



# PAPER – 1: ACCOUNTING

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## QUESTIONS

### True and False

1. State with reasons, whether the following statements are true or false:
  - (a) Accounting Standards for non-corporate entities in India are issued by the Central Government.
  - (b) Cash book is a subsidiary book as well as a principal book.
  - (c) Debit balance as Cash Book is same as overdraft as per passbook.
  - (d) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
  - (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
  - (f) A Promissory note can be made payable to bearer.
  - (g) Provision for Bad Debts is debited to Sundry Debtors A/c
  - (h) Goodwill is intangible asset therefore it cannot be valued.
  - (i) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
  - (j) A person holding preference shares of a company cannot hold equity shares of the same company.
  - (k) A Company is not allowed to issue shares at a discount to the public in general.

**Theoretical Framework**

2. (a) Under what circumstances can an enterprise change its accounting policy?
- (b) Explain Cash and Mercantile system of accounting.

**Journal Entries**

3. (a) Prepare Journal Entries for the following transactions in the books of Harpreet
  - (i) Customer's cheque for ₹ 4,000 returned dishonoured for insufficient funds in his accounts. The customer had availed a cash discount of ₹ 400.
  - (ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.
  - (iii) Defective goods worth ₹ 5,000 are sold for 3,000.
  - (iv) Purchase of goods from Sunny of the list price of ₹ 20,000. He allowed 5% trade discount, ₹ 200 cash discount was also allowed for quick payment.
  - (v) Purchased goods from Sarah industries for ₹ 50,000 plus CGST and SGST@6% each.
  - (vi) Goods given as charity costing ₹ 1,600, sale price ₹ 2,000. CGST and SGST @ 6% each was paid at the time of purchase of such goods

**Capital or Revenue Receipt or Expenditure**

- (b) Classify the following transactions either as capital or revenue expenditures or as capital or revenue receipts;
  - (i) Dividend received from XYZ limited during the year.
  - (ii) Amount spent for replacement of a petrol driven engine by CNG kits.
  - (iii) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.
  - (iv) Overhauling expenses of second-hand machine purchased.

- (v) Insurance claim received on account of inventory damaged by fire.
- (vi) Entrance fees of ₹35,000 received by society club.

**Trial Balance**

4. (a) From the following information, draw up a Trial Balance in the books of Shri Mohan Das as on 31<sup>st</sup> March, 2024:

| Particulars                           | Amount<br>(₹) | Particulars         | Amount<br>(₹) |
|---------------------------------------|---------------|---------------------|---------------|
| Capital                               | 9,80,000      | Purchases           | 2,52,000      |
| Discount Allowed                      | 8,400         | Carriage Inward     | 60,900        |
| Carriage Outwards                     | 16,100        | Sales               | 4,20,000      |
| Return Inward                         | 2,100         | Return Outwards     | 4,900         |
| Rent and Taxes                        | 8,400         | Plant and Machinery | 5,64,900      |
| Stock on 1 <sup>st</sup> April 2023   | 1,08,500      | Sundry Debtors      | 1,41,400      |
| Sundry Creditors                      | 84,000        | Investments         | 25,200        |
| Commission Received                   | 12,600        | Cash in Hand        | 700           |
| Cash at bank                          | 70,700        | Motor Cycle         | 2,42,200      |
| Stock on 31 <sup>st</sup> March, 2024 | 1,43,500      |                     |               |

**Rectification of Errors**

- (b) Mr. Mathur's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:
- (i) The total of the Purchases Book of one page, ₹ 7,165 was carried forward to the next page as ₹ 7,615.
  - (ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

- (iii) A return to creditor, ₹ 1,595 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) A cheque of ₹ 500 issued to a suppliers A/c (shown under trade payables) towards his dues has been wrongly debited to purchases.
- (v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on sale.
- (viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

