



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 paise 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:

	1 st January, 2025 ₹	31 st 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 Sheet 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 <u>90,000</u>	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):
- 75,000 9% Debentures of ₹ 100 each issued at par
 - Balance of Debenture Redemption Reserve (DRR) ₹ 7,50,000.
 - 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. Amount ₹	Cr. Amount ₹
(i)	Salaries A/c Dr. To Purchase A/c (Being entry made for stock taken by employees)	22,500	22,500
(ii)	Manik's A/c (WN -1) Dr. To Sales A/c (WN- 2)	25,200	22,500

	To Output CGST A/c To Output SGST A/c (Being goods to manik at trade discount and CGST & SGST @ 6%.		1,350 1,350
(iii)	Sales promotion A/c Dr. To Purchases A/c (Being the goods distributes as free samples).	6,000	6,000
(iv)	Bank A/c Dr. To Commission A/c (Being commission received).	10,000	10,000
	Commission A/c Dr. Prepaid Commission A/c (Being commission received in advance adjusted).	5,000	5,000
(v)	Machinery A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c To Swayam Industries A/c (Being machinery purchased from Swayam and paid 1,00,000 immediately CGST and SGST @ 4% each)	4,00,000 16,000 16,000	1,00,000 3,32,000

Workings:

- Manik's Account will be debited (not Cash A/c) since Manik did not avail the cash discount.
- Value of Sales = Cost Price+ Profit – trade Discount = 20,000 + 5,000 - 2,500 = 22,500
 $20,000 \times 25/100 = 5,000$
Trade Discount = $(20,000+5,000) \times 10/100 = 2,500$

- (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 5 pair of Brown sun glasses @ ₹ 900 Less: 10% trade discount		8,000 <u>4,500</u> 12,500 <u>(1,250)</u> 11,250

Note:

- Purchases made in cash are entered in cash book not in purchase book.
- 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. To Wages A/c (Wages paid for the construction of office building debited to wages A/c now rectified)		20,000	20,000

(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 3/4 th is received by cheque and 1/4 th 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 (Bills receivable wrongly passed through Bills payable now rectified)			5,000
(vii)	Rebate A/c	Dr.	16,000	
	Output CGST	Dr.	640	
	Output SGST	Dr.	640	
	To Sushil (Being rebate allowed to Sushil for the goods supplied was found defective)			17,280

5. (i) **Bank Reconciliation Statement of Vibha Traders as on 31st March, 2025**

Particulars	Amount	Amount
Balance as per Cash Book		3,29,000
<i>Add:</i>		
Mistake in bringing forward ₹ 18,500/- debit balance as credit balance on 22 nd 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
<i>Less:</i> Wrong casting in cash book on 12 th 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 10 th April, 2025		2,50,000
<i>Add:</i> Cost of sales during the intervening period		
Sales made between 1.4.2025 and 9.4.2025	60,000	
<i>Less:</i> Gross profit @20% on sales	(12,000)	48,000
Free sample		<u>4,000</u>
		3,02,000
<i>Less:</i> Purchases actually received during the intervening period:		
Purchases from 1.4.2025 to 9.4.2025	10,000	
<i>Less:</i> Goods not received upto 9.4.2025	(2,000)	(8,000)
		2,94,000
<i>Add:</i> Purchases during March, 2025 but not recorded in stock		<u>55,000</u>
Value of physical stock as on 31.3.2025		<u>3,49,000</u>

7. Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2025 April 1	To Bal b/d-		2025 Oct. 1	By Depreciation- on	2,63,296
	Machine 1 26,32,960			machinery 1 sold	
	Machine 2 <u>15,22,048</u>	41,55,008	Oct. 1	By Bank – machinery	5,00,000
Oct. 1	To Bank A/c (Machine 3)	17,00,000	Oct. 1	1 sold	
				By Profit & Loss–	18,69,664
			2024 Mar. 31	Loss on Sale of	
				machinery (WN. 1)	
				By Depreciation	
				(WN. 2)	
			Mar. 31	Machine 2 3,04,410	
				Machine 3 <u>82,000</u>	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	
	<u>4,00,000</u>	<u>40,000</u>	
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
Less: Sale proceeds on 1-10-2025	23,69,664	12,17,638	
Loss on sale of machinery	(5,00,000)		
	18,69,664		

