PAPER – 1: ACCOUNTING

QUESTIONS

True and False

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

   (a) The concept of conservatism when applied to the balance sheet results in understatement of assets.

   (b) M/s Raj Yog & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 25 to 28. The total expenditure incurred was ₹ 50,000 and was treated as a revenue expenditure.

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

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

   (e) Depreciation is a non-cash expense and does not result in any cash outflow.

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

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

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

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

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

Theoretical Framework

2. (a) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(b) Distinguish between Going concern and cost concept.

Journal Entries

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

(i) Cheque amounting ₹ 24,000 from Shankar in full settlement of his account for ₹ 25,000.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 9,000, Cost ₹ 6,000), cash ₹ 3,000

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

(iv) Received commission ₹ 15,000, half of which does not relate of current year and is received in advance.

(v) Income tax liability of proprietor ₹ 18,500 was paid out of petty cash.

(vi) Purchase of goods from Sunny of the list price of ₹ 15,000. He allowed 10% trade discount, ₹ 200 cash discount was also allowed for quick payment.

Capital or Revenue Expenditure

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

- Legal fees on the acquisition of land.
- Complete repaint of existing building.

- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.
- Carriage costs on a replacement part for a piece of machinery.

Subsidiary Books

4. (a) Prepare Sales Book of M/s. Kabir of Almora for January 2025:

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

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

Jan. 18 Sold to M/s MTB 5 pieces of Recliner Chairs @ 11,000/- each less Trade Discount 10%. Payment received through cheque.

Jan. 28 Sold to M/s LMN 50 pieces of cupboards @ 10,000/ each less Trade Discount 20%.

Rectification of Errors

(b) Mr. Lalit was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by ₹ 16,000.

(ii) Sale of goods to Ms. Rashmi for ₹ 5,000 was omitted to be recorded.

(iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 6,100.

(vi) A credit purchase of goods from Mr. David for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

Bank Reconciliation Statement

5. According to the cash-book of Arun there was balance of ₹ 8,90,000 in his bank on 30th June, 2025 On investigation you find that :

(i) Cheques amounting to 1,20,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 2,21,000 out of which cheques amounting to ₹ 1,10,000 only collected by bank up to 30th June 2025

(iii) A dividend of ₹ 8,000 and rent amounting to 1,20,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2024) paid by the bank ₹ 5,400 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 1,000

(vi) Bank charges ₹ 300 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 40,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 12,000 had been discounted with the bank at a cost of ₹ 200 which had also not been recorded in cash book.

You are required:

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

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

Valuation of Inventories

6. Puneet closed his books of account on 31stMarch, each year. Inventory taking for the year ended 31st March, 2025 was completed by

10th April, 2025 on which date value of the stock available in godown was of ₹ 4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2025 and 10th April, 2025:

(i) Goods sold to customers ₹1,10,000.

(ii) Sales return ₹ 10,000.

(iii) Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).

(iv) Purchases return amounted to ₹ 2,500.

(v) Goods costing 20,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.

(vi) After the stock was taken, it was found that there was certain very old slow- moving items costing ₹ 16,000, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2025.

Depreciation and Amortisation

7. M/s. Alankrit Transport Company purchased 10 Buses @ ₹ 50,00,000 each on 1st October,2021. On 1st January, 2024, one of the Buses is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another bus is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum.

Give the Bus Account for the years ending 31st March, 2024 and 31st March,2025.

Bills of Exchange

8. On October, 2025, X sells goods to Y for 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill fort 15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on

1st October, 2025. In due course, X receives the information from the bank on the due date of the respective bill that the bill for 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are 500. Pass the journal entries in the books of X.(Ignore date Column)

Final accounts

9. The following are the balances extracted from the books of Shri Mohan Gupta as on 31.03.2025, who carries on business under the name and style of M/s Gupta & Associates at Jaipur:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	

Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2024	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2025 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2024

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2024 to 30.06.2025.