#### Bank Reconciliation Statement

5. From the following information (as on 31.3.2024), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

| Particulars                                                              |           |
|--------------------------------------------------------------------------|-----------|
| Bank balances as per the cash book (Dr.)                                 | 16,25,000 |
| Cheques deposited, but not yet credited                                  | 22,37,500 |
| Cheques issued but not yet presented for payment                         | 17,81,000 |
| Bank charges debited by bank but not recorded in the cash-book           | 6,250     |
| Dividend directly collected by the bank                                  | 62,500    |
| Insurance premium paid by bank as per standing instruction not intimated | 7,950     |
| Cash sales wrongly recorded in the Bank column of the cash-book          | 1,27,500  |

|                                                                     |        |
|---------------------------------------------------------------------|--------|
| Customer's cheque dishonoured by bank not recorded in the cash-book | 65,000 |
| Wrong credit given by the bank                                      | 75,000 |

Also show the bank balance that will appear in the trial balance as on 31.3.2024.

### Valuation of Inventories

6. Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31<sup>st</sup> March, 2024 was completed by 10<sup>th</sup> April, 2024, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31<sup>st</sup> March, 2024.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31<sup>st</sup> March, 2024.

### Depreciation and Amortisation

7. The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1<sup>st</sup> April, 2023. The Books of Accounts of the Factory are closed on 31<sup>st</sup> March every year and depreciation @ 10% per annum is charged under the Diminishing Balance Method. On 1<sup>st</sup> September, 2023 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1<sup>st</sup> September, 2023 a machine which had cost ₹ 21,87,000 on 1<sup>st</sup> April, 2021 was sold for ₹ 3,75,000. Another machine which had cost

₹ 21,85,000 on 1<sup>st</sup> April, 2022 was scrapped on 1<sup>st</sup> September, 2023 and it realized nothing.

Prepare Machinery Account for the year ended 31<sup>st</sup> March, 2024. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

### Bills of Exchange

8. On October, 2024, Samar sells goods to Amar for ₹ 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill for ₹ 15,000 for 2 months and second bill for the balance for 3 months. Amar accepts and returns these bills to Samar. Both the bills are sent to the bank for collection on 1<sup>st</sup> October, 2024. In due course, Samar 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 Samar along with narration.

### Final accounts

9. Charu decided to start business of fashion garments under the name of M/s. Bella Wear on 1<sup>st</sup> April, 2023. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

|                      |   |                                        |
|----------------------|---|----------------------------------------|
| 30th June, 2023      | - | ₹ 15,000 principal + ₹ 9,000 interest  |
| 30th September, 2023 | - | ₹ 15,000 principal + ₹ 8,550 interest  |
| 31st December, 2023  | - | ₹ 15,000 principal + ₹ 8,100 interest  |
| 31st March, 2024     | - | ₹ 15,000 principal + ₹ 7,650 interest. |

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of

₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

| Particulars               | Amount    | Particulars                  | Amount    |
|---------------------------|-----------|------------------------------|-----------|
| Total Sales               | 20,00,000 | Total Purchases              | 17,00,000 |
| Electricity Expenses paid | 40,000    | Telephone Charges            | 50,000    |
| Cartage Outwards          | 60,000    | Travelling Expenses          | 45,000    |
| Entertainment Expenses    | 5,000     | Maintenance Expenses         | 25,000    |
| Misc. Expenses            | 15,000    | Electricity Expenses Payable | 20,000    |

Other Information:

- (i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.
- (ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.
- (iii) Closing stock in hand as on 31<sup>st</sup> March, 2024: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31<sup>st</sup> March, 2024 and Balance Sheet as on that date.

### Financial Statements of Not for Profit Organizations

10. From the following Receipts and Payments Account of Finance Professionals Club.

#### Receipts and Payments Account for the year ended 31st March, 2024

| Receipts                  | ₹         | Payments         | ₹        |
|---------------------------|-----------|------------------|----------|
| To Cash in Hand (Opening) | 67,500    | By Salaries      | 7,42,500 |
| To cash at Bank (Opening) | 18,90,000 | By Stationery    | 1,34,550 |
| To Subscriptions          | 22,86,000 | By Billard Table | 8,70,750 |

|                                |           |                           |           |
|--------------------------------|-----------|---------------------------|-----------|
| To Donations                   | 10,80,000 | By Investments            | 9,29,700  |
| To Interest on Investments     | 27,000    | By Miscellaneous Expenses | 1,12,500  |
| To Entrance Fees               | 2,70,000  | By Furniture              | 18,45,000 |
| To Interest Received from Bank | 94,500    | By Insurance Premium      | 40,500    |
| To Sale of Old Newspapers      | 13,500    | By Cash in Hand (Closing) | 49,500    |
|                                |           | By Cash at Bank (Closing) | 10,03,500 |
|                                | 57,28,500 |                           | 57,28,500 |

