# PAPER – 1: ACCOUNTING

## QUESTIONS

### True and False

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

   (a) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

   (b) Outstanding Expenditure is a nominal Account.

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

   (d) The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors.

   (e) Land is also a depreciable asset.

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

   (g) A partnership firm can acquire fixed assets in the name of the firm.

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

   (i) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

### Theoretical Framework

2. (a) Briefly explain the following Concepts of Accounting:

   (i) Money Measurement Concept

(ii) Periodicity Concept.

(b) Differentiate between Provisions and Contingent Liabilities

**Journal Entries**

3. (a) You are required to pass necessary journal entries of the following

(i) Employees had taken stock worth ₹ 50,000 (Cost price ₹ 45,000) on the eve of New year and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery ₹ 16,000.

(iii) Withdrawn for personal use: Goods(Sales Price 8,000, Cost 6,000) Cash 1,000

(iv) Purchase of goods from Sandeep of the list price of ₹ 60,000. He allowed 10% trade discount, ₹1,500 cash discount was also allowed for quick payment.

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

**Capital or Revenue Expenditure**

(b) Classify each of the following transactions into capital or revenue transactions:

(1) Inauguration expenses of a new manufacturing unit in an existing Business

(2) Installation of a new central heating system.

(3) Providing drainage for a new piece of water-extraction equipment.

(4) An extension of railways track in the factory.

(5) Carriage costs on a replacement part for a piece of machinery.

## Trial Balance

4. (a) One of your clients Mr. Hari Om asked you to finalize his account for the year ended 31st March,2025. As a basis for the audit, Mr. Hariom furnished you with the following statement:

| | *Dr.* | *Cr.* |
|---|---|---|
| Hari Om's Capital | | 23,340 |
| Hari Om's Drawings | 8,460 | |
| Leasehold Premises | 11,250 | |
| Sales | | 41,250 |
| Due from customers | | 7,950 |
| Purchases | 18,885 | |
| Purchase Return | 3,960 | |
| Loan from Bank | | 3,840 |
| Trade Expense | 10,500 | |
| Trade Payable | 7,920 | |
| Bills Payable | 1,500 | |
| Salaries and Wages | 9,000 | |
| Cash at Bank | 3,390 | |
| Opening Inventory | | 3,960 |
| Rent and Rates | 6,945 | |
| Sales Return | | 1,470 |
| | 81,810 | 81,810 |

The closing inventory was ₹8,612. Mr. Hari om claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

## Rectification of Errors

(b) Write out the Journal Entries to rectify the following errors, using a suspense Account.

(1) Goods of the value of ₹15,000 returned by Mr. Aman were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Ashish, who returned the goods;

(3) The total of "Discount Allowed" column in the Cash Book for the month of June,2025 amounting to ₹27,500 was not posted, though correctly recorded in Debtors Account.

(4) Bad Debts aggregating ₹8,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger.

(5) A sale of ₹30,000 made to Ms. Aavya was correctly entered in the Sales Day Book but wrongly posted to the debit of Ms. Aadya as ₹ 3,000;

(6) Supplier account has been overcast by Rs. 225.

**Bank Reconciliation Statement**

5. The Cash-book of M/s Mazars shows ₹ 27,570 as the balance at Bank as on 31st March, 2025. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2025 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2025 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s Mazars, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s Mazars a cheque on 24th March, 2025. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2025 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to Ravi for ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 900 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2025, but advice was received on 1st April, 2025.

(ix) Bank recorded a Cash deposit of ₹ 1,650 as ₹ 1,560.

Prepare Bank Reconciliation Statement on 31st March, 2025.

## Valuation of Inventories

6. From the following particulars ascertain the value of inventories as on 31st March, 2025 :

| | |
|---|---|
| Inventory as on 1st April, 2024 | ₹ 10,50,000 |
| Purchase made during the year | ₹ 36,00,000 |
| Sales | ₹ 55,50,000 |
| Manufacturing Expenses | ₹ 3,00,000 |
| Selling and Distribution Expenses | ₹ 1,50,000 |
| Administration Expenses | ₹ 2,40,000 |

At the time of valuing inventory as on 31st March, 2024, a sum of ₹ 60,000 was written off on a particular item which was originally purchased for ₹ 1,65,000 and was sold during the year for ₹ 1,50,000.

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

## Depreciation and Amortisation

7. A purchased machinery on 01.01.2021 for ₹1,94,000 and spent ₹6,000 on its erection. On 01.07.2021, additional Machinery costing ₹1,00,000 were purchased. On 01.01.2023, the Machinery purchased on 01.01.2021 having become obsolete was auctioned for ₹1,00,000. On 01.07.2023, a new machinery was purchased at a cost of ₹1,50,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the Machinery. In 2024, A changed the method of writing off 15% p.a. in the written down show the Machinery Account for the Calendar Yare 2021 to 2024.

## Bills of Exchange

8. Mr. Kabir accepted a bill for ₹ 10,000 drawn on him by Mr. Samarveer on 1st August, 2024 for 3 months. This was for the amount which Kabir owed to Samarveer. On the same date Mr. Samarveer got the bill discounted at his bank for ₹ 9,800.

   On the due date, Kabir approached Samarveer for renewal of the bill. Mr. Kabir agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2024, Kabir became insolvent and his estate paid 40%.

   Prepare Journal Entries in the books of Mr. Samarveer.

