the residual value is ₹ 60,000.

You are required to prepare the Machinery Account for the year ending March 31, 2026.

Bills of Exchange

8. On 1st January 2025, Tamal draws three bills of exchange for ₹ 16,000, ₹ 25,000 and ₹10,000.

The first bill of exchange for ₹ 16,000 is for two months while the second and third bill of exchange for ₹ 25,000 and ₹10,000 is for three months. These bills are accepted by Tapas. On 4th March, 2025, Tapas requests Tamal to renew the first bill with interest at 15% p.a. for a period of two months. Tamal agreed to this proposal. On 25th March, 2025, Tapas

retires the acceptance for the second bill of ₹ 25,000, the interest rebate i.e. discount being ₹ 250 and the third bill of 10,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Tapas becomes insolvent and only 30 paisa in a rupee could be recovered from his estate.

Show the Journal Entries in the books of Tamal.

Final Accounts

9. From the following schedule of balances extracted from the books of Mr. Manas, prepare Trading and Profit and Loss Account for the year ended 31 March, 2026 and the Balance Sheet as on that date after making the necessary adjustments:

Particulars	Dr. (₹)	Cr. (₹)
Capital Account		8,85,000
Stock on 1.4.2025	3,86,000	
Cash in hand	18,500	
Cash in Bank	73,500	
Investment (at 9%) as on 1.4.2025	50,000	
Deposits (at 20%) as on 1.10.2025	3,00,000	
Drawings	78,000	
Purchases	24,95,000	
Sales		29,86,000
Return Inwards	1,10,000	
Return outwards		1,38,000
Carriage inwards	1,26,000	
Rent	66,000	
Salaries	1,15,000	
Sundry Debtors	2,35,000	
Sunday Creditors		1,37,500
Bank Loan (at 12%) as on 1.10.2025		2,00,000

Furniture as on 1.4.2025	25,000	
Interest paid	12,500	
Interest received		28,500
Advertisement	40,300	
Printing & Stationery	32,200	
Electricity Charges	57,700	
Discount allowed	55,200	
Discount received		24,600
Bad debts	18,500	
General expenses	36,800	
Motor Car Expenses	8,500	
Insurance Premium	30,000	
Travelling Expenses	21,800	
Postage & Courier	8,100	
	43,99,600	43,99,600

Adjustments:

(i) The value of stock as on 31st March, 2026 is ₹ 7,65,000. This includes goods returned by customers on 31st March, 2026 to the value of ₹ 25,000 for which no entry has been passed in the books.

(ii) Purchases include one furniture item purchased on 1st January, 2026 for ₹ 10,000. Depreciation @ 10% p.a. is to be provided on furniture.

(iii) One months' rent is outstanding and Insurance premium includes ₹ 18,000 paid towards proprietor's life insurance policy.

(iv) Interest paid includes ₹ 9,000 paid against Bank loan and Interest received pertains to Investments and Deposits.

(v) Provide for interest payable on Bank Loan and interest receivable on investments and deposits.

(vi) Make provision for doubtful debts at 2.5% on the balance under sundry debtors.

Financial Statements of Not for Profit Organizations

10. The accountant of City Club gave the following information about the receipt and payment of the club for the year ended 31st March ,2025

Receipts	₹	Payments	₹
Subscriptions	62,130	Premises	30,000
Fair Receipts	7,200	Rent	2,400
Variety Show Receipts (Net)	12,810	Rates and Taxes	3,780
Interest	690	Printing and Stationery	1410
Restaurant Collections	22,350	Sundry Expenses	5,350
		Wages	2,520
		Fair Expenses	7,170
		Honorarium to Secretary	11,000
		Restaurant Purchases	17,310
		Repairs	960
		New Car (less proceeds of old car ₹ 9,000)	

The following additional information could be obtained:

Particulars	1-4-2024 (₹)	31-3-2025 (₹)
Cash in hand	450	Nil
Bank Balance as per Cash-book	24,420	10,350
Cheques issued for Sundry Expenses not presented to the bank (entry has been duly made in the Cash-book)	270	90
Subscriptions Due	3,600	2,940
Premises at Cost	87,000	1,17,000

Provision for Depreciation on Premises	56,400	—
Car at Cost	36,570	46,800
Accumulated Depreciation on Car	30,870	—
Restaurant Stock	2,130	2,610
Creditors for Restaurant	1,770	1,290

Annual Honorarium paid to Secretary is ₹ 12,000. Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31-3-2025.

Accounts from Incomplete Records

11. Roshan Washing House is owned by Roshan. He keeps his books on single entry and provides you with the following information:

	1st January, 2025 ₹	31st December, 2025 ₹
Furniture and Fittings	50,000	60,000
Stock of Raw Materials	30,000	10,000
Sundry Debtors	60,000	70,000
Sundry Creditors	20,000	Nil
Prepaid Expenses	Nil	2,000
Outstanding Expenses	6,000	10,000
Cash in hand	11,000	3,000
Receipts from Debtors		2,10,000
Paid to Creditors		1,00,000
Cartage		20,000
Drawings		1,20,000
Sundry Expenses		1,60,000
Furniture purchased for Cash		10,000

Prepare Trading, Profit and Loss Account and Balance Sheet for the year ended 31 December 2025 after providing for bad debts at 10%. There was considerable amount of cash sales.

Partnership Accounts

Calculation of Goodwill

12. The profits and losses for the previous years are: 2022 Profit ₹ 5,000, 2023 Loss ₹ 8,500, 2024 Profit ₹ 25,000, 2025 Profit ₹ 38,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 4 years.

Dissolution of Partner

13. A, B and C who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March,2025 when their Balance Shet was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,50,000
A 1,80,000		Machinery	90,000
B 1,35,000		Tools	12,000
C 90,000	4,05,000	Car	18,000
Creditors	51,000	Debtors	93,000
		Stock	55,500
		Bank	37,500
	4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	₹
Tools	7,500
Machinery	1,23,000

Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

(a) Creditors accepted stock in settlement of their dues.

(b) There was an unrecorded asset valued at ₹ 4,500 which was taken by A for ₹3,000.

(c) There was an old furniture which had been written off from the books. B agreed to take it at ₹ 12,000.

(d) Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Issue and Redemption of Shares

14. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) A Ltd. forfeited 3,000 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Mahesh for ₹ 8 per share.

(ii) A Ltd. forfeited 2,000 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 1500 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) A Ltd. forfeited 1,000 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 800 shares were re-issued to Isha at ₹ 8 per share and called up for ₹ 6 share.

(b) Following is the extract of Balance Sheet of Laxmi Ltd. as at 31st March, 2025 :

	₹
Authorized capital:	
4,50,000 equity shares of ₹ 10 each	45,00,000
37,500,10% preference shares of ₹ 10 each	3,75,000
	48,75,000
Issued and subscribed capital:	
4,05,000 equity shares of ₹ 10 each fully paid up	40,50,000
36,000, 10% preference shares of ₹ 10 each fully paid up	3,60,000
	44,10,000
Reserves and surplus:	
General reserve	5,40,000
Capital redemption reserve	1,80,000
Securities premium	1,12,500
Profit and loss account	9,00,000
	17,32,500

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

15. The following balances appeared in the Books of MCM Ltd. as on 31st December, 2025:

	Amount (₹)
40,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	30,00,000
1,00,000 Equity share of ₹ 100 each fully paid up	1,00,00,000

Securities Premium	3,25,000
Capital Redemption Reserve	21,00,000
General Reserve	42,50,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2026 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 30,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2026. The issue was fully subscribed and the allotment made on 1st March,2026. The amount due on allotment was duly received by 25th March,2026.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2026. Ignore date column in Journal.

Issue and Redemption of Debentures

16. On 1st April, 2025, the following balances appeared in the books of Globe Limited (an unlisted company other than AIFI, Banking Company, NBFC and HFC):

(i) 75,000 9% Debentures of ₹ 100 each issued at par

(ii) Balance of Debenture Redemption Reserve (DRR) ₹ 7,50,000.

(iii) Debenture Redemption Reserve (DRR) Investment ₹ 7,50,000 represented by 8.75% Secured Bonds of the Government of India of ₹ 100 each.

Interest on Debentures was paid half- yearly on 30th of September and 31st March every year.

The funds required for purchasing the aforesaid debentures were partly raised by selling off the DRR Investment.

On 31st March, 2026, the investments were realized at par and the Debentures were also redeemed at par.

You are required to prepare the following accounts for the year ended 31st March, 2026:

(1) 9% Debentures Account.

(2) Debenture Redemption Reserve Account.

(3) Debenture Redemption Reserve Investment Account.

(4) Interest on Debentures Account.

17. FLK Ltd. issues 3,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2025. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years.

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Noting Charges.

(iii) Posting of journal entries into the Leger.

(iv) Machine Hour Rate method of calculating depreciation.

(v) Retirement of bills of exchange

SUGGESTED ANSWERS/HINTS

1. **(a)** **True:** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

(b) **False:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an

expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(e) **True:** Periodic inventory system is a method of ascertaining inventory by taking an actual physical count of all the inventory items on hand at a particular date on which inventory is valued.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False:** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False:** The firm will receive full value of sum assured of Joint Life Policy on the death of Partner.