2. Calculation of Depreciation on the basis of Straight-line method with effect from April 1,2023

- Machine 1 (purchased on 1st April,2023) = $34,00,000 - 4,08,000 - 3,59,040 = 26,32,960 / 5 = 5,26,592 / 2 = ₹ 2,63,296$
- Machine 2 (purchased on 1st Oct,2023) = $18,40,000 - 1,10,400 - 2,07,552 = 15,22,048 / 5 = ₹ 3,04,410$
- Machine 3 (purchased on 1st Oct, 2025) = $(17,00,000 - 60,000) \div 10 = 1,64,000 / 2 = ₹82,000$

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 To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	16,000	16,000
March 4	Bills receivable (No. 4) A/c To Interest A/c To Tapas 's A/c (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)	Dr.	16,400	400 16,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c To Bills receivable (No. 3) A/c (Being the amount received on retirement of bills No.2 and bills No.3 before the due date)	Dr. Dr.	34,250 750	25,000 10,000
May 7	Tapas's A/c To Bills receivable (No. 4) A/c (Being the amount due from Tapas on dishonour of his acceptance on presentation on the due date)	Dr.	16,400	16,400
May 7	Bank A/c To Tapas's A/c (Being the amount received from official assignee of Tapas at 30 paise per rupee against dishonoured bill)	Dr.	4,920	4,920

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
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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
To Rent	66,000		By Interest		34,500
Add: Outstanding	<u>6,000</u>	72,000	By Discount received		24,600
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	<u>5,250</u>	23,750			
To General expenses		36,800			
To Motor Car expenses		8,500			
To Insurance premium	30,000				
Less: Drawings	<u>18,000</u>	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			
		<u>8,16,100</u>			<u>8,16,100</u>

Balance Sheet as at 31st March,2026

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account:			Furniture	25,000	
Balance on 1 st April,2025	8,85,000		Additions during the year	10,000	
Add: Net profit	3,14,500			35,000	
	<u>11,99,500</u>		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
		<u>14,50,000</u>			<u>14,50,000</u>

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)
	<u>2,04,750</u>
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	<u>3,000</u>
3. Interest accrued on investments and deposits:	
Annual interest on investments @ 9%	4,500
Annual interest on deposits @ 20% for half year	<u>30,000</u>
	34,500
Less: Interest received on investments and deposits	<u>(28,500)</u>
Accrued interest	<u>6,000</u>

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)	<u>250</u>
Depreciation to be charged	<u>2,750</u>

**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	<u>2,940</u>
			65,070
To Printing and Stationery	1,410	Less: Due as on 31-3-24	<u>3,600</u>
To Wages	2,520	By Surplus from Fair	
To Honorarium to Secretary	12,000	Fair Receipts	7,200
		Less: Fair Expenses	<u>7,170</u>
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	<u>43,670</u>		
	84,300		<u>84,300</u>

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
	<u>18,600</u>		<u>18,600</u>

(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		
	<u>24,960</u>		<u>24,960</u>

(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)	<u>30,600</u>
Total	<u>60,600</u>
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
	<u>4,22,000</u>			<u>4,22,000</u>

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 31 st Dec, 2025	10,000			
Less: Outstanding as on 31 st Dec 2024	(6,000)			
Less: Prepaid as on 31 st Dec, 2025	(2,000)	1,62,000		
Provision for Bad Debts		7,000		
Net Profit transferred to Capital Account		1,23,000		
		<u>2,92,000</u>		<u>2,92,000</u>

Balance Sheet as at 31 December 2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital account: Balance on 1 st Jan, 2025	1,25,000	1,28,000	Cash in hand		3,000
Add: Net profit	1,23,000		Stock		10,000
	2,48,000		Sundry Debtors	70,000	
Less: Drawings	(1,20,000)		Less: Provision	7,000	63,000
		10,000	Prepaid Expenses		2,000
Outstanding Expenses			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 (Balancing Figure)	2,20,000	Balance c/d	70,000
	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	1,00,000
To amount received from Sundry Debtors	2,10,000	Sundry Creditors	
To Cash Sales	1,92,000	By Drawings	1,20,000
(Balancing Figure)		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.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No. of years}} = \frac{6000}{4} = ₹15,000$$

$$\begin{aligned} \text{Average Profits for Goodwill} &= ₹ 15,000 - \text{Proprietor Remuneration} \\ &= ₹ 15,000 - ₹ 3,000 = ₹ 12,000 \end{aligned}$$

$$\begin{aligned} \text{Normal Profit} &= \text{Interest on Capital employed} \\ &= ₹ 10,000 \text{ (i.e. ₹ 1,00,000} \times 10/100) = ₹ 10,000 \end{aligned}$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 12,000 - ₹ 10,000 = ₹ 2,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No of years purchases} = ₹ 2,000 \times 2 = ₹ 4,000$$

