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

(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 (60,000+12500)		72,500		
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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	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		surrendered	- 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				(13,160)	(7,896)	(5,264)	(26,320)
5 : 3 : 2							

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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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