(i) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

(j) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

2. (a) Distinction between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) (i) In the books of Kewal

Journal entries

	Particulars	**Dr.**	**Cr.**
		Amount ₹	**Amount ₹**
(i)	Salaries A/c Dr.	22,500	
	To Purchase A/c		22,500
	(Being entry made for stock taken by employees)		
(ii)	Manik's A/c (WN -1) Dr.	25,200	
	To Sales A/c (WN- 2)		22,500

	To Output CGST A/c		1,350
	To Output SGST A/c		1,350
	(Being goods to manik at trade discount and CGST & SGST @ 6%.		
(iii)	Sales promotion A/c Dr.	6,000	
	To Purchases A/c		6,000
	(Being the goods distributes as free samples).		
(iv)	Bank A/c Dr.	10,000	
	To Commission A/c		10,000
	(Being commission received).		
	Commission A/c Dr.	5,000	
	Prepaid Commission A/c		5,000
	(Being commission received in advance adjusted).		
(v)	Machinery A/c Dr.	4,00,000	
	Input CGST A/c Dr.	16,000	
	Input SGST A/c Dr.	16,000	
	To Bank A/c		1,00,000
	To Swayam Industries A/c		3,32,000
	(Being machinery purchased from Swayam and paid 1,00,000 immediately CGST and SGST @ 4% each)		

Workings:

1. Manik's Account will be debited (not Cash A/c) since Manik did not avail the cash discount.

2. Value of Sales = Cost Price+ Profit – trade Discount = 20,000 + 5,000 - 2,500 = 22,500

   20,000 x 25/100 = 5,000

   Trade Discount = (20,000+5,000) x 10/100 = 2,500

(b) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

(v) Revenue Expenditure

(vi) Revenue Expenditure

4. (a) **Purchases Book**

Date	Particulars	L.F.	Amount ₹
(i)	Pink & Co.		
	10 pair of black sun glasses @ ₹ 800		8,000
	5 pair of Brown sun glasses @ ₹ 900		4,500
			12,500
	Less: 10% trade discount		(1,250)
			11,250

Note:

1. Purchases made in cash are entered in cash book not in purchase book.
2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

(b) **In the Books of Mr. Dhuria**

Journal Entries

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Building A/c Dr.		20,000	
	To Wages A/c			20,000
	(Wages paid for the construction of office building debited to wages A/c now rectified)			

(ii)	Purchases A/c	Dr.		10,000	
	Sales A/c	Dr.		10,000	
	To Seema				20,000
	(Purchases from Seema wrongly entered in Sales Book now rectified)				
(iii)	Nikhil A/c	Dr.		2,41,920	
	To Sales				2,16,000
	To Output CGST				12,960
	To Output SGST				12,960
	(Being goods sold to Nikhil at 10% trade discount, CGST and SGST is applicable at 6% each.)				
	Bank A/c	Dr.		90,720	
	Cash A/c	Dr.		30,240	
	To Nikhil				1,20,960
	(Being 50% of the amount due is received from Nikhil, out of which 3/4rd is received by cheque and 1/4rd in cash)				
(iv)	Advertisement expenses A/c	Dr.		15,000	
	To Purchases A/c				15,000
	(Being entry of the goods distributed as free samples omitted from records)				
(v)	SS & Co A/c	Dr.		10,000	
	To Bills Receivable A/c				10,000
	(Bills of Exchange dishonoured and had credited to bank and debited to Bills receivable a/c now rectified)				
(vi)	Bills Receivable A/c	Dr.		2,500	
	Bills Payable A/c	Dr.		2,500	

	To Hans A/c				5,000
	(Bills receivable wrongly passed through Bills payable now rectified)				
(vii)	Rebate A/c	Dr.		16,000	
	Output CGST	Dr.		640	
	Output SGST	Dr.		640	
	To Sushil				17,280
	(Being rebate allowed to Sushil for the goods supplied was found defective)				

5. (i) Bank Reconciliation Statement of Vibha Traders as on 31st March,2025

Particulars	Amount	Amount
Balance as per Cash Book		3,29,000
Add:		
Mistake in bringing forward ₹ 18,500/- debit balance as credit balance on 22nd March	37,000	
Cheques issued but not presented Issued = ₹ 42,000 less cashed ₹ 28,500 = ₹ 13,500/-	13,500	
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	2,40,000
Less: Wrong casting in cash book on 12th March, 2025	12,000	

Cheque issued and not entered in the Bank Column	85,000	
Fire insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	12,000	
Credit card payment not recorded in cash book	2,500	(1,31,500)
Balance as per the Pass book		4,37,500

Note: No effects of cheque deposit directly and dishonored in the same month. Alternatively figure of ₹ 32,000/- can be added as well as deducted from balance as per cash book.

6. Statement of Valuation of Physical Stock as on 31st March,2025

	₹	₹
Value of stock as on 10th April, 2025		2,50,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2025 and 9.4.2025	60,000	
Less: Gross profit @20% on sales	(12,000)	48,000
Free sample		4,000
		3,02,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2025 to 9.4.2025	10,000	
Less: Goods not received upto 9.4.2025	(2,000)	(8,000)
		2,94,000
Add: Purchases during March, 2025 but not recorded in stock		55,000
Value of physical stock as on 31.3.2025		3,49,000

7. **Machinery Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2025			2025		
April 1	To Bal b/d-		Oct. 1	By Depreciation- on machinery 1 sold	2,63,296
	Machine 1 26,32,960				
	Machine 2 15,22,048	41,55,008	Oct. 1	By Bank – machinery 1 sold	5,00,000
Oct. 1	To Bank A/c (Machine 3)	17,00,000	Oct. 1	By Profit & Loss– Loss on Sale of machinery (WN. 1)	18,69,664
			2024 Mar. 31	By Depreciation (WN. 2)	
				Machine 2 3,04,410	
			Mar. 31	Machine 3 82,000	3,86,410
				By bal c/d	28,35,638
		58,55,008			58,55,008

Working Note:

1. Calculation of depreciation and Profit/loss on sale:

	Machine 1 purchased on April 1, 2023 (₹)	Machine 2 purchased on Oct 1, 2023 (₹)	Total (₹)
Cost of Purchase	30,00,000	18,00,000	
	4,00,000	40,000	
Total Cost	34,00,000	18,40,000	
Less: Depreciation @ 12%			
Machine 1 (12 months)	(4,08,000)		
Machine 2 (6 months)		(1,10,400)	5,18,400
W.D.V. on 31-3-2024	29,92,000	17,29,600	
Less: Depreciation @ 12%	(3,59,040)	(2,07,552)	5,66,592
W.D.V. on 31-3-2025	26,32,960	15,22,048	

Less: Depreciation on SLM Basis (WN. 2)	(2,63,296)	(3,04,410)	5,67,706
	23,69,664	12,17,638	
Less: Sale proceeds on 1-10-2025	(5,00,000)		
Loss on sale of machinery	18,69,664		

2. Calculation of Depreciation on the basis of Straight-line method with effect from April 1,2023

1. Machine 1 (purchased on 1st April,2023) = 34,00,000 - 4,08,000 - 3,59,040 = 26,32,960/5 = 5,26,592/2 = ₹ 2,63,296
2. Machine 2 (purchased on 1st Oct,2023) = 18,40,000 – 1,10,400 – 2,07,552 = 15,22,048 / 5 = ₹ 3,04,410
3. Machine 3 (purchased on 1st Oct, 2025) = (17,00,000 – 60,000) ÷ 10 = 1,64,000 /2 = ₹82,000

Note: Freight and loading charges incurred on Machinery purchased on 1st April,2025 is to be excluded from the cost of machinery since this cost is incurred only for shifting the machinery to the new plant and does not increase the operating capacity of the machinery

8. Journal Entries in the books of Tamal

2025	Particulars		Dr (₹).	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	Bills receivable (No. 3) A/c	Dr.	10,000	
	To Tapas A/c			51,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2025 and bills receivable No. 2 and 3 due for maturity on 4.4.2025)			

March 4	Tapas 's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 4) A/c	Dr.	16,400	
	To Interest A/c			400
	To Tapas 's A/c			16,000
	(Being the drawing of bill of exchange no. 4 due for maturity on 7.5.2025 together with interest at 15%p.a. in lieu of the original acceptance of Tapas)			
March 25	Bank A/c	Dr.	34,250	
	Discount A/c	Dr.	750	
	To Bills receivable (No. 2) A/c			25,000
	To Bills receivable (No. 3) A/c			10,000
	(Being the amount received on retirement of bills No.2 and bills No.3 before the due date)			
May 7	Tapas's A/c	Dr.	16,400	
	To Bills receivable (No. 4) A/c			16,400
	(Being the amount due from Tapas on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	4,920	
	To Tapas's A/c			4,920
	(Being the amount received from official assignee of Tapas at 30 paise per rupee against dishonoured bill)			

May 7	Bad debts A/c To Tapas's A/c (Being the balance 70% debt in Tapas's Account arising out of dishonoured bill written off as bad debts)	Dr.	11,480	11,480

9. **In the books of Mr. Manas**
Trading and Profit & Loss Account for the year ended 31st March,2026

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		3,86,000	By Sales	29,86,000	
To Purchases	24,95,000		*Less:* Returns	(135,000)	28,51,000
Less: Transfer to furniture A/c	(10,000)		By closing stock		7,65,000
	24,85,000				
Less: Returns	(1,38,000)	23,47,000			
To Carriage inwards		1,26,000			
To Gross profit c/d		7,57,000			
		36,16,000			36,16,000
To Salaries		1,15,000	By Gross profit b/d		7,57,000
			By Interest		34,500
To Rent	66,000		By Discount received		24,600
Add: Outstanding	6,000	72,000			
To Advertisement		40,300			
To Printing & stationery		32,200			
To Electricity charges		57,700			
To Interest (₹ 12,500 + 3000)		15,500			
To Discount allowed		55,200			

To Bad Debts	18,500				
Add: Provision for Doubtful Debts	5,250	23,750			
To General expenses		36,800			
To Motor Car expenses		8,500			
To Insurance premium	30,000				
Less: Drawings	18,000	12,000			
To Travelling expenses		21,800			
To Postage & courier		8,100			
To Depreciation on furniture (WN 4)		2,750			
To Capital A/c (Net profit transferred)		3,14,500			
		8,16,100			8,16,100