Financial Statements of Not for Profit Organizations

10. The following is the Receipts and Payments Account of a Sports Club for the year ended 31st December, 2025.

Receipts	₹	Payments	₹
To Balance b/d	7,500	By Salaries	14,000
To Subscriptions (including ₹ 2,000 for the year 2024)	40,000	By Match Expenses	28,000
		By Sports Materials	15,000
To Donations	15,000	By Printing & Stationery	12,000
To Life Membership Fees	35,000	By Honorarium	5,000
		By Furniture	15,000
To Sale of Furniture at book value	5,000	By Magazines & Journals	10,000
To Entrance Fees	10,000	By Books	35,000
To Interest on 10% Investments for the full year	20,000	By Municipal Taxes	6,000
		By Balance c/d	80,000
To Match Fund	40,000		
To Donation for Building Fund	45,000		
To Sale of Newspapers	2,500		
	2,20,000		2,20,000

Additional Information:

(i) The position of the Club on January 1, 2025 was as follows:

Subscriptions due	₹ 3,000
Furniture	₹ 10,000
Books	₹ 20,000
Building	₹ 1,25,000
Stock of Sports Materials	₹ 4,500
Creditors for Printing	₹ 2,500

(ii) The Club has 1,000 members each paying an annual subscription of ₹ 50. 20 members paid their subscription in advance in 2024. In the year 2025, subscription was received in advance from 15 members.

(iii) Municipal Taxes paid on 1st April every year.

(iv) One member donated a Billiard Table worth ₹ 50,000.

(v) Books were worth ₹ 46,000 on 31st December, 2025 and stock of sports materials on that date amounted to ₹ 4,000.

Prepare Income and Expenditure Account for the year ended 31st December, 2025 and Balance Sheet as on that date.

Accounts from Incomplete Records

11. Deep Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2024 was as follows :

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital A/c	3,37,500	Furniture & fixtures	75,000
Trade creditors	3,78,750	Stock	4,57,500
Outstanding expenses	33,750	Trade debtors	1,56,000
		Prepaid insurance	1,500
		Cash in hand & at bank	60,000
	7,50,000		7,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	**Amount (₹)**	**Payments**	**Amount (₹)**
Cash in hand & at Bank on 1st April, 2024	60,000	Payment to trade creditors	62,41,500

Cash sales	55,35,000	Sundry expenses paid	4,65,525
Receipts from trade debtors	13,87,500	Drawings	1,80,000
		Cash in hand & at Bank on 31st March, 2025	95,475
	69,82,500		69,82,500

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 27,000 and ₹ 21,250 respectively (for the year ended 31st March, 2025).

(ii) Annual fire insurance premium of ₹ 4,500 was paid every year on 1st August for the renewal of the policy.

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

(iv) The following are the balances as on 31st March, 2025:

Stock	₹ 4,87,500
Trade debtors	₹ 1,71,500
Outstanding expenses	₹ 27,600

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

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

Partnership Accounts

Calculation of Goodwill

12. Sita, Gita and Rita are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.03.2025 was as follows:

Balance Sheet of M/s Sita, Gita and Rita as at 31st March,2025

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Sita	2,55,000	Inventory	3,00,000
Gita	9,45,000	Trade receivables	1,50,000
Rita	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 during 2024-25 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Dissolution of Partnership Firm

13. A, B and C are partners sharing profits and losses in the ratio of 2:2:1 respectively. The Balance Sheet of the firm as at 31st March, 2025 is as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixed Assets	2,00,000
			Current Assets:	
A	1,46,000		Stock	1,25,000
B	54,000		Debtors	1,25,000
C	50,000	2,50,000		
C's Loan Account		25,000	Cash	5,000
Mrs. A's Loan A/c		50,000	Advance to B	20,000
Sundry Creditors		1,25,000		
Provision for Bad Debts		25,000		
		4,75,000		4,75,000

The firm was dissolved on 31st March,2025. After preparing the Balance Sheet as on 31st March, 2025; it was discovered that purchases amounting to ₹ 20,000 in March, 2025 were not recorded in the books, though the goods were received during March, 2025.