## Final accounts and Rectification of entries

9. The following is the Trial Balance of M/s Thomas & Associates on 31st March,2025:

| | Dr. ₹ | Cr. ₹ |
|---|---:|---:|
| Capital | - | 45,00,000 |
| Drawings | 5,25,000 | - |
| Fixed Assets (Opening) | 10,50,000 | - |
| Fixed Assets (Additions 01.10.2024) | 15,00,000 | - |
| Opening Stock | 4,50,000 | - |

| | | |
|---|---|---|
| Purchases | 1,20,00,000 | - |
| Purchases Returns | - | 5,17,500 |
| Sales | - | 1,65,00,000 |
| Sales Returns | 7,42,500 | - |
| Debtors | 18,75,000 | - |
| Creditors | - | 16,50,000 |
| Expenses | 4,80,000 | - |
| Fixed Deposit with Bank | 15,00,000 | - |
| Interest on Fixed Deposit | - | 1,50,000 |
| Bank Overdraft | - | 60,000 |
| Suspense A/c | - | 15,000 |
| Rent (17 months upto 31.8.2025) | 1,27,500 | - |
| Investments 12% (01.8.2024) | 18,75,000 | - |
| Bank Balance | 12,67,500 | - |
| | 2,33,92,500 | 2,33,92,500 |

Stock on 31st March,2025 was valued at ₹ 7,50,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) ₹ 1,50,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 90,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 1,20,000 was not recorded in the books of account upto 31.03.2025, but the goods were included in stock.

(iii) Purchase returns of ₹ 7,500 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 45,000 in respect of the period after 31st March,2025.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31$^{st}$ March, 2025.

### Financial Statements of Not for Profit Organizations

10. Dr. Malik started private practice on 1$^{st}$ April, 2024 with ₹ 8,00,000 of his own fund and ₹ 12,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

| **Receipts** | **₹** | **Payments** | **₹** |
|---|---|---|---|
| Own Capital | 8,00,000 | Medicines Purchased | 9,80,000 |
| Loan | 12,00,000 | Surgical Equipment | 10,00,000 |
| Prescription Fees | 26,40,000 | Motor Car | 12,80,000 |
| Visiting Fees | 10,00,000 | Motor Car Expenses | 4,80,000 |
| Lecture Fees | 96,000 | Wages and Salaries | 4,20,000 |
| Pension Received | 12,00,000 | Rent of Clinic | 2,40,000 |
| | | General Charges | 1,96,000 |
| | | Household Expenses | 7,20,000 |
| | | Household Furniture | 1,00,000 |
| | | Expenses on Daughter's Marriage | 8,60,000 |
| | | Interest on Loan | 1,44,000 |
| | | Balance at Bank | 4,40,000 |
| | | Cash in Hand | 76,000 |
| | 69,36,000 | | 69,36,000 |

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31$^{st}$ March, 2025 was valued at ₹ 3,80,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31$^{st}$ March, 2025. Ignore depreciation on fixed assets

## Accounts from Incomplete Records

11. Freeze Limited gives you the following information

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Debtors as on 1st April (Opening Balance) | 1,57,500 | Discount allowed by Suppliers | 15,750 |
| Creditors as on 1st April (Opening Balance) | 1,82,250 | Discount allowed to Customers | 20,250 |
| Bills Receivable received during the year | 1,05,750 | Endorsed Bills Receivable dishonoured | 6,750 |
| Bills Payable issued during the year | 1,19,250 | Sales Return | 24,750 |
| Cash received from Customers | 3,51,000 | Bills Receivable Discounted | 18,000 |
| Cash paid to Suppliers | 3,87,000 | Discounted Bills Receivable | 4,500 |
| Bad Debts Recovered | 36,000 | Cash Sales | 3,79,125 |
| Bills Receivables endorsed to Creditors | 60,750 | Cash Purchases | 4,45,050 |
| Bills Receivables dishonoured by Customers | 11,250 | Debtors on 31st March (Closing Balance) | 1,84,500 |
| | | Creditors as on 31st March (Closing Balance) | 2,13,750 |

You are required to calculate total sales and total purchases.

## Partnership Accounts

### Retirement of Partner

12. On 31st March, 2025, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Account: | | Land and Building | 75,000 |

| | | | |
|---|---|---|---|
| Mr. P | 50,000 | Plant and Machinery | 50,000 |
| Mr. Q | 75,000 | Stock of goods | 30,000 |
| Mr. R | 50,000 | Sundry debtors | 27,500 |
| Sundry Creditors | 25,000 | Cash and Bank Balances | 17,500 |
| | 2,00,000 | | 2,00,000 |

On 1st April, 2025, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

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

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

(iii) Stock of goods to be valued at ₹25,000.

(iv) Old credit balances of Sundry creditors, ₹5,000 to be written back.

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

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 18,875.

(vii) Goodwill of the entire firm is valued at ₹35,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

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

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

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

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2025.

### Death of Partner

13. The partnership deed of a firm consisting of 3 partners - Alfa, Beta and Gamma (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 90,000, ₹ 36,000 and ₹ 24,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 75,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31$^{st}$ December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31$^{st}$ December.

Alfa died on 30th September, 2024. The amount standing to the credit of his current account as on 31$^{st}$ December, 2023 was ₹ 15,000 and from that date to the date of death he had withdrawn₹ 45,000 from the business.

An unrecorded liability of ₹ 18,000 was discovered on 30$^{th}$ September, 2024 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

| | |
|---|---|
| 2021 | Profit ₹ 88,020 |
| 2022 | Profit ₹ 79,410 |
| 2023 | Loss ₹ 24,960 |
| 2024 | Profit ₹ 40,410 |

You are required to prepare an account showing the amount due to Alfa's legal heir as of 31 December 2024.

Note: Impact for unrecorded liability not to be given in earlier years.

## Issue and Redemption of Shares

14. A Limited is a company with' an authorised share capital of ₹ 2,50,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid up on 31$^{st}$ March, 2025. The company proposes to make a further issue of 337,500 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

    (i) ₹ 2 per share payable on application, to be received by 31$^{st}$ May, 2025;

    (ii) Allotment to be made on 10th June, 2025 and a further ₹ 5 per share (including the premium to be payable);

    (iii) The final call for the balance to be made, and the money received by 31st December, 2025.

    Applications were received for 14,00,000 shares and dealt with as follows:

    (1) Applicants for 25,000 shares received allotment in full;

    (2) Applicants for 125,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

    (3) Applicants for 12,50,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

    (4) The money due on final call was received on the due date.

    You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

## Issue and Redemption of Debentures

15. On 1st April 2025 Weavers Ltd. issued 5,00,000 12% debentures of ₹ 100 each at a discount of 5%, redeemable on 31st March, 2030. Issue was oversubscribed by 1,00,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

    (i) Journal Entries at the time of issue of debentures.