Balance Sheet as at 31st March,2026

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account:			Furniture	25,000	
Balance on 1st April,2025	8,85,000		Additions during the year	10,000	
Add: Net profit	3,14,500			35,000	
	11,99,500		*Less:* Depreciation	(2,750)	32,250
Less: Drawings	(78,000)		9% Investments		50,000
Less: Insurance premium	(18,000)	11,03,500			
12% Bank Loan		2,00,000	10% Deposits		3,00,000
Interest accrued on bank loan (W.N.2)		3,000	Interest accrued on investment & deposits (W N. 3)		6,000
Sundry creditors		1,37,500	Stock in trade		7,65,000
Outstanding Rent		6,000	Sundry debtors (W N. 1)		2,04,750
			Cash in hand		18,500
			Cash at Bank		73,500
		14,50,000			14,50,000

Working Notes:

1.	Calculation of sundry debtors at the end	**Amount (₹)**
	Sundry debtors as per trial balance	2,35,000
	Less: Sales returns not recorded	(25,000)
	Adjusted balance of sundry debtors	2,10,000
	Provision for doubtful debts @ 2.5%	(5,250)
		2,04,750
2.	Interest Payable on bank loan:	
	Annual interest @12% for 6 months on ₹ 2,00,000	12,000
	Less: Interest paid	(9,000)
	Unpaid interest	3,000
3.	Interest accrued on investments and deposits:	
	Annual interest on investments @ 9%	4,500
	Annual interest on deposits @ 20% for half year	30,000
		34,500
	Less: Interest received on investments and deposits	(28,500)
	Accrued interest	6,000

4.	Depreciation on Furniture:	
	Depreciation @ 10% p.a. on Opening Balance ₹ 25000	2,500
	On new purchase of ₹ 10,000 for 3 months (Jan to March)	250
	Depreciation to be charged	2,750

10. Receipts and Payments Account for the year ended 31st March, 2025

Receipts (Dr.)	**₹**	**Payments (Cr.)**	**₹**
To Opening Balances:		By Premises	30,000
Cash in Hand	450	By Rent	2,400

Bank Balance	24,420	By Rates and Taxes	3,780
To Subscriptions	62,130	By Printing and Stationery	1,410
To Fair Receipts	7,200	By Sundry Expenses	5,350
To Variety Show Receipts (Net)	12,810	By Wages	2,520
To Interest	690	By Fair Expenses	7,170
To Restaurant Collections	22,350	By Honorarium to Secretary	11,000
To Sale Proceeds of Old Car	9,000	By Restaurant Purchases (Payments)	17,310
		By Repairs	960
		By purchase of new Car	46,800
		By Closing Balances:	
		Cash in Hand	Nil
		Bank Balance	10,350
	1,39,050		1,39,050

Income and Expenditure Account
for the year ended 31st March, 2025

Expenditure	₹ (Dr.)	Income		₹ (Cr.)
To Rent	2,400	By Subscriptions	62,130	
To Rates and Taxes	3,780	*Add:* Due as on 31-3-25	2,940	
			65,070	
To Printing and Stationery	1,410	*Less:* Due as on 31-3-24	3,600	61,470
To Wages	2,520	By Surplus from Fair		
To Honorarium to Secretary	12,000	Fair Receipts	7,200	
		Less: Fair Expenses	7,170	30
To Sundry Expenses (5,350-270+90)	5,170	By Surplus from Variety Show		12,810
To Repairs	960	By Interest		690

To Depreciation on Premises (5%) (W.N. 4)	3,030	By Profit from Restaurant (W.N.2)	6,000
To Depreciation on Car (20%)	9,360	By Profit on Sale of Car (W.N.3)	3,300
To Excess of Income over Expenditure transferred to Capital Fund	43,670		
	84,300		84,300

Working Notes

(1) Calculation of Restaurant Purchases

Restaurant Creditors Account

Dr.	₹	Cr.	₹
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Restaurant Purchases (Balancing Figure)	16,830
	18,600		18,600

(2) Calculation of Profit from Restaurant Trading Account

	₹ Dr.		₹ Cr.
To Opening Stock	2,130	By Restaurant Collections	22,350
To Purchases	16,830	By Closing Stock	2,610
To Profit from Restaurant	6,000		
	24,960		24,960

(3) Calculation of Profit on Sale of old Car

Sale proceeds of old car: ₹ 9,000

Less: Written down value of old car (₹ 36,570 – ₹ 30,870): ₹ 5,700

Profit on sale of old car: ₹ 3,300

(4) Depreciation on Premises

Premises purchased during the year (1,17,000-87,000)	30,000
Old premises- acc depreciation (87,000-56,400)	30,600
Total	60,600
Depreciation @ 5%	3,030

11. Trading Account for the Year ending 31 December,2025

Particulars	Amount ₹	Particulars		Amount ₹
Opening Stock	30,000	Sales:		
Purchases	80,000	Cash	1,92,000	
Cartage	20,000	Credit	2,20,000	4,12,000
Gross Profit c/d	2,92,000	Stock at the end		10,000
	4,22,000			4,22,000

Profit and Loss Account for the year ending 31 December,2025

Particulars		Amount	Particulars	Amount
Sundry Expenses	1,60,000		Gross Profit b/d	2,92,000
Add Outstanding as on 31st Dec, 2025	10,000			
Less: Outstanding as on 31st Dec 2024	(6,000)			
Less: Prepaid as on 31st Dec, 2025	(2,000)	1,62,000		
Provision for Bad Debts		7,000		
Net Profit transferred to Capital Account		1,23,000		
		2,92,000		2,92,000

Balance Sheet as at 31 December 2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account:			Cash in hand		3,000
Balance on 1st Jan, 2025	1,25,000		Stock		10,000
Add: Net profit	1,23,000		Sundry Debtors	70,000	
	2,48,000		*Less:* Provision	7,000	63,000
Less: Drawings	(1,20,000)		Prepaid Expenses		2,000
		1,28,000			
Outstanding Expenses		10,000	Furniture and Fittings		60,000
		1,38,000			1,38,000

Balance Sheet as on 1st January,2025

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in hand	11,000
Outstanding Expenses	6,000	Sundry Debtors	60,000
Capital (Balancing Figure)	1,25,000	Stock	30,000
		Furniture and Fitting	50,000
	1,51,000		1,51,000

Total Debtors Account

	₹		₹
To balance b/d	60,000	By cash received from Debtors	2,10,000
To Credit Sales A/c		Balance c/d	70,000
(Balancing Figure)	2,20,000		
	2,80,000		2,80,000

Total Creditors Account

	₹		₹
To Cash A/c	1,00,000	By Balance b/d	20,000
To balance c/d	-	By Purchase A/c (Balancing figure)	80,000
	1,00,000		1,00,000

Cash and Bank Account

	₹		₹
To Balance b/d	11,000	By amount paid Sundry Creditors	1,00,000
To amount received from Sundry Debtors	2,10,000	By Drawings	1,20,000
To Cash Sales (Balancing Figure)	1,92,000	By Sundry Expenses	1,60,000
		By Cartage	20,000
		By Furniture	10,000
		By Balance c/d	3,000
	4,13,000		4,13,000

12. Total Profit for 4 years = ₹ 5000+ ₹ (8,500) + ₹ 25,000 + ₹ 38,500 = ₹ 60,000.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No. of years}} = \frac{60,000}{4} = ₹15,000$$

Average Profits for Goodwill = ₹ 15,000 – Proprietor Remuneration

= ₹ 15,000 – ₹ 3,000 = ₹ 12,000

Normal Profit = Interest on Capital employed

= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100) = ₹ 10,000

Super Profit = Average Profit-Normal Profit = ₹ 12,000 – ₹ 10,000 = ₹ 2,000

Goodwill = Super Profit x No of years purchases = ₹ 2,000 x 2 = ₹ 4,000

13. **Realisation Account**

Particulars			Particulars		
To Sundry Assets – Transfer:			By Creditors		51,000
Debtors	93,000		By bank A/c – Assets Realised:		
Stock	55,500		Machinery	1,23,000	
Tools	12,000		Car	37,500	
Car	18,000		Debtors	88,500	
Machinery	90,000		Tools	7,500	
Building	1,50,000	4,18,500	Building	1,26,000	
To bank A/c (outstanding Salary)		12,000	Goodwill	90,000	4,72,500
To gain (Profit) on realization transferred to			By B's Capital A/c (Old Furniture)		12,000
A'S Capital A/c	54,000		By A's Capital A/c Unrecorded Asset		3,000
B's Capital A/c	36,000				
C's Capital A/c	18,000	1,08,000			
		5,38,500			5,38,500

Partners Capital Accounts

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Realisation A/c	3,000	12,000		By Balance b/d	1,80,000	1,35,000	90,000
To Bank A/c	2,31,000	1,59,000	1,08,000	By Realisation A/c (Gain)	54,000	36,000	18,000
	2,34,000	1,71,000	1,08,000		2,34,000	1,71,000	1,08,000

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	37,500	By Realisation A/c (Outstanding Salary)	12,000
To Realisation A/c	4,72,500	By A Capital A/c	2,31,000
Assets Realised	-	By B Capital A/c	1,59,000
	-	By C Capital A/c	1,08,000
	5,10,000		5,10,000

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

14. (a) (i) Journal Entries in the books of A Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	30,000	
	To Equity Share Allotment money A/c (3,000 x ₹ 3)			9,000
	To Equity Share Final Call A/c (3,000 x ₹ 4)			12,000
	To Forfeited Shares A/c (3,000 x ₹ 3)			9,000
	(Being the forfeiture of 3,000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No.....dated.....)			
(b)	Bank Account (3000 x 8)	Dr.	24,000	
	Forfeited Shares Account (3,000x 2)	Dr.	6,000	
	To Equity Share Capital A/c			30,000
	(Being the re-issue of 3,000 forfeited shares @ ₹ 8 each as fully paid up to Mahesh as per Board's resolution No.....dated.....)			
(c)	Forfeited Shares A/c	Dr.	3,000	
	To Capital Reserve A/c			3,000
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (2000 x ₹ 7)	Dr.	14,000	
	To Equity Share First Call A/c (2000 x ₹ 2)			4000
	To Forfeited Shares A/c (2000 x ₹ 5)			10,000
	(Being the forfeiture of 2000 equity shares of ₹ 10 (₹7 called up) for non-payment of first call @ ₹ 2 per share as per Board Resolution No.... dated.....)			
(b)	Bank A/c	Dr.	9000	
	Forfeited Shares A/c	Dr.	6000	
	To Equity Share Capital A/c			15,000
	(Being the re-issue of 1500 forfeited shares as fully paid up as per Board's resolution No..... dated.....)			
(c)	Forfeited Shares A/c	Dr.	1500	
	To Capital Reserve A/c			1500
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of	
1,500 shares (1,500 x 5)	₹ 7,500
Less: Forfeiture of 1500 shares	(₹ 6,000)
Profit on re-issue of shares	₹ 1,500