Fixed Assets realised ₹ 1,00,000, Stock ₹ 1,05,000 and Debtors ₹ 1,02,500. Creditors were paid after deduction of discount @2%, The realisation expenses amounted ₹ 5,400. A agreed to take over the loan of Mrs. A. B is insolvent and his estate is unable to contribute anything. Prepare Realisation A/c, Partners Capital A/c and Cash A/c applying the principles of Garner v. Murray.

Issue and Redemption of Shares

14. Greenrock Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2024. The company proposed to make a further issue of 2,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

    (i) ₹ 2 per share payable on application, to be received by 1st July, 2024;

    (ii) Allotment to be made on 10th July, 2024 and a further ₹ 5 per share (including the premium) to be payable;

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

    Applications were received for 8,40,000 shares and were dealt with as follows:

    (1) Applicants for 40,000 shares received allotment in full;

    (2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

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

You are required to record these transactions (including cash items) in the journal of Greenrock limited.

15. Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Windy Whale Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹ 8 per share.

(ii) A Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Kamal had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Tamal as fully paid up for ₹ 6 per share.

Issue and Redemption of Debentures

16. A company had issued 80,000, 12% debentures of ₹ 100 each on 1st April, 2021. The debentures were due for redemption on 1st March, 2025. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash for remaining debentures. 100 debentures holders holding totally 10,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Redemption of Preference Shares

17. The following balances appeared in the Books of Silver Stone Ltd. as on 31st December, 2024:

	Amount (₹)
1,600,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	1,20,00,000
4,00,000 Equity share of ₹ 100 each fully paid up	4,00,00,000
Securities Premium	13,00,000
Capital Redemption Reserve	84,00,000
General Reserve	1,70,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March,2025 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 1,20,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2025. The issue was fully subscribed and the allotment made on 1st March,2025. The amount due on allotment was duly received by 25th March,2025.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2025. Ignore date column in Journal.

18. Write short notes on the following:

    (i) Rules of posting of journal entries into Ledger.

    (ii) Importance of bank reconciliation statement to an industrial unit.

    (iii) Periodic Inventory System Vs Perpetual Inventory System

    (iv) Trade bill vs. Accommodation bill.

    (v) Contingent Asset and Contingent Liability

SUGGESTED ANSWERS/HINTS

1. *(a)* **False**: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of income and assets.

   (b) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, this renovation expense is capital expenditure in nature.

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

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

   (e) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow.

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

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

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

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

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

2. Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(b) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, it should be disclosed in the financial statements.

Cost concept: It means that the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity.

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

Journal entries

	Particulars	**Dr. Amount₹**	**Cr. Amount₹**
(i)	Bank A/c Dr.	24,000	
	Discount allowed A/c Dr.	1,000	
	To Shankar A/c		25,000
	(Being amount received from Shankar after allowing discount of 1,000).		
(ii)	Drawings Dr.	9,000	
	To Purchases A/c		6,000
	To Cash A/c		3,000
	(Being goods and cash withdrawn for personal use).		
(iii)	Free Samples/Sales promotion A/c Dr.	3,000	
	To Purchases A/c		3,000
	(Being the goods distributes as free samples).		
(iv)	Bank A/c Dr.	15,000	
	To Commission A/c		15,000
	(Being commission received).		
	Commission A/c Dr.	7,500	
	To Commission received in Advance A/c/ Prepaid Commission A/c		7,500
	(Being commission received in advance adjusted).		