- (i) Subscriptions in arrears for the year ended 31<sup>st</sup> March, 2024- ₹2,02,500 and Subscriptions received in advance during the year ended 31<sup>st</sup> March, 2024 - ₹58,500.
- (ii) Insurance Premium prepaid is ₹ 4,500.
- (iii) The detail with respect to Stationery of Accountants Club is as follows:

|                                                       | <b>1<sup>st</sup> April, 2023<br/>(₹)</b> | <b>31<sup>st</sup> March, 2024<br/>(₹)</b> |
|-------------------------------------------------------|-------------------------------------------|--------------------------------------------|
| Stock of Stationery                                   | 7,500                                     | 45,000                                     |
| Creditors for Stationery                              | 39,000                                    | 60,000                                     |
| Advance paid for Stationery purchased during the year | ---                                       | 10,500                                     |

Prepare the Income and Expenditure Account for the year ended 31<sup>st</sup> March, 2024. As per the club rules, donations are to be capitalized and entrance fees is the income of club.

### Accounts from Incomplete records

11. Saraswati Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31<sup>st</sup> March, 2024 was as follows:

| Liabilities          | ₹        | Assets                 | ₹        |
|----------------------|----------|------------------------|----------|
| Capital A/c          | 67,500   | Furniture & fixtures   | 15,000   |
| Trade creditors      | 75,750   | Stock                  | 91,500   |
| Outstanding expenses | 6,750    | Trade debtors          | 31,200   |
|                      |          | Prepaid insurance      | 300      |
|                      |          | Cash in hand & at bank | 12,000   |
|                      | 1,50,000 |                        | 1,50,000 |

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

| Receipts                                     | ₹         | Payments                                      | ₹         |
|----------------------------------------------|-----------|-----------------------------------------------|-----------|
| To Cash in hand & at Bank on 1st April, 2024 | 12,000    | By payment to trade creditors                 | 12,48,300 |
| To Cash sales                                | 11,07,000 | By Sundry expenses                            | 93,105    |
| To amount paid to debtors                    | 2,77,500  | By Drawings                                   | 36,000    |
|                                              |           | By Cash in hand & at Bank on 31st March, 2025 | 19,095    |
|                                              | 13,96,500 |                                               | 13,96,500 |

Additional Information:

- Discount allowed to trade debtors and received from trade creditors amounted to ₹5,400 and ₹4,250 respectively, (for the year ended 31st March, 2025)
- Annual fire insurance premium of ₹900 was paid every year on 1<sup>st</sup> August for the renewal of the policy. These expenses are included in sundry expenses.
- Furniture & fixtures were subject to depreciation @ 15% p.a. or diminishing balance method.

4. The following are the balances as on 31<sup>st</sup> March, 2025:
- |                      |         |
|----------------------|---------|
| Stock                | ₹97,500 |
| Trade debtors        | ₹34,300 |
| Outstanding expenses | ₹5,520  |
5. Gross profit ratio of 10% on sales is maintained throughout the year.
- You are required to prepare Trading and Profit & Loss account for the year ended 31<sup>st</sup> March, 2025, and Balance Sheet as on that date.