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (1000 x ₹ 6)	Dr.	6000	
	To Equity Share Final Call A/c (100 x ₹ 3)			3000
	To Discount on issue of shares (1000 x ₹ 1)			1000
	To Forfeited Shares A/c (1000 x ₹ 2)			2000
	(Being the forfeiture of 1000 equity shares issued at a discount as per Board's resolution No.....dated.....)			
(b)	Bank Account (800 x ₹ 6)	Dr.	4800	
	Discount on issue of shares (800 x ₹ 1)	Dr.	800	
	Forfeited Shares A/c (800 x ₹ 1)	Dr.	800	
	To Equity Share Capital Account (800 x ₹ 8)			6400
	(Being the re-issue of 800 shares fully paid up as per Board's Resolution No.....dated.....)			
(c)	Forfeited Shares A/c		800	
	To Capital Reserve A/c			800
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (1000 x 2)	₹ 2000
Forfeited shares balance for 800 shares	₹ 1600
Less: Forfeiture of 800 shares	(₹ 800)
Profit on re-issue of shares	₹ 800.

(b) **Laxmi Ltd.**

Journal Entries

			Dr.	Cr.
April 1	Capital Redemption Reserve A/c	Dr.	1,80,000	
	Securities Premium A/c	Dr.	1,12,500	
	General Reserve A/c	Dr.	5,40,000	
	Profit and Loss A/c (b.f.)	Dr.	7,87,500	
	To Bonus to Equity Shareholders A/c			16,20,000
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	16,20,000	
	To Equity Share Capital A/c			16,20,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

		Particulars	Notes	Amount (₹)
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	60,30,000
	b	Reserves and Surplus	2	1,12,500

Notes to Accounts

		(₹)
1	**Share Capital**	
	Authorized share capital:	
	5,67,000* Equity shares of ₹ 10 each	56,70,000*
	37,500 10% Preference shares of ₹ 10 each	3,75,000
	Total	60,45,000

	Issued, subscribed and fully paid share capital:		
	5,67,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,62,000 equity shares @ ₹ 10 each were issued by way of bonus)		56,70,000
	36,000 10% Preference shares of ₹ 10 each		3,60,000
	Total		60,30,000
2	**Reserves and Surplus**		
	Capital Redemption Reserve	1,80,000	Nil
	Less: Utilized	1,80,000	
	Securities Premium	1,12,500	
	Less: Utilised for bonus issue	(1,12,500)	Nil
	General reserve	5,40,000	
	Less: Utilised for bonus issue	(5,40,000)	Nil
	Profit & Loss Account	9,00,000	
	Less: Utilised for bonus issue	(7,87,500)	1,12,500
	Total		1,12,500

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 11,70,000 (56,70,000 – 45,00,000) in the above solution

15. Journal Entries In the books of MCM Ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c	Dr.	10,00,000	
To 10% Preference Share Capital A/c			10,00,000
(Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			
Bank A/c	Dr.	10,00,000	
To 10% Preference Share Final Call A/c			10,00,000
(Being receipt of final call money on preference shares)			

10% Preference Share Capital A/c	Dr.	40,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	2,00,000	
To Preference Shareholders A/c			42,00,000
(Being amount payable to preference shareholders on redemption at 5% premium)			
Bank A/c	Dr.	7,50,000	
To Equity Share Application A/c			7,50,000
(Being receipt of application money on 30,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	7,50,000	
To Equity Share Capital A/c			7,50,000
(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	13,50,000	
To Equity Share Capital A/c			10,50,000
To Securities Premium A/c			3,00,000
(Being allotment money due on 30,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	13,50,000	
To Equity Share Allotment A/c			13,50,000
(Being receipt of allotment money on equity shares)			
General Reserve A/c (WN 1)	Dr.	22,00,000	
To Capital Redemption Reserve A/c			22,00,000
(Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 40,00,000 - 7,50,000 – 10,50,000)			

Preference Shareholders A/c	Dr.	42,00,000	
To Bank A/c			42,00,000
(Being amount paid to preference shareholders)			
General Reserve A/c	Dr.	2,00,000	
To Premium on Redemption of Preference shares A/c			2,00,000
(Being writing off premium on redemption of preference shares)			

Notes to Accounts:

			₹
1	**Share Capital:**		
	Equity Share Capital		
	Issued, Subscribed & Paid Up:		
	1,00,000 Equity Shares of ₹ 100 each fully paid up	1,00,00,000	
	30,000 Equity Shares of ₹100 each, ₹ 60 called up & paid up	18,00,000	1,18,00,000
2	**Reserves and Surplus:**		
	Securities Premium	3,25,000	
	Add: Amount received @ - 10 per share on 30,000 Equity Shares	3,00,000	6,25,000
	Capital Redemption Reserve	21,00,000	
	Add: Transferred on Redemption(WN-1)	22,00,000	43,00,000
	General Reserve	42,50,000	
	Less: Transferred to Capital Redemption Reserve	(22,00,000)	
	Less: Adjustment of Premium payable on Redemption	(2,00,000)	18,50,000
			67,75,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 40,000 Preference Shares Redeemed	40,00,000
Less: Proceeds of 30,000 Equity Shares issued, - 60 called up & paid up	18,00,000
Transfer to Capital Redemption Reserve	22,00,000

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

16. In the book of Globe Ltd.

9% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31.3.26	To Bank	75,00,000	1.4.25	By Bal b/d	75,00,000
		75,00,000			75,00,000

Debenture Redemption Reserve Account

Date	Particulars	₹	Date	Particulars	₹
31.3.26	To General reserve	7,50,000	1.4.25	By Bal b/d	7,50,000
		7,50,000			7,50,000

Debenture Redemption Reserve Investment Account

Date	Particulars	₹	Date	Particulars	₹
1.4.25	To Bal b/d	7,50,000	31.3.26	By Bank A/c (75,000 x 100 x 15%)	11,25,000

1.4.25	To Bank A/c	3,75,000			
		11,25,000			11,25,000

Interest on Debentures Account

Date	Particulars	₹	Date	Particulars	₹
30.9.25	To Bank A/c (75,000 x 100 x 9% x 6/12)	3,37,500	31.3.26	By P&L A/c	6,75,000
31.3.26	To Bank A/c (75,000 x 100 x 9% x 6/12)	3,37,500			
		6,75,000			6,75,000

Working Note:

Additional Investment in Debenture Redemption Reserve Investment

DRR Investment required = 15% of ₹ 75,00,000 = ₹ 11,25,000

DRR Investment existing on 1/04/25 = 7,50,000

Additional DRR Investment required =₹ 11,25,000 - ₹ 7,50,000 = ₹ 3,75,000

17. Total amount of discount comes to ₹ 1,80,000 (₹ 0.6 X 3,00,000). The amount of discount to be written-off in each year is calculated as under:

1st ₹ 30,00,000 1/5th of ₹ 1,80,000 = ₹ 36,000

2nd ₹ 30,00,000 1/5th of ₹ 1,80,000 = ₹ 36,000

3rd ₹ 30,00,000 1/5th of ₹ 1,80,000 = ₹ 36,000

4th ₹ 30,00,000 1/5th of ₹ 1,80,000 = ₹ 36,000

5th ₹ 30,00,000 1/5th of ₹ 1,80,000 = ₹ 36,000

18. (i) **Fundamental Accounting Assumptions:** Fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(ii) **Noting Charges:** It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(iii) Rules regarding posting of journal entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.

2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.

3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹ 10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total Cost of Machine}}{\text{Estimated Life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ Hours}}$$

= ₹ 20 per hour

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

(v) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/ discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

PAPER – 1: ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

   (ii) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

   (iii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (iv) When closing inventory is overstated, net income for the accounting period will be understated.

   (v) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

   (vi) Goodwill is intangible asset therefore it cannot be valued

   (vii) Laboratory & library Deposits taken from the students in case of an educational Institution are shown on the liabilities side of the Balance Sheet.

   (vii) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(ix) Company X Ltd. is incurring huge losses; the Board of Directors are of the opinion that in case of losses, there is no need to pay interest to debenture holders.

Theoretical Framework

2. (a) Explain Cash and Mercantile system of accounting

(b) Define revenue receipts and give examples. How are these receipts treated?

(c) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

(i) A running business was purchased by Arjun with the following assets and liabilities:

Bank – ₹ 70,000

Land – ₹ 1,40,000

Furniture – ₹ 35,000

Stock – ₹ 70,000

Creditors – ₹ 35,000

Bank Overdraft – ₹ 70,000

(ii) Sold goods to Harpreet for ₹ 3,50,000 at a trade discount of 20% and charged IGST @ 12%.

(iii) Goods distributed by way of free samples amounted to ₹ 35,000.

(iv) Goods of list price ₹1,40,000 were returned by Harpreet.

(v) Sandeep became insolvent and could pay only 40 paise in a rupee. The amount due from him was ₹21,000.