(v)	Drawings A/c	18,500	
	To Petty Cash A/c		18,500
	(Being the income tax of proprietor paid out of business money		
(vi)	Purchase A/c	13,500	
	To Bank A/c		13,300
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for ₹ 15,000 @ 10% trade discount and cash discount of ₹ 200)		

(b)
- Legal fees on acquisition of land: Capital Expenditure
- Complete repaint: Revenue Expenditure
- Repainting van: Revenue Expenditure
- Drainage for new equipment: Capital Expenditure
- Carriage costs on replacement part: Revenue Expenditure

4. (a) Sales Book of M/s Kabir for January, 2025

Date	Particulars	Details ₹	L.F.	Amount ₹
2025	M/s. ABC			
	10 chairs @ ₹5000	50,000		
	Less: 5% Trade Discount	(2,500)		47,500
	(Sales as per invoice no. dated .....)			
	M/s. PQR			
	25 Chairs @ ₹2,000	50,000		
	Less: 10% Trade Discount	5,000		45,000
	(Sale as per invoice no. dated ......)			

	M/s LMN			
	50 Cupboards @ ₹10,000	5,00,000		
	Less: 20% Trade Discount	(1,00,000)		
	(Sales as per invoice no. dated……)			4,00,000
		Total		4,92,500

(b) Journal Entries in the books of Mr. Lalit

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense*A/c			16,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rashmi's Account	Dr.	5,000	
	To Profit & Loss Adjustment A/c			5,000
	(Sales to Rashmi omitted last year; now adjusted)			
(iii)	Anubhav's Account	Dr.	1,200	
	To Ashok's Account			1,200
	(Amount received from Ashok wrongly posted to the account of Anubhav now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			

(v)	Profit & Loss Adjustment A/c	Dr.	6,100	
	To Machinery A/c			6,100
	(Repairs to Machinery was wrongly debited to Machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. David A/c			6,000
	Credit purchase of goods from Mr. David sale last year, now rectified)			
(vii)	Lalit's Capital A/c	Dr.	23,550	
	To Profit and Loss Adjustment Account			23,550
	(Being balance in P & L Adjustment Account transferred to Lalit's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	16,450	
	To Lalit's Capital A/c			16,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

**Considering that the difference was posted to Suspense account.*

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	16,000	By Rashmi's A/c	5,000
To Suspense A/c	450	By Lalit's Capital A/c (Bal. Transfer)	23,550
To Machinery A/c	6,100		
To Mr. David's A/c	6,000		
	28,550		28,550

2. Suspense Account

	₹		₹
To Lalit's Capital A/c (Balance Transfer)	16,450	By P & L Adj. A/c	16,000
		By P & L Adj. A/c	450
	16,450		16,450

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

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	8,90,000	By Insurance premium A/c	5,400
To Dividend A/c	8,000	By Correction of errors	1,000
To Rent A/c	1,20,000	By Bank charges	300
To Bill receivable A/c	11,800	By Bill payable	40,000
		By Balance c/d	9,83,100
	10,29,800		10,29,800

Bank Reconciliation Statement as on 30th June, 2025

	₹
Adjusted balance as per cash book	9,83,100
Add: Cheques issued but not presented for payment till 30th June, 2025	1,20,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2025	(1,11,000)
Balance as per pass book	9,92,100

6. Statement of Valuation of Inventory as on 31st March, 2025

Particulars	Amount (₹)	Amount (₹)
Value of stock as on 10th April, 2025		4,50,000

Add: Cost of sales during the period from 31st March, 2025 to 10th April, 2025:		
Sales (₹ 1,10,000 - ₹ 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(20,000)	80,000
		5,30,000
Less: Purchases during the period from 31st March, 2025 to 10th April, 2025 (85,000- 2,500)	82,500	
Unsold stock out of goods received on consignment basis (40% of ₹ 20,000)	8,000	
Loss on revaluation of slow-moving inventories (16,000-9,500)	6,500	(97,000)
		4,33,000