    (ii) Discount on issue of Debenture Account

    (iii) Interest account and Debenture holder Account assuming TDS is deducted @10%

16. XYZ Ltd. has issued 2,500, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 50,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 50,000 debenture holders.

17. Following is the extract of Balance Sheet of Super Ltd. as at 31st March, 2025 :

| | ₹ |
|---|---|
| Authorized capital: | |
| 7,50,000 equity shares of ₹10 each | 75,00,000 |
| 62,500,10% preference shares of ₹10 each | 6,25,000 |
| | 81,25,000 |
| Issued and subscribed capital: | |
| 6,75,000 equity shares of ₹ 10 each fully paid up | 67,50,000 |
| 60,000, 10% preference shares of ₹ 10 each fully paid up | 6,00,000 |
| | 73,50,000 |

| | |
|---|---|
| Reserves and surplus: | |
| General reserve | 9,00,000 |
| Capital redemption reserve | 3,00,000 |
| Securities premium (collected in cash) | 1,87,500 |
| Profit and loss account | 15,00,000 |
| | 28,87,500 |

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

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

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Retirement of bills of exchange.

(iii) Petty cash book and its advantages.

(iv) Machine Hour Rate method of calculating depreciation.

(v) When Garner V/s Murray rule not applicable incase of dissolution of partnership firm.

## SUGGESTED ANSWERS/HINTS

**1.** ***(a)*** **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

**(b)** **False:** Outstanding Expenditure is a personal account of representative nature because it represents a liability due to some person.

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

**(d)** **False:** The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

**(e)** **False:** Land is not a depreciable asset because its useful life is not limited to few years.

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

**(g)** **False:** A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

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

**(i)** **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

**2.** **(a)** As per money measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

According to periodicity concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

**(b)** The distinction between Provision and Contingent Liability is as follows:

| | **Provision** | **Contingent liability** |
|---|---|---|
| (1) | Provision is a present liability of uncertain amount, which can be | A Contingent liability is a possible obligation that may or may not crystallise |

| | | |
|---|---|---|
| | measured reliably by using a substantial degree of estimation. | depending on the occurrence or non-occurrence of one or more uncertain future events. |
| (2) | A provision meets the recognition criteria. | A contingent liability fails to meet the same. |
| (3) | Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation. | Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated. |
| (4) | If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet. | If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability. |

**3. (a)**

| | **Particulars** | | **Dr.** | **Cr.** |
|---|---|---|---|---|
| | | | **Amount (₹)** | **Amount (₹)** |
| (i) | Salaries A/c | Dr. | 45,000 | |
| | To Purchase A/c | | | 45,000 |
| | (Being entry made for stock taken by employees) | | | |
| (ii) | Machinery A/c | Dr. | 16,000 | |

| | | | |
|---|---|---|---|
| | To Bank A/c<br>(Being wages paid for erection of machinery) | | 16,000 |
| (iii) | Drawings A/c<br>To Purchases A/c<br>To Cash A/c<br>(Being goods and cash withdrawn for personal use) | 7,000 | <br>6,000<br>1,000 |
| (iv) | Purchase A/c<br>To Bank A/c<br>To Discount Received A/c<br>(Being the goods purchased from Sandeep for ₹ 60,000 @ 10% trade discount and cash discount of ₹ 1,500) | 54,000 | <br>52,500<br>1,500 |
| (v) | Machinery A/c Dr.<br>Input CGST A/c Dr.<br>Input SGST A/c Dr.<br>To Bank A/c<br>To Jawahar Industries A/c<br>(Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each) | 3,00,000<br>18,000<br>18,000 | <br><br><br>1,00,000<br>2,36,000 |

**(b)** (1) Inauguration expenses of new unit of existing business: Revenue Expenditure.

(2) Installation of new heating system: Capital Expenditure

(3) Drainage for new equipment: Capital Expenditure.

(4) An extension of Railway track in factory area: Capital Expenditure

(5) Carriage costs on replacement part: Revenue Expenditure.

**4. (a) Corrected Trial Balance of Mr. Hari Om as on 31st March, 2025**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|
| Hari Om's Capital | | 23,340 |
| Hari Om's Drawings | 8,460 | |
| Leasehold premises | 11,250 | |
| Sales | | 41,250 |
| Due from customers | 7,950 | |
| Purchases | 18,885 | |
| Purchases returns | | 3,960 |
| Loan from Bank | | 3,840 |
| Trade expenses | 10,500 | |
| Trade Payable | | 7,920 |
| Bills payable | | 1,500 |
| Salaries and Wages | 9,000 | |
| Cash at Bank | 3,390 | |
| Inventory (1.4.2024) | 3,960 | |
| Rent and rates | 6,945 | |
| Sales return | 1,470 | |
| | 81,810 | 81,810 |

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.

5. Inventory (opening) represents assets, so it will have a debit balance.

6. Sales return account always shows a debit balance because assets come in.

**(b)**

| | ***Particulars*** | ***L.F.*** | ***Dr.*** ₹ | ***Cr.*** ₹ |
|---|---|---|---|---|
| (1) | Sales A/c Dr. | | 15,000 | |
| | Sales Returns A/c | | 15,000 | |
| | To Suspense A/c | | | 30,000 |
| | (Goods returned by Mr. Aman wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified) | | | |
| (2) | Suspense A/c Dr. | | 15,000 | |
| | To Mr. Ashish | | | 15,000 |
| | (Wrong debit to Mr. Ashish for goods returned by him, now rectified) | | | |
| (3) | Discount A/c Dr. | | 27,500 | |
| | To Suspense A/c | | | 27,500 |
| | (The total of Discount allowed during June, 2025 not posted from the Cash Book; error now rectified) | | | |
| (4) | Bad Debts A/c Dr. | | 8,000 | |
| | To Suspense A/c | | | 8,000 |
| | (Bad Debts written off not adjusted in General Ledger, now rectified) | | | |

| | | | | |
|---|---|---|---|---|
| (5) | Ms. Aavya Dr. | | 30,000 | |
| | To Ms. Aadya | | | 3,000 |
| | To Suspense A/c | | | 27,000 |
| | (Omission of debit to Ms. Aavya and wrong credit to Ms. Aadya for sale of ₹ 30,000, now rectified) | | | |
| (6) | Supplier A/c Dr. | | 225 | |
| | To Suspense A/c | | | 225 |
| | (Supplier account overcast by ₹225 now rectified) | | | |