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure/receipt:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

Subsidiary Books

4. (a) Prepare a Purchases book from the following transactions of Techno Computers

Date (2026)	Particulars
Jan. 3	Bought from Rocket Computers (Delhi), on credit:
	10 RAM @ ₹ 1,400 each
	50 Pen Drives @ ₹ 300 each
	Trade Discount @ 10%
	CGST @ 9%, SGST @ 9%
	Freight ₹ 700
Jan. 5	Purchased from Yes Computers (Mumbai), on credit:
	20 Hard Disk @ ₹ 3,600 each
	10 UPS @ ₹ 2,000 each
	Trade Discount @ 10%
	IGST @ 18%
Jan. 17	Bought from Sai Computers (Delhi), on credit:
	8 Motherboards @ ₹ 2,500 each

	20 Web Camera @ ₹ 600 each Trade Discount @ 5% CGST @ 9%, SGST @ 9% Freight ₹ 2,500

Rectification of Errors

(b) The following errors were discovered in the books of Mr. Krishna:

(i) Minor repairs to office premises amounting to ₹ 3,200 plus CGST and SGST @ 9% each were debited to Building Account.

(ii) An amount of ₹ 8,500 due from Mohit Verma, which had been written off as bad debts in the previous year, was recovered during the current year and wrongly credited to Mohit Verma's Personal Account.

(iii) Office furniture purchased for ₹35,000 plus CGST and SGST @ 9% each was entered in the Purchases Day Book.

(iv) Goods purchased on credit from Rakesh Enterprises amounting to ₹ 24,000 plus IGST @12% have remained completely unrecorded.

(v) School fees of proprietor's daughter amounting to ₹ 28,000 were debited to Legal Charges Account.

(vi) A cheque received from Ankit Sharma ₹12,600 was credited to the account of Amit Sharma.

(vii) Goods costing ₹ 15,000 sold to a customer were returned by him. The goods were received back into inventory, but no entry was passed in the books. CGST and SGST @ 9% each was charged on the original cost.

(viii) Wages of ₹ 5,000 paid to workers engaged in manufacturing office furniture were debited to Wages Account.

(ix) Salary paid to office manager ₹ 18,000 was debited to his Personal Account.

(x) Cash paid to creditor Naveen Kumar ₹ 9,800 was correctly entered in the Cash Book but omitted from his Personal Account.

Pass the necessary Journal Entries to rectify the above errors.

Bank Reconciliation Statement

5. The Bank Pass Book of Account No.5678 of Mrs. Geeta showed an overdraft of ₹ 33,575 on 31st March 2026. On going through the Pass Book, the accountant found the following:

(i) A Cheque of ₹ 1,080 credited in the pass book on 28th March 2026 being dishonoured is debited again in the pass book on 1st April 2026. There was no entry in the cash book about the dishonour of the cheque until 15th April 2026.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Geeta in cash and by cheques on 31st March 2026 cheques amounting to ₹ 7,500 were collected on 7th April, 2026.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2026 a cheque for ₹ 2,500 was encashed on 3rd April, 2026.

(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.

(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2026.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (discounted for ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2026.

(viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2026.

Prepare Bank Reconciliation Statement as on 31st March, 2026.

Valuation of Inventories

6. Stock taking of Comfort Zone Stores for the year ended 31st March, 2026 was completed by 7th April, 2026, the valuation of which showed a stock figure of ₹ 5,02,500at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2026.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2026. Closing stock is valued by comfort zone Stores on generally accepted accounting principles.

Depreciation and Amortisation

7. A firm purchased a second-hand machinery on 1st April, 2023 for ₹ 30,00,000 subsequent to which ₹ 4,00,000 were spent on its repairs and installation. On 1st October, 2023 another machinery was purchased for ₹ 18,00,000 and cost of installing the machine in a new plant is ₹ 40,000. The firm also shifted the machinery purchased on 1st April, 2023 to the new plant and incurred freight of ₹ 10,000. They adopted a

policy of charging depreciation @ 12% per annum on diminishing balance method.

On 1st April, 2025 it was decided to change the method and rate of depreciation to straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased with no scrap value.

On 1st October, 2025 the first machine become outdated and sold for ₹ 5,00,000. On the same date, another machinery was purchased for ₹ 17,00,000. The estimated useful life of the machine is 10 years and residual value is ₹ 60,000.

You are required to prepare the machinery account for the year ending March 31, 2026.

Bills of Exchange

8. Mr. Bimal accepted a bill for ₹ 30,000 drawn on him by Mr. Aman on 1st August, 2025 for 3 months. This was for the amount which Bimal owed to Aman. On the same date Mr. Aman got the bill discounted at his bank for ₹ 29,400.

On the due date, Bimal approached Aman for renewal of the bill. Mr. Aman agreed on condition that ₹ 6,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Bimal should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2025, Bimal became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. Aman

Final accounts

9. The following are the balances as at 31st March, 2026, extracted from the books of Ms. Priya Nandini, proprietor of Nandini Textiles.

	₹		₹
Plant and Machinery	58,650	Bad Debts Recovered	1,350
Furniture and Fittings	30,750	Salaries	83,250
Bank Overdraft	2,40,000	Salaries Payable	7,350

Capital Account	98,100	Prepaid Rent	900
Drawings	24,000	Rent	12,900
Purchases	4,80,000	Carriage Inward	3,375
Opening Stock	96,750	Carriage Outward	4,050
Wages	36,495	Sales	6,45,900
Provision for Doubtful Debts	9,600	Advertisement Expenses	10,050
Provision for Discount on Debtors	4,125	Printing and Stationery	3,750
Sundry Debtors	3,60,000	Cash in Hand	4,350
Sundry Creditors	1,42,500	Cash at Bank	9,375
Bad Debts	3,300	Office Expenses	30,480
Interest Paid on Loan	9,000		

Additional Information:

1. Closing stock as on 31st March, 2026 was ₹ 3,75,000.
2. Create a provision for doubtful debts @ 5% on Sundry Debtors and a provision for discount on debtors @ 2.5% on debtors (after provision for doubtful debts).
3. Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on Furniture and Fittings @ 10% p.a.
4. Manager's commission is payable @ 5% on net profit after charging such commission.
5. Interest on Loan is to be provided @ 8% per annum.
6. Audit fees of ₹ 4,500 are outstanding and have not yet been accounted for.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2026, and a Balance Sheet as on that date.

Financial Statements of Not for Profit Organizations

10. The following is the Receipts and payments account of Masters Club for the year ended on 31st March, 2026

Receipts and payments A/c for the year ended on 31st march 2026

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2025:

   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480

   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250

2. Following are the assets and liabilities on 31st March, 2026-

   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180

   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850

3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2025

You are required to prepare Income and Expenditure account and the Balance Sheet as of 31st March 2026 in the books of Masters Club.

Accounts from Incomplete Records

11. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2025:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Sales and purchases for the year ended 31st March, 2025 were ₹ 3,00,000 and ₹ 2,40,000 respectively.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Sales in the current year will increase by 43.75% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2026.

Partnership Accounts

Profit and Loss Appropriation Account

12. Aarav Mehta, Rohan Khanna and Vikram Sharma are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2025 was as follows:

Balance Sheet of M/s Aarav Mehta, Rohan Khanna & Vikram Sharma

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Aarav Mehta	2,55,000	Inventory	3,00,000
Rohan Khanna	9,45,000	Trade receivables	1,50,000
Vikram Sharma	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 in 2025 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Admission of Partner

13. X and Y are partners in a firm, sharing Profits and Losses in the ratio of 3: 2. The Balance Sheet of X and Y as on 31st March,2025 was as follows:

Liabilities	Amount (₹)	Assets		Amount (₹)
Sundry Creditors	45,150	Building		91,000
Bill Payable	14,350	Furniture		20,300
Bank Overdraft	31,500	Stock-in-Trade		74,900

Capital Account:		Debtors	1,22,500	
X: 1,54,000		Less: Provision	(700)	1,21,800
Y: 1,26,000	2,80,000	Investment		8,750
		Cash		54,250
	3,71,000			3,71,000

'Z' was admitted to the firm on 1.4.2025 on the following terms:

(i) He is admitted for 1/6th share and introduces a Capital of ₹ 87,500. The new profit sharing ratio of X, Y and Z will be 3 : 2 : 1 respectively.

(ii) Z is unable to bring in cash for his share of goodwill; The partners decided to calculate goodwill on the basis of 'Z's share in the profits and the capital contribution made by him to the firm.

(iii) Furniture is written down by ₹ 3,045 and stock to be depreciated by 5%.

(iv) Building is appreciated to ₹ 1,02,200. Investment value increases by ₹ 1,575.

(v) Creditors include ₹ 4,900 not to be paid. Provision for Debtors is to be maintained at 5%.

(vi) A printer purchased for ₹ 3,500 on credit was entered in Furniture A/c by mistake. It is now to be treated as Office Equipment, and the liability to the supplier is still outstanding.

(vii) Outstanding wages of ₹ 5,460 are also to be provided

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of New Partnership firm after admission of 'Z'.

Dissolution of Partnership

14. A, B and C were partners sharing profits and losses in the ratio of 4 : 3 : 1. Their Balance Sheet as on 31st March, 2025 was as follows :

Liabilities	₹	**Assets**	₹
A's Capital A/c	1,05,000	Building	90,000

B's Capital A/c	45,000	Machinery	30,000
C's Capital A/c	75,000	Stock	82,500
Creditors	39,000	Debtors	90,000
Bank Loan (Secured)	13,500		
A's Loan	15,000		
	2,92,500		2,92,500

They decided to dissolve the business. The assets were realised gradually and the net amounts were distributed immediately as follows:

2025	**₹**	**Expenses**	**₹**
May, 30	33,000	Expenses paid	3,000
July, 30	25,200	Expenses paid	2,200
Sept. 30	57,000	Expenses paid	4,500
Nov. 30	68,000	Expenses paid	8,000
Dec. 31	1,08,000	Expenses paid	10,000

Show the distribution of cash among partners using maximum possible loss method.