7. **Buses A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.23	To balance b/d	3,50,00,000	01.01.24	By bank A/c	35,00,000
	To Profit & Loss A/c				
01.01.24	To Profit on settlement of Truck (W. Note 1)	7,50,000	01.01.24	By Depreciation on lost assets	7,50,000
01.01.24	To Bank A/c	60,00,000	31.03.24	By Depreciation A/c (W Note 3)	93,00,000
			31.03.24	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
01.04.24	To balance b/d	2,82,00,000	31.03.25	By Depreciation A/c (W Note 3)	1,02,00,000
			31.03.25	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of Bus

Original cost as on 1.10.2021	50,00,000
Less: Depreciation for 2021 -22 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2022-23	10,00,000
	35,00,000
Less: Depreciation for 2023-24 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of Bus	7,50,000

2. Calculation of WDV of 10 Buses as on 01.04.2023

	Amount
WDV of 1 truck as on 31.3.2023 (Refer W.N 1)	35,00,000
WDV of 10 Buses as on 01.04.23	3,50,00,000

3. Calculation for Depreciation for 2023-24 and 2024-25

	Amount
Depreciation for 2023-24	
On 9 Buses (₹ 50,00,000 x 9 x 20%)	90,00,000
On new Bus (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2024-25	
On 9 Bus (₹ 50,00,000 x 9 x 20%)	90,00,000
On new Bus (₹ 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

8. In the books of X

Journal Entries

Particulars		**L.F.**	**Dr.** ₹	**Cr.** ₹
Y A/c			29,500	
To Sales A/c				25,000
To Output IGST A/c				4,500
(Being the inter-state sale of goods to Y, charged to IGST @ 18%)				
Bills Receivable (No. 1) A/c			15,000	
Bills Receivable (No. 2) A/c			14,500	
To Y A/c				29,500
(Being the two bills acceptance- one for ₹ 15,000 and the other for ₹ 14,500 received)				
Bills sent for collection A/c	Dr.		29,500	
To Bills Receivable (No.1) A/c				15,000
To Bills Receivable (No.2) A/c				14,500
(Being the Bills sent to bank for collection)				
Bank A/c	Dr.		15,000	
To Bills sent for collection A/c				15,000
(Being the bill cancelled up due to Y's inability to pay it)				
Y A/c	Dr.		15,000	
To Bills sent for collection A/C				14,500
To Bank A/c				500
(Being the second bill dishonored and bank paid ₹500 as noting charges)				

9. M/s Gupta & Associates

Trading Account for the year ended 31st March 2025

Particulars	**Details**	**Amount**	**Particulars**	**Details**	**Amount**
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	

To Purchases	12,00,000		Less: Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight Inwards		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Gupta & Associates

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

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			

To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Gupta & Associates

as at 31st March 2025

Liabilities	Details	Amount	Assets	Details	Amount
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium ₹

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)

Less: Prepaid for 3 months

$\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	= 4,500
Less: interest as per Trial Balance	= (4,400)
Amount (Outstanding)	100

(4) Provision for bad debts A/c

Particulars	Amount (₹)		Amount (₹)
To bad debts A/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

10. Income and Expenditure Account

Expenditure		₹	Income	₹
To Salaries		14,000	By Subscriptions (1,000 × 50)	50,000
To Sports Materials	15,000		By Interest on 10% Investments	20,000
Add: Opening Stock	4,500			
	19,500	15,500	By Sale of old newspapers	2,500
Less: Closing stock	4,000			

To Printing and Stationery 12,000 *Less:* Creditors in the beginning (2,500)	9,500		
To Honorarium	5,000		
To Magazines and Journals	10,000		
To Depreciation on Books (20,000 + 35,000 - 46,000)	9,000		
To Municipal Taxes 6,000 *Add:* Prepaid in previous year (6,000×3/12) 1,500 7,500 *Less:* Prepaid for next year 1,500	6,000		
To Excess of Income over Expenditure (Surplus)	3,500		
	72,500		72,500