**5. (i) Bank Reconciliation Statement on 31st March, 2025 (₹)**

| | | | | |
|---|---|---|---|---|
| Bank Balance as per Cash Book | | | | 27,570 |
| *Add:* | (i) | Subsidy from government received directly by the bank not recorded in the Cash Book | 10,250 | |
| | (iii) | Debit balance of ₹2,156 brought forward as credit balance on 20th March, 2025 in the Cash Book | 4,312 | |
| | (vi) | Cheque issued returned marked 'out of date' | 1,725 | 16,287 |
| | | | | 43,857 |
| *Less:* | (ii) | Cash Book under cast on 15th March, 2025 | (350) | |
| | (iv) | Discount allowed to a customer, however entry made at gross amount in the Cash Book | (100) | |
| | (v) | Commission charged by bank on discounting of bill, not considered in Cash Book | (200) | |
| | (vii) | Insurance Premium paid directly by bank under standing instructions | (900) | |

| | | | | |
|---|---|---|---|---|
| | (viii) | Discounted B/R dishonoured; not entered in Cash Book | (1,530) | |
| | (ix) | Bank recorded short cash deposit | (90) | (3,170) |
| Balance as per Bank Statement | | | | 40,687 |

**6. Statement of Inventory in trade as on 31st March, 2025**

| | ₹ | ₹ |
|---|---|---|
| Inventory as on 31st March, 2024 | 10,50,000 | |
| *Less:* Book value of abnormal inventory | | |
| (₹ 1,65,000 - ₹ 60,000) | (1,05,000) | 9,45,000 |
| *Add:* Purchases | | 36,00,000 |
| Manufacturing Expenses | | 3,00,000 |
| | | 48,45,000 |
| *Less:* Cost of goods sold: | | |
| Sales as per books | 55,50,000 | |
| *Less:* Sales of abnormal item | (1,50,000) | |
| | 54,00,000 | |
| *Less:* Gross Profit @ 20% | (10,80,000) | (43,20,000) |
| Inventory in trade as on 31st March, 2025 | | 5,25,000 |

**7. Machinery Account**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 01.01.2021 | To Bank A/c | 1,94,000 | 31.12.2021 | By Depreciation A/c(WN1) | 25,000 |
| 01.01.2021 | To Bank A/c (M1) | 6,000 | 31.12.2021 | By Balance c/d | 2,75,000 |
| 01.07.2021 | To Bank A/c (M2) (Purchase Price) | 1,00,000 | | | |
| | | 3,00,000 | | | 3,00,000 |
| 01.01.2022 | To Balance b/d | 2,75,000 | 31.12.2022 | By Depreciation A/c | 30,000 |
| | | | 31.12.2022 | By Balance c/d | 2,45,000 |
| | | 2,75,000 | | | 2,75,000 |

| | | | | | |
|---|---|---|---|---|---|
| 01.01.2023 | To Balance b/d | 2,45,000 | 01.01.2023 | By Bank A/c (Sale)(M1) | 1,00,000 |
| 01.07.2023 | To Bank A/c (M3) | 1,50,000 | 01.01.2023 | By P&L A/c Loss on sale of machinery | 60,000 |
| | | | 31.12.2023 | By Depreciation A/c on remaining machineries | 17,500 |
| | | | 31.12.2022 | By Balance c/d | 2,17,500 |
| | | 3,95,000 | | | 3,95,000 |
| 01.01.2024 | To Balance b/d | 2,17,500 | 31.12.2024 | By Depreciation (15%X2,17,500) | 32,625 |
| | | | 31.12.2024 | By Balance c/d | 1,84,875 |
| | | 2,17,500 | | | 2,17,500 |

**Working Notes:**

**1. Calculation of Depreciation (10% per annum on the Original Cost)**

| Machinery purchased on | M1 01.01.2021 | M2 01.07.2021 | M3 01.07.2023 |
|---|---|---|---|
| Cost | 2,00,000 | 1,00,000 | 1,50,000 |
| Depreciation for Year 2021 | 20,000 | 5,000 | - |
| Depreciation for Year 2022 | 20,000 | 10,000 | - |
| Depreciation for Year 2023 | - | | |
| M2 = 2 months | | 10,000 | |
| M3 = 5.5 months | | | 7,500 |

**2. Calculation of Loss on Sale of Machinery**

| **Particulars** | **Amount** |
|---|---|
| Original Cost (including Erection Charges) | 2,00,000 |
| Less: Total Depreciation (on M1) [Year 1 & Year 2] | 40,000 |
| Written Down Value on the Sale of machinery | 1,60,000 |
| Less: Sale Proceeds | 1,00,000 |
| Loss on Sale of Machinery | 60,000 |

**8. Journal Entries in the Books of Mr. Samaveer**

| Date | | Particulars | L.F. | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|---|---|---|
| 2024 | | | | | |
| August | 1 | Bills Receivable A/c Dr. | | 10,000 | |
| | | To Kabir | | | 10,000 |
| | | (Being the acceptance received from Kabir to settle his account) | | | |
| August | 1 | Bank A/c Dr. | | 9,800 | |
| | | Discount A/c Dr. | | 200 | |
| | | To Bills Receivable | | | 10,000 |
| | | (Being the bill discounted for ₹ 9,800 from bank) | | | |
| November | 4 | Kabir Dr. | | 10,000 | |
| | | To Bank Account | | | 10,000 |
| | | (Being the Kabir's acceptance is to be renewed) | | | |
| November | 4 | Kabir Dr. | | 240 | |
| | | To Interest Account | | | 240 |
| | | (Being the interest due from Kabir for 3 months i.e., 8000x3/12× 12%=240) | | | |
| November | 4 | Cash A/c Dr. | | 2,240 | |
| | | Bills Receivable A/c Dr. | | 8,000 | |
| | | To Kabir | | | 10,240 |
| | | (Being amount and acceptance of new bill received from Kabir) | | | |
| December | 31 | Kabir A/c Dr. | | 8,000 | |
| | | To Bills Receivable A/c | | | 8,000 |
| | | (Being Kabir became insolvent) | | | |
| December | 31 | Bank A/c Dr. | | 3,200 | |
| | | Bad debts A/c Dr. | | 4,800 | |
| | | To Kabir | | | 8,000 |
| | | (Being the amount received and written off on Kabir's insolvency) | | | |