Issue and Forfeiture of Shares

15. DC Limited invited applications for issuing 3,75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount payable was ₹ 9 per share (including premium) on application and allotment and balance on the First and Final Call

Applications for 15,00,000 equity shares were received. Applications for 10,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 7,500 shares applied by Mr. Sunil. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of DC Limited.

Bonus Issue and Redemption of Preference Shares

16. The following is the summarized Balance Sheet of Globus Ltd. as at 31.3.2025:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets 3,00,000	
Authorised		*Less:* Dep 1,00,000	2,00,000
10,000 10% Redeemable Preference		Investments	1,00,000
Shares of ₹ 10 each	1,00,000		
90,000 Equity Shares of ₹ 10 each	9,00,000		
	10,00,000		
Issued, Subscribed and Paid-up Capital		Current Assets and Loans and Advances	
10,000 10% Redeemable Preference		Inventory	45,000
Shares of ₹ 10 each	1,00,000	Trade receivables	25,000
10,000 Equity Shares of ₹ 10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000		
Reserves and Surplus			
General Reserve	1,08,500		
Securities Premium	70,000		
Profit and Loss A/c	30,000		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3.2026, the company made a net profit of ₹ 35,000 after providing ₹ 20,000 depreciation.

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3. 2026 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3. 2026, was the same as on 31.3.2025.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every two equity share held as on 31.3.2026.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2026.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Issue of Debentures

17. On 1st April 2025, Vertex Industries Ltd. took over assets of ₹ 27,00,000 and liabilities of ₹ 3,60,000 of Summit Manufacturing Ltd. for a purchase consideration of ₹ 26,40,000.

Vertex Industries Ltd. discharged the purchase consideration by issuing 8% Debentures of ₹ 100 each at a premium of 10% on the same date.

Further, Vertex Industries Ltd. issued 18,000, 8% Debentures of ₹ 100 each at a discount of 10%, redeemable at a premium of 5% after 5 years. According to the terms of issue, ₹30 per debenture was payable on application and the balance on allotment.

It was decided to write off the entire loss on issue of debentures in the year of issue itself.

You are required to pass the necessary journal entries in the books of Vertex Industries Ltd. for the financial year 2025–26.

18. Write short notes on:

(i) Going Concern concept.

(ii) Services a Chartered Accountant can provide to society

(iii) Double entry system

(iv) Factors taken into consideration for calculation of depreciation.

(v) Noting Charges.

(vi) Importance of bank reconciliation to an industrial unit.

SUGGESTED ANSWERS/HINTS

1. **(i)** **False:** Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

(iii) **True:** Salary paid in advance relates to the coming accounting period and it has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(iv) **False**: When closing inventory is overstated, net income for the accounting period will also be overstated.

(v) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.

(vi) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

(vii) **True:** Laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University. Hence they are shown on the liability side of the Balance Sheet.

(vii) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(ix) **False:** Even if the company incurs losses, it has to pay interest on debentures. Debenture being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

2. **(a)** **Cash system** of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities.

(b) Receipts which are obtained in course of normal business activities are revenue receipts. Example receipts from sale of goods or services, interest income etc.

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account

(c) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) In the books of Arjun
Journal Entries

			₹	₹
(i)	Cash A/c	Dr.	70,000	
	Land A/c	Dr.	1,40,000	
	Furniture A/c	Dr.	35,000	
	Stock A/c	Dr.	70,000	
	To Creditors			35,000
	To Bank overdraft			70,000
	To Capital A/c			2,10,000
	(Being commencement of business by Arjun by taking over a running business).			
(ii)	Harpreet's A/c	Dr.	3,13,600	
	To Sales A/c			2,80,000
	To Output IGST A/c			33,600
	(Being goods sold to Harpreet at trade discount of 20% and charged IGST @12%)			
(iii)	Advertisement Expenses A/c	Dr.	35,000	
	To Purchases A/c			35,000
	(Being goods distributed as free sample)			
(iv)	Sales Return A/c	Dr.	1,12,000	
	Output IGST A/c	Dr.	13,440	
	To Harpreet A/c			1,25,440
	(Being goods returned by Harpreet and output IGST charged at the time of sales now reversed)			
(v)	Cash A/c	Dr.	8,400	
	Bad Debts A/c	Dr.	12,600	
	To Sandeep			21,000
	(Being Sandeep become insolvent)			

(b) (i) Import duty is paid to bring the machinery to a usable condition and is directly related to acquiring a fixed asset and any cost incurred to acquire, install, or make a fixed asset ready for use forms part of the cost of that asset and is **Capital Expenditure.**

(ii) Amount received from debtors is simply the amount which is already earned as revenue in a prior period. It does not generate any new income, nor does it create or extinguish a long-term asset or liability. It is therefore a **revenue receipt**.

(iii) Testing costs are incurred before an asset is put into use and this cost is necessary to bring an asset to its working condition. Hence, it is **Capital expenditure**.

(iv) Insurance claim received on account of machinery damaged by fire is the compensation received on account of loss of a fixed asset. Hence it is a **Capital receipt.**

4. (a) In the Books of Techno Computers

Purchases Book

Date	Particulars	L.F.	Details (₹)	Cost (₹)	Input CGST (₹)	Input SGST (₹)	Input IGST (₹)	Freight (₹)	Total (₹)
2026									
Jan. 3	Rocket Computers								
	10 RAM @ ₹ 1,400 each		14,000						
	50 Pen Drives @ ₹ 300 each		15,000						
			29,000						
	Less: Trade Discount @10%		(2,900)						
			26,100						
	Add: CGST@ 9%		2,349						
	Add: SGST @9%		2,349						

	Add: Freight		700						
			31,498	26,100	2,349	2,349		700	31,498
Jan. 5	Yes Computers								
	20 Hard Disk @ ₹ 3,600 each		72,000						
	10 UPS @ ₹ 2,000 each		20,000						
			92,000						
	Less: Trade Discount @10%		(9,200)						
			82,800						
	Add: IGST @18%		14,904						
			97,704	82,800			14,904		97,704
Jan. 17	Sai Computers								
	8 Motherboards @ ₹ 2,500 each		20,000						
	20 Web Camera @ ₹ 600 each		12,000						
			32,000						
	Less: Trade Discount @ 5%		(1,600)						
			30,400						
	Add: CGST @9%		2,736						
	Add: SGST @9%		2,736						
	Add: Freight		2,500						
			38,372	30,400	2,736	2,736		2,500	38,372
				1,39,300	5,085	5,085	14,904	3,200	1,67,574

Working Note:

1. GST is a comprehensive indirect tax applied to the manufacturing, sale, and consumption of goods and services. Input GST is paid on purchases and can be set off against Output GST. Therefore, separate columns are maintained in the Purchases Book for recording Input CGST, Input SGST, and Input IGST.
2. Trade discounts are deducted first, then GST is calculated on the remaining balance.
3. When a supplier charges for shipping, these costs are included in the total invoice value. A separate column for "Freight" is provided in the Purchases Book to track these expenses.

(b) **In the books of Mr. Krishna**

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Repairs A/c	Dr.	3,200	
	Input CGST A/c		288	
	Input SGST A/c		288	
	To Building A/c			3,776
	(Being repairs to building wrongly debited to building now rectified)			
(2)	Mohit Verma A/c	Dr.	8,500	
	To Bad Debts Recovered A/c			8,500
	(Recovery of bad debts wrongly credited to debtor now rectified)			
(3)	Furniture A/c	Dr.	35,000	
	Input CGST A/c		3,150	
	Input SGST A/c		3,150	

	To Purchases A/c			41,300
	(Furniture purchase wrongly treated as goods purchaser, now rectified)			
(4)	Purchases A/c	Dr.	24,000	
	Input ICGST A/c		2,880	
	To Rakesh Enterprises A/c			26,880
	(Goods purchased from Rakesh enterprises omitted to be recorded now rectified)			
(5)	Drawings A/c	Dr.	28,000	
	To Legal Charges A/c			28,000
	(Proprietor's daughter's school fees wrongly debited to expenses, now rectified)			
(6)	Amit Sharma A/c	Dr.	12,600	
	To Ankit Sharma A/c			12,600
	(Cheque received from Ankit sharma wrongly creditred to Amit Sharma, now rectified)			
(7)	Sales Return A/c	Dr.	15,000	
	Output CGST A/c	Dr.	1,350	
	Output SGST A/c	Dr.	1,350	
	To Customer's A/c			17,700
	(Sales return omitted to be recorded now rectified)			
(8)	Furniture A/c	Dr.	5,000	
	To Wages A/c			5,000
	(Furniture-making wages capitalised now rectified)			

(9)	Salaries A/c Dr. To Office Manager's Personal A/c (Salary paid to personal manager wrongly debited to personal account now rectified)	18,000	 18,000
(X)	Naveen Kumar A/c Dr. To Suspense A/c (Omission of posting in creditor's account now rectified)	9,800	 9,800

5. Bank Reconciliation Statement as on 31st March, 2026

Particulars	**₹**
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(ii) *Add:* No entry in Cash book for interest collection by Bank	2,800
(iii) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) *Add:* Cheque credited in cash book but not debited in pass book	2,500
(v) *Add:* Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) *Less:* Cheque of ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) *Less:* Discounted dishonored but no entry in Cash book	(5,200)
(viii)*Add:* Rebate on bill retired not entered in cash book	175
(viii)*Add:* Cheques deposited in bank not yet recorded in cash book	2,400
Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2026 and later debited in Pass Book on 1st April, 2026 has no effect on Bank Reconciliation statement as at 31st March, 2026.