Balance Sheet as at 31st December, 2025

Liabilities	₹	Assets	₹
Capital Fund (W.N. 1) 3,68,000 Add: Surplus 3,500 3,71,500 Add: Life Membership Fees 35,000 Add: Entrance Fees 10,000	4,16,500	Building	1,25,000
		Furniture 10,000 Additions during the year 15,000 25,000 Less: Sold (5,000)	20,000
Donation for Building Fund	45,000	Books	46,000
Donation for Billiards Table	50,000	Stock of Sports Materials	4,000
Donations	15,000	Billiards Table	50,000
Match Fund 40,000 Less: Match Expenses (28,000)	12,000	10% Investment	2,00,000
		Prepaid Municipal Taxes (6,000 x 3/12)	1,500
Subscription in Advance (15x ₹ 50)	750	Subscriptions Outstanding (WN 2)	12,750
		Cash in Hand	80,000
	5,39,250		5,39,250

Working Notes:

1. Calculation of Capital Fund as on 1st January,2025

Balance Sheet as at January 1, 2025

Liabilities	₹	**Assets**	₹
Capital Fund (balancing figure)	3,68,000	Building	1,25,000
		Furniture	10,000
Creditors for Printing and Stationery	2,500	Books	20,000
		10% Investments	2,00,000
Subscriptions in Advance (20 x ₹ 50)	1,000	Stock of Sports Materials	4,500
		Subscriptions Due	3,000
		Prepaid Municipal Taxes	1,500
		Cash in Hand	7,500
	3,71,500		3,71,500

2. Calculation of Subscriptions Outstanding

Subscription Account

Particulars	₹	**Particulars**	₹
To Subscriptions Due A/c (in the beginning)	3,000	By Subscriptions received in Advance A/c (20×50) (2024)	1,000
To Income and Expenditure A/c (1,000× ₹ 50)	50,000	By Cash A/c	40,000
To Subscriptions in Advance (15× ₹ 50) (2025)	750	By Subscriptions Outstanding (2025)	12,750
	53,750		53,750

11. Trading and Profit and Loss Account of Deep Enterprises for the year ended 31st March, 2025.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	4,57,500	By Sales		
To Purchases (W.N. 2)	62,98,500	Cash	55,35,000	
To Gross profit c/d	6,96,500	Credit (W.N. 1)	14,30,000	69,65,000
(10% of 69,65,000)		By Closing stock		4,87,500
	74,52,500			74,52,500
To Sundry expenses (W.N. 4)	4,59,375	By Gross profit b/d		6,96,500
To Discount allowed	27,000	By Discount received		21,250
To Depreciation	11,250			
(15% ₹ 75,000)				
To Net Profit (b.f.)	2,20,125			
	7,17,750			7,17,750

Balance Sheet of Deep Enterprises as at 31st March, 2025

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	75,000	
Opening balance	3,37,500		Less: Depreciation	(11,250)	63,750
Less: Drawing	(1,80,000)		Stock		4,87,500
	1,57,500		Trade Debtors		1,71,500
Add: Net profit for the years	2,20,125	3,77,625	Unexpired insurance		1,500
Trade creditors (W.N. 3)		4,14,500	Cash in hand & at bank		95,475
Outstanding expenses		27,600			
		8,19,725			8,19,725

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	1,56,000	By Cash/Bank	13,87,500
To Credit sales (Bal. fig.)	14,30,000	By Discount allowed	27,000
		By Balance c/d	1,71,500
	15,86,000		15,86,000

2. Memorandum Trading Account

	₹		₹
To Opening stock	4,57,500	By Sales	69,65,000
To Purchases (Balancing figure)	62,98,500	By Closing stock	4,87,500
To Gross Profit (10% on sales)	6,96,500		
	74,52,500		74,52,500

3. Trade Creditors Account

	₹		₹
To Cash/Bank	62,41,500	By Balance b/d	3,78,750
To Discount received	21,250	By Purchases (as calculated in W.N. 2)	62,98,500
To Balance c/d (balancing figure)	4,14,500		
	66,77,250		66,77,250