### Partnership Accounts

12. Seema, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2024. The Balance Sheet of Firm as at 31<sup>st</sup> March 2024 stood as

| Liabilities       | Amount   | Assets                                    | Amount   |
|-------------------|----------|-------------------------------------------|----------|
| Creditors         | 20,000   | Land and Building                         | 1,50,000 |
| General Reserve   | 12,000   | Investments                               | 65,000   |
| Capital Accounts: |          | Stock in trade                            | 15,000   |
| Seema             | 1,00,000 | Trade receivables                         | 35,000   |
| Yedhant           | 75,000   | Less: Provision for doubtful debt (2,000) | 33,000   |
| Zoya              | 75,000   | Cash in hand                              | 7,000    |
|                   |          | Cash at bank                              | 12,000   |
|                   | 2,82,000 |                                           | 2,82,000 |

In order to arrive at the balance due to Zoya, it was mutually agreed that:

- Land and Building be valued at ₹ 1,75,000
- Debtors were all good, no provision is required
- Stock is valued at ₹ 13,500

- (iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Seema and Yedhant.
- (v) Zoya's share of profit from 1<sup>st</sup> April 2024, to the date of death be calculated on the basis of average profit of preceding three years.
- (vi) The profit of the preceding five years ended 1<sup>st</sup> March were:

| 2024   | 2023   | 2022   | 2021   | 2020   |
|--------|--------|--------|--------|--------|
| 25,000 | 20,000 | 22,500 | 35,000 | 28,750 |

You are required to prepare:

- (1) Revaluation account
  - (2) Capital accounts of the partners and
  - (3) Balance sheet of the Firm as at 1<sup>st</sup> July 2024.
13. Agarwal, Samuel and Khan are partners in a firm. On 1<sup>st</sup> April 2022 their fixed capital stood at ₹ 2,50,000, ₹ 1,25,000 and ₹ 1,25,000 respectively.

As per the provision of partnership deed:

- (1) Khan was entitled for a salary of 25,000 p.a.
- (2) All the partners were entitled to interest on capital at 5% p.a.
- (3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31<sup>st</sup> March, 2023 of ₹ 1,65,000 and 31<sup>st</sup> March, 2024 of ₹ 2,25,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

### **Dissolution of Partnership**

14. Aman, Yaman and Zaman who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31<sup>st</sup> March, 2024 when their Balance Sheet was as follows:

| Liabilities         | ₹        | Assets    | ₹        |
|---------------------|----------|-----------|----------|
| Capital A/cs:       |          | Building  | 1,50,000 |
| Aman 1,80,000       |          | Machinery | 90,000   |
| Yaman 1,35,000      |          | Tools     | 12,000   |
| Zaman <u>90,000</u> | 4,05,000 | Car       | 18,000   |
| Creditors           | 51,000   | Debtors   | 93,000   |
|                     |          | Stock     | 55,500   |
|                     |          | Bank      | 37,500   |
|                     | 4,56,000 |           | 4,56,000 |

Following transactions took place at the time of dissolution:

Assets realized are : ₹

Tools 7,500

Machinery 1,23,000

Building 1,26,000

Car 37,500

Goodwill 90,000

Debtors 88,500

- Creditors accepted stock in settlement of their dues.
- There was an unrecorded asset valued at ₹ 4,500 which was taken by Aman for ₹3,000.
- There was an old furniture which had been written off from the books. Yaman agreed to take it at ₹ 12,000.
- Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

**Issue and Forfeiture of Shares**

15. Ambiance Limited invited applications for issuing 2,25,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 9,00,000 equity shares were received. Applications for 6,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 4,500 shares applied by Mr. Kabir. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of Ambiance Limited.

**Debentures**

16. Strawberry farms Ltd. issued 20,000 11% debentures of ₹ 100 each at a discount of 5%, payable ₹ 50 on application and ₹ 45 on allotment redeemable after 3 years.

- (i) at a premium of 2%
- (ii) at a discount of 2%

Pass necessary journal entries for issue of debentures.

