PAPER – 1: ACCOUNTING

QUESTIONS

True and False

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

   (a) Accrual concept implies accounting on cash basis.

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

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

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

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

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

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

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

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

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

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

Journal Entries

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

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

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹ 1,000

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

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

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

Capital or Revenue Expenditure

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

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

(ii) Amount spent to reduce working expenses.

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

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

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

Cash Book

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

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

Rectification of Errors

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

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

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

(iii) An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

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

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

Bank Reconciliation Statement

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

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

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

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

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

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

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

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

You are required:

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

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

Valuation of Inventories

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

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

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

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

Depreciation and Amortisation

7. M/s. Deepak Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st October,2020. On 1st January, 2022, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum.

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

Bills of Exchange

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

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

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

Final accounts and Rectification of entries

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

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

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

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

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

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

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

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

Financial Statements of Not for Profit Organizations

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

(1)

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

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

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

You are required to:

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

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

Accounts from Incomplete Records

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

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

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

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

Additional Information:

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

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

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

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

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

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

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

Partnership Accounts

Calculation of Goodwill

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

(i) By Capitalization Method; and

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

Admission of Partner

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

Balance Sheet as at 31st March, 2024

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

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

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

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

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

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

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

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

Prepare Revaluation Account and Partners Capital Accounts.

Issue and Redemption of Shares

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

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

Issue and Redemption of Debentures

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

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

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

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

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

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

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

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

18. Write short notes on the following:

(i) Accounting conventions.

(ii) Objectives of preparing Trial Balance.

(iii) posting of journal entries into the Leger.

(iv) Machine Hour Rate method of calculating depreciation.

(v) Contingent Asset and Contingent Liability

SUGGESTED ANSWERS/HINTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Journal entries

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

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

(b) (i) Capital Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

(v) Revenue Expenditure

4. (a) **M/s Ram Agencies**

Dr. **Cash Book** Cr.

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

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

(b) Journal

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

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

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

Cash Book (Bank Column)

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

Bank Reconciliation Statement as on 30th June, 2024

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

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

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

7. **Truck A/c**

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

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

Working Note:

1. Profit on settlement of truck

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

2. Calculation of WDV of 10 trucks as on 01.04.2022

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

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

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

8. **In the books of Aanya**

Journal Entries

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

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

9. **Journal Entries**

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

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

Dr. *Cr.*

		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	

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

Balance Sheet as on 31st March, 2024

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

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

10. Subscription for the year ended 31.3.2024

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

Sports material consumed during the year end 31.3.2024

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

Expenditure Account	2,17,500

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

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

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

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

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

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

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

Working Notes:

1. Trade Debtors Account

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

2. Memorandum Trading Account

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

3. Trade Creditors Account

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

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

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

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

12. (i) Capitalisation Method:

Total Capitalised Value of the firm

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

Goodwill = Total Capitalised Value of Business – Capital Employed

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

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

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

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,00,000 x 2 = ₹ 2,00,000

13. (a) Revaluation Account

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

Partners' Capital Accounts

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

Working Notes:

1. Calculation of total capital

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

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

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

2. Calculation of New Profit Sharing ratio

P = ¾ x 4/5 = 12/20 = 3/5

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

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

OR

Calculation of sacrificing ratio

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

3. Goodwill

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

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

Therefore, Journal entry for goodwill will be

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

To P's Capital A/c 30,000

To Q's Capital A/c 10,000

14. Journal entries in the books of Happy Limited

Bank A/c	Dr.	50,000	

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

15. In the books of Well Done Limited

Journal entries

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

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

16. Calculation of number of equity shares to be allotted

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

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

17. In the books of Goldstar Ltd.

Journal Entries

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

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

Journal Entries

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

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

Notes to Accounts

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

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

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

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

(ii) Objectives of preparing trial balance

The preparation of trial balance has the following objectives:

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

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

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

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

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

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.

2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.

3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

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

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

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

$$= ₹\ 20 \text{ per hour}$$

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

(v) **Contingent Asset**

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

Contingent Liability

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