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

	₹
Sundry expenses paid (as per cash and Bank book)	4,65,525
Add: Prepaid expenses as on 31–3–2024	1,500
	4,67,025

Less: Outstanding expenses as on 31–3–2024	(33,750)
	4,33,275
Add: Outstanding expenses as on 31–3–2025	27,600
	4,60,875
Less: Prepaid expenses as on 31–3–2025 (Insurance paid till July, 2024) (4,500 x 4/12)	(1,500)
	4,59,375

12. (i)

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2024	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2024	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Sita, Gita & Rita	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

13. Rectification Entry:

		₹	₹
A's Capital A/c	Dr.	8,000	
B's Capital A/c	Dr.	8,000	
C's Capital A/c	Dr.	4,000	
To Sundry Creditors A/c			20,000

(Being the omission to record purchases, now rectified)

Dr. Realisation Account Cr.

Particulars	₹	Particulars	₹
To Fixed Assets	2,00,000	By Sundry Creditors A/c (1,25,000 +20,000)	1,45,000
To Stock	1,25,000		
To Debtors	1,25,000	By Mrs. A's Loan A/c	50,000
To Cash A/c (S. Creditors) [(1,25,000 + 20,000) × 98/100]	1,42,100	By Provision for Bad Debts A/c	25,000
To Cash A/c (R. Expenses)	5,400	By Cash A/c: Fixed Assets 1,00,000; Stock 1,05,000; Debtors 1,02,500	3,07,500
To A's Capital A/c (Mrs. A's Loan)	50,000	By Capital Accounts: (Loss on Realisation) A 48,000; B 48,000; C 24,000	1,20,000
	6,47,500		6,47,500

Dr. Cash Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	5,000	By Realisation A/c	1,42,100
To Realisation A/c	3,07,500	By Realisation A/c	5,400
To A's Capital A/c (Cash brought in by A)	48,000	By C's Capital A/c	25,000
To C's Capital A/c (Cash brought in by C)	24,000	By A's Capital A/c	1,71,500
		By C's Capital A/c	40,500
	3,84,500		3,84,500

Dr. Partners' Capital Account Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Sundry Creditors	8,000	8,000	4,000	By Balance b/d	1,46,000	54,000	50,000
To Balance c/d	1,38,000	46,000	46,000				
	1,46,000	54,000	50,000		1,46,000	54,000	50,000
To Advance to B A/c	-	20,000	-	By Realisation A/c (Mrs. A's Loan)	50,000	-	-
To Realisation Loss A/c	48,000	48,000	24,000	By Balance b/d	1,38,000	46,000	46,000
To B's Capital A/c	16,500	-	5,500	By Cash A/c	48,000	-	24,000
To Cash A/c (Final Payment)	1,71,500	-	40,500	By A's Capital A/c (WN)	-	16,500	-
				By C's Capital A /c (WN)	-	5,500	-
	2,36,000	68,000	70,000		2,36,000	68,000	70,000

Working Note (WN): Since B is insolvent, his deficiencies is to be borne by A & C in capital sharing ratio (after rectification) i.e.

A's Share $22,000 \times \frac{1,38,000}{1,84,000} = 16,500$

C's Share $22,000 \times \frac{46,000}{1,84,000} = 5,500$

14. Journal of Greenrock Limited

Date 2024	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	16,80,000	
	To Equity Share Application A/c			16,80,000
	(Being application money received on 8,40,000 shares @ ₹ 2 per share)			

July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1- Column 5) To Bank A/c (Note 1– Column 6) (Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)	Dr.	16,80,000	 5,20,000 8,00,000 3,60,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)	Dr.	13,00,000	 7,80,000 5,20,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	5,00,000	 5,00,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 2,60,000 shares @ ₹ 5 per share as per Board's Resolution No....dated....)	Dr.	13,00,000	 13,00,000

March 31st	Bank A/c	Dr.	13,00,000	
	To Equity Share Final Call A/c			13,00,000
	(Being final call money on 2,60,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

15. (i) Journal Entries in the books of Windy Whale Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	9,000	
	To Equity Share Allotment money A/c (900 x ₹ 3)			2,700
	To Equity Share Final Call A/c (900 x ₹ 4)			3,600
	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.............dated..............)			