**9.** **Journal Entries**

| | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| (i) | Expenses A/c | Dr. | 90,000 | |
| | To Drawings | | | 90,000 |
| | (Entry for the amount wrongly debited to the latter A/c, now corrected) | | | |
| (ii) | Purchase A/c | Dr. | 3,45,000 | |
| | To Creditors | | | 3,45,000 |
| | (Entry for purchases not recorded) | | | |
| (iii) | Suspense A/c | Dr. | 15,000 | |
| | To Purchase Returns | | | 15,000 |
| | To Sales Returns | | | 7,500 |
| | (Rectification entry for amount wrongly entered in Sales Journal) | | | |
| (iv) | Prepaid Expenses A/c | Dr. | 45,000 | |
| | To Expenses | | | 45,000 |
| | (Prepaid expenses adjusted) | | | |

**Trading, Profit and Loss Account of M/s Thomas & Associates for the year ending 31st March, 2025**

| *Dr.* | | | | | *Cr.* |
|---|---|---|---|---|---|
| | | ₹ | | | ₹ |
| To Opening Stock | | 4,50,000 | By Sales | 1,65,00,000 | |
| To Purchases | 1,20,00,000 | | Less: Sales Return | | |
| Add: Amount not recorded | 1,20,000 | | (7,42,500– 7,500) | 7,35,000 | 1,57,65,000 |
| | 1,21,20,000 | | By Closing Stock | | 7,50,000 |
| Less: Purchases Returns | | | | | |
| (5,17,500+7,500) | 5,25,000 | 1,15,95,000 | | | |
| To Gross Profit c/f | | 44,70,000 | | | - |
| | | 1,65,15,000 | | | 1,65,15,000 |
| To Expenses | | 5,25,000 | By Gross Profit | | |
| (4,80,000 – 45,000 + 90,000) | | | | | 44,70,000 |
| To Rent | | 90,000 | By Interest on Fixed | | 1,50,000 |

| | | | | | |
|---|---|---|---|---|---|
| (1,27,500 –37,500) | | | Deposit | | |
| To Depreciation | 1,05,000 | | By Interest on Investments | | |
| Add: Further Depreciation | 75,000 | 1,80,000 | $(18,75,000 \times \frac{12}{100} \times \frac{8}{12})$ | | 1,50,000 |
| $(15,00,000 \times \frac{10}{100} \times \frac{6}{12})$ | | | | | |
| To Net Profit | | 39,75,000 | | | - |
| | | 47,70,000 | | | 47,70,000 |

### Balance Sheet as on 31st March, 2025

| ***Liabilities*** | | ₹ | ***Assets*** | | ₹ |
|---|---|---|---|---|---|
| Capital | 45,00,000 | | Fixed Assets | 10,50,000 | |
| Add: Net Profit | 39,75,000 | | Additions | 15,00,000 | |
| Less: Drawings | | | | 25,50,000 | |
| (5,25,000–90,000) | (4,35,000) | 80,40,000 | Less: Depreciation | (1,80,000) | 23,70,000 |
| Creditors | 16,50,000 | | Stock | | 7,50,000 |
| Add: Purchases not recorded | 1,20,000 | 17,70,000 | Debtors | | 18,75,000 |
| | | | Investments | | 18,75,000 |
| Overdraft | | 60,000 | Interest accrued | | 1,50,000 |
| | | | Bank fixed deposit | | 15,00,000 |
| | | | Prepaid Expenses (45,000+37,500) | | 82,500 |
| | | | Bank | | 12,67,500 |
| | | 98,70,000 | | | 98,70,000 |

**10.**

### Income and Expenditure Account
### for the year ended 31st March, 2025

| | ₹ | | ₹ |
|---|---|---|---|
| To Medicines consumed | | By Prescription fees | 26,40,000 |
| Purchases 9,80,000 | | | |
| *Less*: Stock on 31.3.25 (3,80,000) | 6,00,000 | By Visiting fees | 10,00,000 |
| To Motor car expense | 3,20,000 | By Fees from lectures | 96,000 |
| To Wages and salaries (4,20,000 – 1,20,000) | 3,00,000 | | |
| To Rent for clinic | 2,40,000 | | |
| To General charges | 1,96,000 | | |

| | | | |
|---|---|---|---|
| To Interest on loan | 1,44,000 | | |
| To Net Income | 19,36,000 | | |
| | 37,36,000 | | 37,36,000 |

**Capital Account**

**for the year ended 31st March, 2025**

| | ₹ | | ₹ |
|---|---|---|---|
| To Drawings: | | By Cash/bank | 8,00,000 |
| Motor car expenses (one-third of ₹ 4,80,000) | 1,60,000 | By Cash/ bank (pension) | 12,00,000 |
| Household expenses | 7,20,000 | By Net income from practice (derived from income and expenditure A/c) | 19,36,000 |
| Daughter's marriage exp. | 8,60,000 | | |
| Wages of domestic servants | 1,20,000 | | |
| Household furniture | 1,00,000 | | |
| To Balance c/d | 19,76,000 | | |
| | 39,36,000 | | 39,36,000 |