6. (a) Statement showing the valuation of stock as on 31st March, 2026

		₹
A	Value of Stock as on 7th April, 2026	5,02,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 20,625 – ₹ 5,157)	15,468
C	*Less*: Purchases for the next period (net)	(24,300)
D	*Less*: Cost of Sales Returns	(675)
E	*Less*: Loss on revaluation of slow moving inventories	(1,800)
F	*Less*: Reduction in value on account of default	(900)
G	Value of Stock on 31st March, 2026	4,90,293

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2025			2025		
April 1	To Bal b/d-		Oct. 1	By Depreciation- on machinery 1 sold	2,63,296
	Machine 1 26,32,960				
	Machine 2 15,22,048	41,55,008	Oct. 1	By Bank – machinery 1 sold	5,00,000
Oct. 1	To Bank A/c (Machine 3)	17,00,000	Oct. 1	By Profit & Loss– Loss on Sale of machinery (WN. 1)	18,69,664
			2026		
			Mar. 31	By Depreciation (WN. 2)	
				Machine 2 3,04,410	
				Machine 3 82,000	3,86,410
			Mar. 31	By bal c/d	28,35,638
		58,55,008			58,55,008

Working Note 1:

Calculation of depreciation and Profit/loss on sale:

	Machine 1 purchased on 1st April, 2023 (₹)	Machine 2 purchased on 1st October, 2023 (₹)	Total (₹)
Cost of Purchase	30,00,000	18,00,000	
	4,00,000	40,000	
Total Cost	34,00,000	18,40,000	
Less: Depreciation @ 12%			
Machine 1 (12 months)	(4,08,000)		
Machine 2 (6 months)		(1,10,400)	5,18,400
W.D.V. on 31-3-2024	29,92,000	17,29,600	
Less: Depreciation @ 12%	(3,59,040)	(2,07,552)	5,66,592
W.D.V. on 31-3-2025	26,32,960	15,22,048	
Less: Depreciation on SLM Basis (WN. 2)	(2,63,296)	(3,04,410)	5,67,706
	23,69,664	12,17,638	
Less: Sale proceeds on 1-10-2025	(5,00,000)		
Loss on sale of machinery	18,96,664		

Working Note 2:

Calculation of Depreciation on the basis of Straight-line method with effect from April 1,2025

1. Machine 1 (purchased on 1st April,2025) = 34,00,000 - 4,08,000 - 3,59,040 = 26,32,960 / 5 = 5,26,592 / 2 = 2,63,296

2. Machine 2 (purchased on 1st October, 2023) = 18,40,000 – 1,10,400 – 2,07,552 = 15,22,048 / 5 = ₹ 3,04,410

3. Machine 3 (purchased on 1st Oct,2025) = $\frac{17,00,000 - 60,000}{10}$

   = 1,64,000 / 2 = ₹ 82,000

Note: Freight incurred on Machinery purchased on 1st April,2023 is to be excluded from the cost of machinery since this cost is incurred only for shifting the machinery to the new plant and does not increase the operating capacity of the machinery.

8. Journal Entries in the Books of Mr. Aman

Date 2025	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
August 1	Bills Receivable A/c	Dr.	30,000	
	To Bimal			30,000
	(Being the acceptance received from Bimal to settle his account)			
August 1	Bank A/c	Dr.	29,400	
	Discount A/c	Dr.	600	
	To Bills Receivable			30,000
	(Being the bill discounted for ₹ 9,800 from bank)			
November 4	Bimal	Dr.	30,000	
	To Bank A/c			30,000
	(Being the Bimal's acceptance is to be renewed)			
November 4	Bimal	Dr.	720	
	To Interest A/c			720
	(Being the interest due from Bimal for 3 months i.e., 8000 x 3/12 × 12% = 240)			
November 4	Cash A/c	Dr.	6,720	
	Bills Receivable A/c	Dr.	24,000	
	To Bimal			30,720
	(Being amount and acceptance of new bill received from Bimal)			

December 31	Bimal A/c Dr. To Bills Receivable A/c (Being Bimal became insolvent)	24,000	24,000
December 31	Cash A/c Dr. Bad debts A/c Dr. To Bimal (Being the amount received and written off on Bimal's insolvency)	9,600 14,400	24,000

9. In the books of Ms. Priya Nandini (Nandini Textiles)

Trading A/c for the year ended 31st March, 2026

	Particulars	₹		Particulars	₹
To	Opening Stock	96,750	By	Sales	6,45,900
To	Purchases	4,80,000	By	Closing Stock	3,75,000
To	Carriage Inward	3,375			
To	Wages	36,495			
To	Gross Profit c/d	4,04,280			
		10,20,900			10,20,900

Profit and Loss A/c for the year ended 31st March, 2026

	Particulars	₹		Particulars	₹
To	Salaries	83,250	By	Gross Profit b/d	4,04,280
To	Rent	12,900	By	Bad Debts Recovered	1,350
To	Advertisement Expenses	10,050			
To	Printing and Stationery	3,750			
To	Bad Debts	3,300			
To	Carriage Outward	4,050			
To	Provision for Doubtful Debts (WN 1)	8,400			

To	Provision for Discount on Debtors (WN 2)	4,425			
To	Depreciation (WN-4)	11,873			
To	Office Expenses	30,480			
To	Interest on Loan	9,000			
To	Audit Fees	4,500			
To	Manager's Commission (WN 3)	10,460			
To	Net Profit (to Capital A/c)	2,09,192			
		4,05,630			4,05,630

Balance Sheet at on 31st March, 2026

Liabilities	₹	₹	**Assets**	₹	₹
Capital Account	98,100		Plant and Machinery	58,650	
Add: Net Profit	2,09,192		*Less:* Depreciation	(8,798)	49,852
	3,07,292		Furniture and Fittings	30,750	
Less: Drawings	(24,000)	2,83,292	*Less:* Depreciation	(3,075)	27,675
			Closing Stock		3,75,000
Bank Overdraft		2,40,000	Sundry Debtors	3,60,000	
Sundry Creditors		1,42,500	*Less:* Prov. for Doubtful Debts	(18,000)	
Salaries Payable		7,350	*Less:* Prov. for Discount on Debtors	(8,550)	3,33,450
Manager's Commission Payable		10,460	Prepaid Rent		900
Outstanding Audit Fees		4,500	Cash in Hand		4,350
Loan (WN 5)		1,12,500	Cash at Bank		9,375
		8,00,602			8,00,602

Working Notes

1.	**Provision for Doubtful Debts**	**Amount**
	Sundry Debtors balance	₹ 3,60,000
	New provision @ 5% of ₹3,60,000	₹ 18,000
	Less: Existing provision	₹ (9,600)
	Additional provision charged to P&L	**₹ 8,400**
2.	**Provision for Discount on Debtors**	
	Net Debtors after provision for doubtful debts	₹ 3,42,000
	New provision @ 2.5% of ₹3,42,000	₹ 8,550
	Less: Existing provision	₹(4,125)
	Additional provision charged to P&L	**₹ 4,425**
3.	**Manager's Commission**	
	Profit before manager's commission (after interest on capital)	₹ 2,19,652
	Commission = 5/105 × ₹ 2,19,652	₹ (10,460)
	Net Profit (transferred to Capital Account)	**₹ 2,09,192**
4.	**Depreciation**	
	Plant and Machinery: 15% on ₹58,650	₹ 8,798
	Furniture and Fittings: 10% on ₹30,750	₹ 3,075
Total Depreciation		**₹ 11,873**
5.	**Loan**	
	Interest on Loan @8%	9,000
Total Loan = 9,000/8%		1,12,500

10. **In the books of Masters Club**
Income and expenditure Account for the year ended on 31st March, 2026

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000

To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as at 31st March, 2026

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital as on 31st Mar,25		Sports Equipment	50,500
1,13,880	1,11,330	Furniture	11,180
Less: Deficit (2,550)			
Entrance fees	13,000	7% Investments	65,000
Outstanding electricity charges	3,800	Subscription in arrears	5,200
Subscription in advance	4,850	Cash	1,100
	1,32,980		1,32,980

Working notes

1. Investments made $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. **Balance sheet as at 31st March, 2025**

Liabilities	Amount (₹)	Assets	Amount (₹)
capital fund (B/f)	1,13,880	Sports Equipment	32,000
Outstanding electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
	1,25,530		1,25,530

3. Calculation of depreciation of Sports equipment

Particulars	Amount (₹)
Sports equipment as on 31st March, 2025	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st March, 2026	(50,500)
Depreciation on sports equipment for the year ended 31st March, 2026	9,000

Calculation of depreciation of Furniture

Particulars	Amount (₹)
Furniture as on 31st, March 2025	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st March, 2026	(11,180)
Depreciation on furniture for the year ended 31st March, 2026	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2026

Dr. Subscription A/c (year ended on 31st March, 2026) **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2025)	7,600	By Advance at the beginning (2025)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2026)	4,850	By Outstanding at the end (2026)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account

Electricity charges paid for year 2026	15,600
Add: Outstanding charges for year 2026	3,800
Less: Outstanding charges for year 2025	(5,400)
Electricity charges to be debited to Income and Expenditure A/c	14,000

11. Trading and Profit and Loss account for the year ending 31st March, 2026

Particulars		₹	Particulars	₹
To Opening Stock		40,000	By Sales (WN (ii))	4,31,250
To Purchases (WN (iii))		3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)		86,250		
		4,71,250		4,71,250
To Business Expenses		50,000	By Gross Profit b/d	86,250
To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year	3,00,000
B	Purchases	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000

E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000}$ x 100	20%
(ii)	Calculation of sales during current year	₹
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 43.75 %	1,05,000
C	Cost of goods sold during Current Year	3,45,000
D	Add: Gross profit @ 25% on cost (20% on sales)	86,250
E	Sales for current year [C+D]	4,31,250
(iii)	Calculation of Purchases during current year	
	Cost of Goods Sold	3,45,000
	Add: Closing Stock	40,000
	Less: Opening Stock	40,000
	Purchases	3,45,000

12.