**Redemption of Preference Shares**

17. The extract of Balance Sheet of Hari Om Ltd. as on 31<sup>st</sup> March 2024 is as follows

| Sr. No. | Particulars                   | Notes | ₹ | ₹       |
|---------|-------------------------------|-------|---|---------|
| I]      | <u>EQUITY AND LIABILITIES</u> |       |   |         |
| (1)     | Shareholders' funds           |       |   |         |
| a)      | Share Capital                 | 1     |   | 350,000 |

|     |                         |   |          |
|-----|-------------------------|---|----------|
| b)  | Reserve & Surplus       | 2 | 64,000   |
| II] | <u>ASSETS</u>           |   |          |
| (1) | Non-current assets      |   |          |
| a)  | PPE & Intangible Assets |   |          |
| i)  | PPE                     |   | 2,25,000 |
| b)  | Non-Current Investments |   | 60,000   |

Notes to accounts:

| Sr. No. | Particulars                                            | ₹               |
|---------|--------------------------------------------------------|-----------------|
| 1.      | Share capital                                          |                 |
|         | Authorized Share Capital                               |                 |
|         | 40,000 Equity shares of ₹ 10 each fully paid up        | 4,00,000        |
|         | 1,000 8% Preference shares of ₹ 100 each fully paid up | <u>1,00,000</u> |
|         |                                                        | <u>5,00,000</u> |
|         | Issued, Subscribed Called Up and Paid up Share Capital |                 |
|         | 1000, 8% Preference shares of ₹ 100 each fully paid up | 1,00,000        |
|         | 25,000 Equity shares of ₹ 10 each fully paid up        | <u>2,50,000</u> |
|         | Total                                                  | <u>3,50,000</u> |
| 2.      | Reserve and Surplus                                    |                 |
|         | Securities Premium Reserves                            | 9,000           |
|         | Profit and Loss Account                                | <u>55,000</u>   |
|         | Total                                                  | 64,000          |

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investment of ₹ 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

18. Write short notes on the following:
- (i) Double entry system.
  - (ii) Importance of bank reconciliation to an industrial unit.
  - (iii) Bill of exchange and the various parties to it.
  - (iv) Features of Single Entry System.
  - (v) Advantages and Disadvantages of Right Issue.



### SUGGESTED ANSWERS

1. (a) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- (b) **True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.
- (c) **False:** Debit balance as per cash book should be represented by credit or favourable balance in passbook.
- (d) **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.
- (e) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written

down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

- (f) **False:** A promissory note cannot be made payable to bearer. It is payable to or to the order of certain person.
  - (g) **False:** Provision for Bad debts is debited to P&LA/c. In Balance Sheet it is shown as deduction from "Debtors".
  - (h) **False:** Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
  - (i) **False:** It shall be disclosed as a current liability in the opening balance sheet.
  - (j) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
  - (k) **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
2. (a) A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.
- (b) **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) Journal Entries in the books of Harpreet**

|       | <b>Particulars</b>                                                                                                                                      | <b>Dr.</b>            | <b>Cr.</b>            |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
|       |                                                                                                                                                         | <b>Amount<br/>(₹)</b> | <b>Amount<br/>(₹)</b> |
| (i)   | Customers (Debtors) A/c Dr.<br>To Bank A/c<br>To Discount Allowed A/c<br>(Being customer cheque returned unpaid by bank, cash discount allowed earlier) | 4,400                 | 4,000<br>400          |
| (ii)  | Drawings A/c Dr.<br>To Petty Cash A/c<br>(Being the income tax of proprietor paid out of business money)                                                | 8,500                 | 8,500                 |
| (iii) | Cash A/c Dr.<br>Profit and Loss A/c<br>To Sales A/c<br>(Being defective goods costing ₹ 5,000 were sold for a loss of ₹ 2,000)                          | 3,000<br>2,000        | 5,000                 |

|      |                                                                                                     |     |        |        |
|------|-----------------------------------------------------------------------------------------------------|-----|--------|--------|
| (iv) | Purchase A/c                                                                                        | Dr. | 19,000 |        |
|      | To Bank A/c                                                                                         |     |        | 18,800 |
|      | To Discount Received A/c                                                                            |     |        | 200    |
|      | (Being the goods purchased from Sunny for ₹ 19,000 @ 5% trade discount and cash discount of ₹ 200)  |     |        |        |
| (v)  | Purchases A/c                                                                                       | Dr. | 50,000 |        |
|      | Input CGST A/c                                                                                      | Dr. | 9,000  |        |
|      | Input SGST A/c                                                                                      | Dr. | 9,000  |        |
|      | To Sarah Industries                                                                                 |     |        | 68,000 |
|      | (Being goods purchased and CGST and SGST payable at 6% each)                                        |     |        |        |
| (vi) | Charity A/c                                                                                         | Dr. | 1,792  |        |
|      | To Purchases A/c                                                                                    |     |        | 1,600  |
|      | To Input CGST A/c                                                                                   |     |        | 96     |
|      | To Input SGST A/c                                                                                   |     |        | 96     |
|      | (Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed) |     |        |        |