**11. Total Debtors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To balance b/d (given) | 1,57,500 | By Cash / Bank A/c (Cash Received) | 3,51,000 |
| To Bills Receivable A/c (Dishonoured) | 11,250 | By Discount Allowed A/c | 20,250 |
| To Creditors A/c (Dishonour of endorsed B/R | 6,750 | By Bills Receivable A/c (B/R Received) | 1,05,750 |
| To Bank A/c (Discounted B/R dishonoured) | 4,500 | By Sales Returns A/c | 24,750 |
| To Sales A/c (bal. flg. = Credit Sales) | 5,06,250 | By balance c/d (given) | 1,84,500 |
| Total | 6,86,250 | Total | 6,86,250 |

**Total Creditors A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash / Bank A/c (Payment) | 3,87,000 | By balance b/d | 1,82,250 |
| To Discount Received A/c | 15,750 | By Debtors A/c (Dishonour of endorsed B/R) | 6,750 |
| To Bills Payable A/c (Issued) | 1,19,250 | By Purchases A/c (bal. flg. = Credit Purc.) | 6,07,500 |
| To Bills Receivable (Endorsement) | 60,750 | | |
| To balance c/d (given) | 2,13,750 | | |
| Total | 7,96,500 | Total | 7,96,500 |

1. Total Sales = Credit Sales ₹5,06,250 + Cash Sales ₹ 3,79,125 = ₹ 8,85,375

2. Total Purchases = Credit Purchases ₹ 6,07,500 + Cash Purchases ₹ 4,45,050= ₹ 10,52,550

**12. (a) Revaluation Account**

| *Date* | *Particulars* | ₹ | *Date* | *Particulars* | ₹ |
|---|---|---|---|---|---|
| *2025* | | | *2025* | | |
| April | To Plant & Machinery | 15,000 | April | By Land and building | 15,000 |
| | To Stock of goods | 5,000 | | By Sundry creditors | 5,000 |
| | To Provision for bad and doubtful debts | 1,375 | | By Cash & Bank - Joint life Policy surrendered | 18,875 |
| | To Capital accounts (profit on revaluation transferred) | | | | |
| | Mr. P (2/7) 5,000 | | | | |
| | Mr. Q (3/7) 7,500 | | | | |
| | Mr. R (2/7) 5,000 | 17,500 | | | |
| | | 38,875 | | | 38,875 |

**(b) Partners' Capital Accounts**

| Dr. | | | | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Particulars*** | ***P*** | ***Q*** | ***R*** | | ***Particulars*** | ***P*** | ***Q*** | ***R*** | |
| | | ***(₹)*** | ***(₹)*** | ***(₹)*** | | | ***(₹)*** | ***(₹)*** | ***(₹)*** | |
| To | P's Capital A/c - goodwill | - | 2,500 | 7,500 | By | Balance b/d | 50,000 | 75,000 | 50,000 | |
| To | Cash & bank A/c - (50% dues paid) | 32,500 | - | - | By | Revaluation A/c | 5,000 | 7,500 | 5,000 | |
| To | P's Loan A/c - (50% transfer) | 32,500 | - | - | By | Q & R's Capital A/cs - goodwill | 10,000 | - | - | |
| To | Balance c/d | - | 87,500 | 87,500 | By | Cash & bank A/c - amount brought in (Balancing figures) | - | 7,500 | 40,000 | |
| | | 65,000 | 90,000 | 95,000 | | | 65,000 | 90,000 | 95,000 | |

**(c) Cash and Bank Account**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To | Balance b/d | 17,500 | By | P's Capital A/c - 50% dues paid | 32,500 |
| To | Revaluation A/c – surrender value of joint life policy | 18,875 | By | Balance b/d | 51,375 |
| To | Q's Capital A/c | 7,500 | | | |
| To | R's Capital A/c | 40,000 | | | |
| | | 83,875 | | | 83,875 |

**(d) Balance Sheet of M/s Q & R as on 01.04.2025**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Partners' Capital account | | | Land and Building | 75,000 | |

| | | | | | |
|---|---|---|---|---|---|
| Mr. Q | 87,500 | | *Add:* Appreciation 20% | 15,000 | 90,000 |
| Mr. R | 87,500 | 175,000 | Plant & Machinery | 50,000 | |
| Mr. P's Loan account | | 32,500 | *Less:* Depreciation 30% | 15,000 | 35,000 |
| Sundry Creditors | | 20,000 | Stock of goods | 30,000 | |
| | | | *Less:* revalued | 5,000 | 25,000 |
| | | | Sundry Debtors | 27,500 | |
| | | | *Less:* Provision for bad debts 5% | 1,375 | 26,125 |
| | | | Cash & Bank balances | | 51,375 |
| | | 227,500 | | | 227,500 |

**Working Notes:**

| | |
|---|---|
| Adjustment for Goodwill: | |
| Goodwill of the firm | 35,000 |
| Mr. P's Share (2/7) | 10,000 |
| Gaining ratio of Q & R; | |
| Q = ½ - 3/7 = 1/14 | |
| R = ½ - 2/7 = 3/14 | |
| Q:R = 1:3 | |

Therefore, Q will bear = ¼ × 10,000 = ₹2,500

R will bear = ¾ × 10,000 = ₹7,500

**13.** **Alfa's Capital Account**

| 2024 | | ₹ | 2024 | | ₹ |
|---|---|---|---|---|---|
| Sep. 30 | To Current A/c (90,000 - 15000) | 75,000 | Jan. 1 | By Balance b/d | 90,000 |
| | | | Dec. 31 | By Profit and Loss A/c : | |
| Dec. 31 | To Profit and Loss Adjt. | 9000 | | Interest on Capital | 7,200 |
| | (Unrecorded Liability) | | Dec. 31 | Share of Profit | 14,205 |

| | | | | | |
|---|---|---|---|---|---|
| Dec. 31 | To Balance Transferred to ALFA's Executor's A/c | 1,15,395 | | BETA & Gamma (Goodwill) | 35,490 |
| | | | Dec. 31 | Insurance Policies A/c | 52,500 |
| | | 1,99,395 | | | 1,99,395 |