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2025	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2025	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Aarav Mehta, Rohan Khanna & Vikram Sharma	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	(5,40,000)
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

13. (i) Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Furniture	3,045	By Building	11,200
To Stock (5% of 74,900)	3,745	By Sundry Creditors	4,900
To Prov. for Doubtful Debts (6,125 - 700)	5,425	By Investment	1,575
To Outstanding Wages	5,460		
To Office Equip. Supplier	3,500	By Loss transfered to Capital A/cs:	
		X's Capital A/c (3/5)	2,100
		Y's Capital A/c (2/5)	1,400
	21,175		21,175

(ii) Partners' Capital Accounts

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation Loss	2,100	1,400	—	By Balance b/d	1,54,000	1,26,000	—
To X &Y Capital A/c			26,250	By Cash A/c	—	—	87,500
To Balance c/d	1,67,650	1,35,100	61,250	By Z's Capital A/c (WN-1)	15,750	10,500	—
	1,69,750	1,36,500	87,500		1,69,750	1,36,500	87,500

(iii) Balance Sheet of X, Y & Z as at 1st April,2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:			
X's Capital A/c =1,67,650		Building	1,02,200
Y's Capital A/c = 1,35,100		Furniture (20,300 - 3,045 - 3,500)	13,755
Z's Capital A/c = 61,250	3,64,000	Office Equipment	3,500
Bills Payable	14,350	Stock-in-Trade (74,900 -3,745)	71,155

Bank Overdraft	31,500	Debtors (1,22,500 - 6,125)	1,16,375
Sundry Creditors (45,150 - 4,900)	40,250	Investment	10,325
Outstanding Wages	5,460	Cash (54,250 + 87,500)	1,41,750
Supplier for Office Equipment	3,500		
	4,59,060		4,59,060

Working Note:

1. Calculation of goodwill

Z's contribution of ₹ 87,500 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 87,500 × 6 = ₹ 5,25,000.

But combined capital of X, Y and Z amounts ₹ 1,54,000 + 1,26,000 + 87,500 = 3,67,500

Thus Hidden goodwill is ₹ 5,25,000 - ₹ 3,67,500 = ₹ 1,57,500.

Z's Share of Goodwill =1,57,500x 1/6 =26,250

Calculation of sacrificing ratio

Partner	New Share		Old Share		Difference
X	3/6	–	3/5	=	3/30
Y	2/6	–	2/5	=	2/30
Z	1/6	–		=	1/6 (gain)

14. Statement showing distribution of cash

Details	Bank Loan	Creditors	A's Loan	A's Capital	B's Capital	C's Capital
Amount due on 1-4-2025	13,500	39,000	15,000	1,05,000	45,000	75,000
Net cash realized (33,000 – 3,000) 30,000						
Paid Bank Loan	(13,500)					

Paid Creditors		(16,500)				
Balance due 30-07-2025	Nil	22,500	15,000	1,05,000	45,000	75,000
Net Cash realized (25,200 – 2,200) 23,000						
Paid to Creditors		(22,500)				
Paid A's Loan			(500)			
Balance due 30-9-2025		Nil	14,500	1,05,000	45,000	75,000
Net Cash realized (57,000 – 4,500) 52,500						
Paid A's Loan			(14,500)			
Balance Due	Nil	Nil	Nil	1,05,000	45,000	75,000
Balance Cash available 38,000						
Maximum Loss (1,05,000 + 45,000 + 75,000 – 38,000)						
₹ 1,87,000 distributed to A, B and C in 4:3:1				(93,500)	(70,125)	(23,375)
				11,500	(25,125)	51,625
B's deficiency transferred to A and C in their capital ratio 7 : 5				(14,656)	25,125	(10,469)
				(3,156)	-	41,156
A's deficiency borne by C				3,156		(3,156)

Paid to A				-	-	38,000
Balance due on				1,05,000	45,000	37,000
30-11-2025				-	-	-
Net Cash realised (68,000 - 8,000) = 60,000				-	-	-
Maximum Loss (1,05,000 + 45,000 + 37,000 - 60,000) = 1,27,000 allocated to partners in the				-	-	-
Ratio of 4 : 3 : 1				(63,500)	(47,625)	(15,875)
—				41,500	(2,625)	21,125
Deficiency of *B* transferred to *A* & *C* in 7 : 5 ratio				(1,532)	2,625	(1,093)
Paid to A and C				39,968	-	20,032
Balance due on				65,032	45,000	16,968
31-12-2025				-	-	-
Net Cash realised (1,08,000 - 10,000) = 98,000				-	-	-
Maximum Loss (65,032 + 45,000 + 16,968 - 98,000) = 29,000				-	-	-
Allocated in ratio of 4 : 3 : 1				(14,500)	(10,875)	(3,625)
Paid to A, B and C				50,532	34,125	13,343
Balances in Capital Account left unpaid				**14,500**	**10,875**	**3,625**

15. Journal Entries in the books of DC Ltd.

Sr. No.	Particulars	L/F	Debit (₹)	Credit (₹)
1	Bank A/c (15,00,000 × ₹ 9) Dr.		1,35,00,000	
	To Equity Share Application & Allot. A/c			1,35,00,000
	(Being application money received)			
2	Equity Share Application & Allot. A/c Dr.		1,35,00,000	
	To Equity Share Capital A/c (3,75,000 × 4)			15,00,000
	To Securities Premium A/c (3,75,000 × 5)			18,75,000
	To Bank A/c (10,00,000 × 9)			90,00,000
	To Equity share First & Final Call A/c			11,25,000
	(Being application and allotment money transferred, adjusted and excess amount refunded)			
3)	Equity Share First & Final Call A/c Dr.		22,50,000	
	To Equity Share Capital A/c			22,50,000
	(Being call money due)			
4)	Bank A/c (WN 1) Dr.		11,08,125	
	Calls-in-arrears A/c Dr.		16,875	
	To Equity Share First & Final Call A/c (WN 1)			11,25,000
	(Being first and final call money received)			
5)	Equity Share Capital A/c (5,625 × 10) Dr.		56,250	
	To Calls-in-arrear A/c (WN-2)			16,875
	To Forfeited shares A/c			39,375
	(Being shares of Mr. Sunil forfeited)			
6)	Bank A/c (5,625 × 6) Dr.		33,750	
	Forfeited shares A/c Dr.		22,500	

	To Equity Share Capital A/c (5,625 × 10)			56,250
	(Being shares reissued)			
7)	Forfeited Share A/c Dr.		16,875	
	To Capital Reserve			16,875
	(Being shares forfeiture transferred to Capital Reserve)			

Working Note:

1. Calculation of Amount due on first and Final Call

Application money received (5,00,000x9)	45,00,000
Amount due on application	(33,75,000)
Excess money adjusted in First and Final Call	11,25,000
Amount due on First and Final Call	22,50,000
Excess amount received on Share application and Allotment adjusted in First and Final Call	(11,25,000)
Amount due on First and Final Cal	11,25,000

2. Calculation of Calls-in-arrears of Mr. Sunil

Sr. no.	Particulars	Amount in ₹
i.	Application Received	7,500
ii.	Allotment of shares $(7,500 \times \frac{3,75,000}{5,00,000})$	5,625
iii.	Application and allotment money received (i × 9)	67,500
iv.	Application and allotment money due (ii × 9)	50,625
v.	Excess adjusted in first and Final Call (iii – iv)	16,875
vi.	First and Final Call Money due (ii × 6)	33,750
vii.	Adjustment in First and Final Call: (v)	16,875
viii.	Arrears (vi – vii)	16,875

16. Journal Entries in the Books of Globus Ltd.

Particulars		Dr.	Cr.
		₹	₹
Dividend to preference shareholders A/c	Dr.	10,000	
To Bank A/c			10,000
(Dividend on preference shares paid)			
Profit & Loss A/c	Dr.	10,000	
To Dividend to preference shareholders A/c			10,000
(Dividend on preference shares written off to profit and loss account)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Amount payable to preference shareholders on redemption)			
Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Amount of premium payable on redemption of preference shares)			
Bank A/c	Dr.	90,000	
Profit and Loss A/c	Dr.	10,000	
To Investments A/c			1,00,000
(Amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Payment made to preference shareholders)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve A/c			1,00,000
(Transfer to the Capital redemption reserve account on redemption of shares)			
Capital Redemption Reserve A/c	Dr.	50,000	
To Bonus to Equity Shareholders A/c			50,000
(Amount adjusted by issuing bonus shares in the ratio of 1:2)			

Bonus to Equity Shareholders A/c Dr.		50,000	
To Equity Share Capital			50,000
(Balance on Bonus to equity shareholder account transferred to equity share capital)			

17. **In the books of Vetex Ltd.**
Journal Entries

Date	Particular	L.F	Dr.	Cr.
2025	Sundry Assets A/c Dr.		27,00,000	
April	Goodwill A/c (Bal. fig) Dr.		3,00,000	
	To Summit Manufacturing Ltd. A/c			26,40,000
	To Sundry Liabilities A/c			3,60,000
	(Assets and liabilities taken over for a net consideration of ₹ 26,40,000)			
	Summit Manufacturing Ltd. A/c Dr.		26,40,000	
	To 8% Debentures A/c			24,00,000
	To Securities Premium A/c			2,40,000
	(24000; 8% Debenture of ₹ 100 each issued at a premium of 10%			
	Bank A/c Dr.		5,40,000	
	To Debenture Application A/c			5,40,000
	(Application money received for 18000, 8% Debenture)			
	Debenture Application A/c Dr.		5,40,000	
	To 8% Debenture A/c			5,40,000
	(18000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		10,80,000	
	Loss on issue of debenture A/c Dr.		2,70,000	
	To 8% Debentures A/c			12,60,000
	To Premium on redemption of debentures A/c			90,000
	(Allotment money due on 18,000; 8% Debentures at 10% discount and redeemable at 5% premium)			

	Bank A/c Dr. To Debentures Allotment A/c (Allotment money received)		10,80,000	10,80,000
2026 Mar, 31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Loss on issue of debenture written off)		2,70,000	2,70,000

18. (i) Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

(ii) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(iii) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(iv) Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as

for additions to or improvement thereof for the purpose of increase in efficiency.

2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

(v) It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(vi) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate

the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.