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	<u>1,50,000</u>	4,18,500	Building	1,26,000	
To bank A/c (outstanding Salary)		12,000	Goodwill	<u>90,000</u>	4,72,500
To gain (Profit) on realization transferred to A's Capital A/c	54,000		By B's Capital A/c (Old Furniture)		12,000
B's Capital A/c	36,000		By A's Capital A/c Unrecorded Asset		3,000
C's Capital A/c	18,000	1,08,000			
		<u>5,38,500</u>			<u>5,38,500</u>

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
	<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>		<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>

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 To Equity Share Allotment money A/c (3,000 x ₹ 3) To Equity Share Final Call A/c (3,000 x ₹ 4) To Forfeited Shares A/c (3,000 x ₹ 3) (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.....)	Dr.	30,000	9,000 12,000 9,000
(b)	Bank Account (3000 x 8) Forfeited Shares Account (3,000x 2) To Equity Share Capital A/c (Being the re-issue of 3,000 forfeited shares @ ₹ 8 each as fully paid up to Mahesh as per Board's resolution No.....dated.....)	Dr. Dr.	24,000 6,000	30,000
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	3,000	3,000

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (2000 x ₹ 7) To Equity Share First Call A/c (2000 x ₹ 2) To Forfeited Shares A/c (2000 x ₹ 5) (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.....)	Dr.	14,000	4000 10,000
(b)	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being the re-issue of 1500 forfeited shares as fully paid up as per Board's resolution No..... dated.....)	Dr. Dr.	9000 6000	15,000
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	1500	1500

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	<u>(₹ 800)</u>
Profit on re-issue of shares	<u>₹ 800.</u>

(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 (₹)
1		Equity and Liabilities		
		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	<u>1,80,000</u>	
	Securities Premium	1,12,500	
	Less: Utilised for bonus issue	<u>(1,12,500)</u>	Nil
	General reserve	5,40,000	
	Less: Utilised for bonus issue	<u>(5,40,000)</u>	Nil
	Profit & Loss Account	9,00,000	
	Less: Utilised for bonus issue	<u>(7,87,500)</u>	1,12,500
	Total		<u>1,12,500</u>

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 To 10% Preference Share Capital A/c (Being final call made on preference shares @ ₹ 25 each to make them fully paid up)	Dr.	10,00,000	10,00,000
Bank A/c To 10% Preference Share Final Call A/c (Being receipt of final call money on preference shares)	Dr.	10,00,000	10,00,000

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 (Being amount payable to preference shareholders on redemption at 5% premium)			42,00,000
Bank A/c	Dr.	7,50,000	
To Equity Share Application A/c (Being receipt of application money on 30,000 equity shares @ ₹ 25 per share)			7,50,000
Equity Share Application A/c	Dr.	7,50,000	
To Equity Share Capital A/c (Being capitalisation of application money received)			7,50,000
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 (Being receipt of allotment money on equity shares)			13,50,000
General Reserve A/c (WN 1)	Dr.	22,00,000	
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., 40,00,000 - 7,50,000 - 10,50,000)			22,00,000

Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	42,00,000	42,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	2,00,000	2,00,000

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	<u>18,00,000</u>	1,18,00,000
2 Reserves and Surplus:		
Securities Premium	3,25,000	
Add: Amount received @ - 10 per share on 30,000 Equity Shares	<u>3,00,000</u>	6,25,000
Capital Redemption Reserve	21,00,000	
Add: Transferred on Redemption(WN-1)	<u>22,00,000</u>	43,00,000
General Reserve	42,50,000	
Less: Transferred to Capital Redemption Reserve	(22,00,000)	
Less: Adjustment of Premium payable on Redemption	<u>(2,00,000)</u>	18,50,000
		<u>67,75,000</u>

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	<u>18,00,000</u>
Transfer to Capital Redemption Reserve	<u>22,00,000</u>

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 1/5 1/5th of ₹ 1,80,000 = ₹ 36,000

2nd ₹ 30,00,000 1/5 1/5th of ₹ 1,80,000 = ₹ 36,000

3rd ₹ 30,00,000 1/5 1/5th of ₹ 1,80,000 = ₹ 36,000

4th ₹ 30,00,000 1/5 1/5th of ₹ 1,80,000 = ₹ 36,000

5th ₹ 30,00,000 1/5 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:

$$\text{Hourly Depreciation} = \frac{\text{Total Cost of Machine}}{\text{Estimated Life of Machine}}$$

$$\begin{aligned} &= \frac{\text{₹ } 10,00,000}{50,000 \text{ Hours}} \\ &= \text{₹ } 20 \text{ per hour} \end{aligned}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours $\times$ ₹ 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.