(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No..........dated.................)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii) Journal Entries in the Books of A ltd.

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No.......... dated..................)			
(b)	Bank A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No..........dated.............)			

(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	 150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹ 750
Less: Forfeiture of 150 shares	(₹ 600)
Profit on re-issue of shares	₹ 150

16. Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	80,000
Less: Debenture holders not opted for conversion	(10,000)
Debenture holders opted for conversion	70,000
Option for conversion	20%
Number of debentures to be converted (20% of 70,000)	14,000

Redemption value of 14,000 debentures at a premium of 5% [14,000 x (100+5)]	₹ 14,70,000
Equity shares of ₹ 10 each issued to debenture holders on redemption	
[₹ 14,70,000/ ₹ 15]	98,000 shares
Amount of cash to be paid	
Amount to be paid into cash [84,00,000 (80,000 x ₹ 105) – 14,70,000] on redemption	₹ 69,30,000

17. Journal Entries In the books of Silver Stone Ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c	Dr.	40,00,000	
To 10% Preference Share Capital A/c			40,00,000
(Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			
Bank A/c	Dr.	40,00,000	
To 10% Preference Share Final Call A/c			40,00,000
(Being receipt of final call money on preference shares)			
Bank A/c	Dr.	30,00,000	
To Equity Share Application A/c			30,00,000
(Being receipt of application money on 1,20,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	30,00,000	
To Equity Share Capital A/c			30,00,000
(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	54,00,000	
To Equity Share Capital A/c			42,00,000
To Securities Premium A/c			12,00,000
(Being allotment money due on 1,20,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	54,00,000	
To Equity Share Allotment A/c			54,00,000
(Being receipt of allotment money on equity shares)			

General Reserve A/c To Capital Redemption Reserve A/c (Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 1,60,00,000 - 30,00,000 – 42,00,000)	Dr.	88,00,000	 88,00,000
10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	1,60,00,000 8,00,000	 1,68,00,000
Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	1,68,00,000	 1,68,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	8,00,000	 8,00,000

Notes to Accounts:

			₹
1	**Share <u>Capital:</u>**		
	Equity Share Capital		
	Issued, Subscribed & Paid Up:		
	4,00,000 Equity Shares of ₹ 100 each fully paid up	4,00,00,000	
	1,20,000 Equity Shares of ₹ 100 each, ₹ 60 called up & paid up	<u>72,00,000</u>	4,72,00,000

2	**Reserves and Surplus:**		
	Securities Premium	13,00,000	
	Add: Amount received @ - 10 per share on 1,20,000 Equity Shares	12,00,000	25,00,000
	Capital Redemption Reserve	84,00,000	
	Add: Transferred on Redemption (WN-1)	88,00,000	1,72,00,000
	General Reserve	1,70,00,000	
	Less: Transferred to Capital Redemption Reserve	(88,00,000)	
	Less: Adjustment of Premium payable on Redemption	(8,00,000)	74,00,000
			2,71,00,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 1,60,000 Preference Shares Redeemed	1,60,00,000
Less: Proceeds of 1,20,000 Equity Shares issued, - 60 called up & paid up	72,00,000
Transfer to Capital Redemption Reserve	88,00,000

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

18. (i) Rules regarding posting of entries into ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii)

	Periodic Inventory System	**Perpetual Inventory System**
1.	This system is based on physical verification.	It is based on book records.

2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

(iv) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(v) Contingent Asset

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

Contingent Liability

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