**Working Notes:**

**(i) Valuation of Goodwill**

| Year | Profit before Interest | Interest | Profit after interest |
|---|---|---|---|
| 2021 | 88020 | 12000 | 76020 |
| 2022 | 79410 | 12000 | 67410 |
| 2023 | -24960 | 12000 | -36960 |
| | 142470 | 36000 | 106470 |

| | ₹ |
|---|---|
| Average Profit | 35490 |
| Goodwill at two years purchase of average net profits | 70980 |
| Share of ALFA in the goodwill | 35490 |

**(ii) Profit on Separate Life Policy**

| | | |
|---|---|---|
| Alfa's policy | 75,000 | |
| Beta and Gamma's policy @ 20% of ₹ 50,000 | 30,000 | 1,05,000 |
| Share of Alfa (1/2) | | 52,500 |

**(iii) Share in profit for 2024:**

| | |
|---|---|
| Profit for the year | 40410 |
| *Less*: Interest on capitals | -12000 |
| | 28,410 |
| Alfa's share in profit (1/2) | 14205 |

**Note:** An unrecorded liability of 18,000 has been charged to Capital Accounts through Profit and Loss Adjustment A/c, no further adjustment in current year's profit is required.

**14.** **Journal of A Limited**

| **Date 2025** | **Particulars** | | **Dr. ₹** | **Cr. ₹** |
|---|---|---|---|---|
| May 31 | Bank A/c (Note 1 – Column 3) | Dr. | 28,00,000 | |
| | To Equity Share Application A/c | | | 28,00,000 |
| | (Being application money received on 14,00,000 shares @ ₹ 2 per share) | | | |
| June 10 | Equity Share Application A/c | Dr. | 28,00,000 | |
| | To Equity Share Capital A/c | | | 675,000 |
| | To Equity Share Allotment A/c | | | |
| | (Note 1 - Column 5) | | | 13,75,000 |
| | To Bank A/c (Note 1–Column 6) | | | 7,50,000 |
| | (Being application money on 3,37,500 shares transferred to Equity Share Capital Account; on 687,500 shares adjusted with allotment and on 375,000 shares refunded as per Board's Resolution No.....dated...) | | | |
| | Equity Share Allotment A/c | Dr. | 16,87,500 | |
| | To Equity Share Capital A/c | | | 3,37,500 |

| | | | | |
|---|---|---|---|---|
| | To Securities Premium a/c<br>(Being allotment money due on 3,37,500 shares @ ₹ 5 each including premium at ₹ 4 each as per Board's Resolution No....dated...) | | | 13,50,000 |
| | Bank A/c (Note 1 – Column 8)<br>To Equity Share Allotment A/c<br>(Being balance allotment money received) | Dr. | 3,12,500 | 3,12,500 |
| Dec. 31 | Equity Share Final Call A/c<br>To Equity Share Capital A/c<br>(Being final call money due on 3,37,500 shares @₹ 7 per share as per Board's Resolution No.....dated....) | Dr. | 23,62,500 | 23,62,500 |
| | Bank A/c<br>To Equity Share Final Call A/c<br>(Being final call money on 3,37,500 shares @₹ 7 each received) | Dr. | 23,62,500 | 23,62,500 |

**Working Note:**

**Calculation for Adjustment and Refund**

| Cate-gory | No. of Shares Applied for | No. of Shares Allotted | Amount Received on Application | Amount Required on Application | Amount adjusted on Allotment | Refund [3 – (4 + 5)] | Amount due on Allotment | Amount received on Allotment |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| (i) | 25,000 | 25,000 | 50,000 | 50,000 | Nil | Nil | 1,25,000 | 1,25,000 |
| (ii) | 1,25,000 | 62,500 | 2,50,000 | 1,25,000 | 1,25,000 | Nil | 3,12,500 | 1,87,500 |
| (iii) | 12,50,000 | 2,50,000 | 25,00,000 | 5,00,000 | 12,50,000 | 7,50,000 | 12,50,000 | Nil |
| TOTAL | 14,00,000 | 3,37,500 | 28,00,000 | 6,75,000 | 13,75,000 | 7,50,000 | 16,87,500 | 3,12,500 |

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹ 2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

**15. (i) Journal in the Books of Weavers Ltd.**

| Date | Particulars | LF | (₹ 00) | (₹ 00) |
|---|---|---|---|---|
| 2025 | | | | |
| Apr 1 | Bank A/c | | 5,70,000 | |
| | To Debenture Application A/c | | | 5,70,000 |
| | (Being debenture application money received for 6,00,000 debentures) | | | |
| | Debenture Application A/c Dr. | | 5,70,000 | |
| | Discount on Issue of Debenture A/c Dr. | | 25,000 | |
| | To 12% Debenture A/c | | | 5,00,000 |
| | To Bank A/c | | | 95,000 |
| | (Being application money transferred to debenture account and excess refunded) | | | |

**(ii) Discount on Issue of Debenture A/c**

| Date | Particulars | ₹'00 | Date | Particulars | ₹'00 |
|---|---|---|---|---|---|
| 1.4.25 | To 12% Debentures A/c | 25,000 | 31.3.26 | By Profit & Loss A/c | 5,000 |
| | | | 31.3.26 | By Balance c/d | 20,000 |
| | | 25,000 | | | 25,000 |
| 1.4.26 | To Balance b/d | 20,000 | 31.3.27 | By Profit & Loss A/c | 5,000 |
| | | | 31.3.27 | By Balance c/d | 15,000 |
| | | 20,000 | | | 20,000 |
| 1.4.27 | To Balance b/d | 15,000 | 31.3.28 | By Profit & Loss A/c | 5,000 |
| | | | 31.3.28 | By Balance c/d | 10,000 |
| | | 15,000 | | | 15,000 |
| 1.4.28 | To Balance b/d | 10,000 | 31.3.29 | By Profit & Loss A/c | 5,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | ____ | 31.3.29 | By Balance c/d | 5,000 |
| | | 10,000 | | | 10,000 |
| 1.4.29 | To Balance b/d | 5,000 | 31.3.30 | By Profit & Loss A/c | 5,000 |
| | | 5,000 | | | 5,000 |

**(iii)** **Interest A/c**

| Date | Particulars | ₹'00 | Date | Particulars | ₹'00 |
|---|---|---|---|---|---|
| 31.3.26 | To Debenture holder A/c | 60,000 | 31.3.26 | By Profit & Loss A/c | 60,000 |
| | | 60,000 | | | 60,000 |
| 31.3.27 | To Debenture holder A/c | 60,000 | 31.3.27 | By Profit & Loss A/c | 60,000 |
| | | 60,000 | | | 60,000 |
| 31.3.28 | To Debenture holder A/c | 60,000 | 31.3.28 | By Profit & Loss A/c | 60,000 |
| | | 60,000 | | | 60,000 |
| 31.3.29 | To Debenture holder A/c | 60,000 | 31.3.29 | By Profit & Loss A/c | 60,000 |
| | | 60,000 | | | 60,000 |
| 31.3.30 | To Debenture holder A/c | 60,000 | 31.3.30 | By Profit & Loss A/c | 60,000 |
| | | 60,000 | | | 60,000 |

**Debenture holder A/c**

| Date | Particulars | ₹'00 | Date | Particulars | ₹'00 |
|---|---|---|---|---|---|
| 31.3.26 | To Bank A/c | 54,000 | 31.3.26 | By Interest A/c | 60,000 |
| 31.3.26 | To TDS A/c | 6,000 | | | ____ |
| | | 60,000 | | | 60,000 |
| 31.3.27 | To Bank A/c | 54,000 | 31.3.27 | By Interest A/c | 60,000 |
| 31.3.27 | To TDS A/c | 6,000 | | | ____ |
| | | 60,000 | | | 60,000 |
| 31.3.28 | To Bank A/c | 54,000 | 31.3.28 | By Interest A/c | 60,000 |
| 31.3.28 | To TDS A/c | 6,000 | | | ____ |
| | | 60,000 | | | 60,000 |
| 31.3.29 | To Bank A/c | 54,000 | 31.3.29 | By Interest A/c | 60,000 |
| 31.3.29 | To TDS A/c | 6,000 | | | ____ |
| | | 60,000 | | | 60,000 |
| 31.3.30 | To Bank A/c | 54,000 | 31.3.30 | By Interest A/c | 60,000 |

| | | | | | |
|---|---|---|---|---|---|
| 31.3.30 | To TDS A/c | 6,000 | | | |
| | | 60,000 | | | 60,000 |

**16.**

| | Number of debentures |
|---|---|
| Debenture holders opted for conversion (50,000 /100) | 500 |
| Option for conversion | 20% |
| Number of debentures to be converted (20% of 500) | 100 |

| | |
|---|---|
| Redemption value of 40 debentures at a premium of 5% [100 x (100+5)] | ₹ 10,500 |
| Equity shares of ₹ 10 each issued on conversion | |
| [₹ 10,500/ ₹ 20] | 525 shares |

| Calculation of cash to be paid: | ₹ |
|---|---|
| Number of debentures | 500 |
| *Less:* number of debentures to be converted into equity shares | (100) |
| | 400 |

Redemption value of 400 debentures (400 × ₹ 105) ie. ₹ 42,000

**17. In the books of Super Ltd.**

**Journal Entries**

| | | | Dr. | Cr. |
|---|---|---|---|---|
| April 1 | Capital Redemption Reserve A/c | Dr. | 3,00,000 | |
| | Securities Premium A/c | Dr. | 1,87,500 | |
| | General Reserve A/c | Dr. | 9,00,000 | |
| | Profit and Loss A/c (b.f.) | Dr. | 13,12,500 | |
| | To Bonus to Equity Shareholders A/c | | | 27,00,000 |
| | (Being bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...) | | | |
| | Bonus to Shareholders A/c | Dr. | 27,00,000 | |
| | To Equity Share Capital A/c | | | 27,00,000 |
| | (Being bonus shares issued) | | | |

**Journal Entries**

**Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)**

| | | Particulars | Notes | Amount (₹) |
|---|---|---|---|---|
| | | Equity and Liabilities | | |
| 1 | | Shareholders' funds | | |
| | a | Share capital | 1 | 1,00,50,000 |
| | b | Reserves and Surplus | 2 | 1,87,500 |

**Notes to Accounts**

| | | | |
|---|---|---|---|
| **1** | **Share Capital** | | (₹) |
| | Authorized share capital*: | | |
| | 9,45,000 Equity shares of ₹ 10 each | | 94,50,000 |
| | 62,500 10% Preference shares of ₹ 10 each | | 6,25,000 |
| | Total | | 1,00,75,000 |
| | Issued, subscribed and fully paid share capital: | | |
| | 9,45,000 Equity shares of ₹ 10 each, fully paid (Out of above, 2,70,000 equity shares @ ₹ 10 each were issued by way of bonus) | | 94,50,000 |
| | 60,000 10% Preference shares of ₹ 10 each | | 6,00,000 |
| | Total | | 1,00,50,000 |
| **2** | **Reserves and Surplus** | | |
| | Capital Redemption Reserve | 3,00,000 | Nil |
| | *Less:* Utilized | (3,00,000) | |
| | Securities Premium | 1,87,500 | |
| | *Less:* Utilised for bonus issue | (1,87,500) | Nil |
| | General reserve | 9,00,000 | |
| | *Less:* Utilised for bonus issue | (9,00,000) | Nil |
| | Profit & Loss Account | 15,00,000 | |

| | | | |
|---|---|---|---|
| | *Less:* Utilised for bonus issue | (13,12,500) | 1,87,500 |
| | Total | | 71,87,500 |

**Note:** *Authorized capital has been increased by the minimum required amount i.e. ₹ 19,50,000 (94,50,000 – 75,00,000) in the above solution.

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

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

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

**(ii) Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/ rebate/ discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

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

**(iii)** In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.

- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

**Advantages of Petty cash book are:**

(i) Saving of time of the chief cashier

(ii) Saving in labour in writing up the cash book and posting into the ledger

(iii) Control over small payments

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

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

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

$$= ₹\ 20 \text{ per hour}$$

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

**(v) Non-Applicability of Garner vs Murray rule:**

(i) When the solvent partner has a debit balance in the capital account.

Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.