- (b)
1. Revenue Receipts
  2. Capital Expenditure
  3. Capital Expenditure
  4. Capital Expenditure
  5. Revenue Receipts
  6. Capital Receipts.

4. (a) Trial Balance of Shri. Mohan Das as on 31<sup>st</sup> March, 2024

| Particulars | Dr.<br>Amount ₹ | Cr.<br>Amount ₹ |
|-------------|-----------------|-----------------|
| Capital     |                 | 9,80,000        |

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Purchases                            | 2,52,000  |           |
| Discount Allowed                     | 8,400     |           |
| Carriage Inward                      | 60,900    |           |
| Carriage Outwards                    | 16,100    |           |
| Sales                                |           | 4,20,000  |
| Return Inward                        | 2,100     |           |
| Return Outwards                      |           | 4,900     |
| Rent and taxes                       | 8,400     |           |
| Plant and Machinery                  | 5,64,900  |           |
| Stock on 1 <sup>st</sup> April, 2023 | 1,08,500  |           |
| Sundry Debtors                       | 1,41,400  |           |
| Sundry Creditors                     |           | 84,000    |
| Investments                          | 25,200    |           |
| Commission Received                  |           | 12,600    |
| Cash in Hand                         | 700       |           |
| Cash at Bank                         | 70,700    |           |
| Motor Cycle                          | 2,42,200  |           |
|                                      | 15,01,500 | 15,01,500 |

Note: Stock as on 31<sup>st</sup> March, 2024 will not appear in trail balance.

**(b) Journal Entries in the books of Mr. Mathur**

|     | <b>Particulars</b>                                                                                                                                                                             | <b>L.F.</b> | <b>Dr.<br/>₹</b> | <b>Cr.<br/>₹</b> |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------------|------------------|
| (i) | Suspense A/c Dr.<br>To Profit and Loss<br>Adjustment A/c<br>(Correction of error by which<br>Purchase<br>Account was over debited<br>last year- ₹ 7,615 carried<br>forward instead of ₹ 7,165) |             | 450              | 450              |

|       |                                                                                                                                                                                                                             |  |              |       |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------|-------|
| (ii)  | Profit & Loss Adjustment A/c Dr.<br>Customer's A/c Dr.<br>To Suspense A/c<br>(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281) |  | 540<br>1,102 | 1,642 |
| (iii) | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Correction of error by which Returns Inward Account was debited by ₹1,595 instead of Returns Outwards Account being credited by ₹1,595)                             |  | 3,190        | 3,190 |
| (iv)  | Trade payables A/c Dr.<br>To Purchases A/c<br>(Being payments made to a supplier wrongly credited to purchases now rectified)                                                                                               |  | 500          | 500   |
| (v)   | Customer's (debtors) A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Rectification of the error arising from non-preparation of invoice for goods delivered)                                                                 |  | 1,400        | 1,400 |
| (vi)  | Profit & Loss Adjustment A/c Dr.<br>To Customer's A/c<br>(The Customer's A/c credited with goods not yet purchased by him)                                                                                                  |  | 1,600        | 1,600 |

|        |                                                                                                                                              |  |       |       |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------|--|-------|-------|
| (vii)  | Inventory A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)    |  | 1,280 | 1280  |
| (viii) | R's A/c/Trade receivable A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Sales to R omitted, now rectified)                                   |  | 3,000 | 3,000 |
| (ix)   | Profit & Loss Adjustment A/c Dr.<br>To Mathur's Capital A/c<br>(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account) |  | 7,180 | 7,180 |

**5.**
**Cash Book as on 31.3.2024**
**(After making necessary adjustments)**

| Dr.            |             |                                           | Cr.         |
|----------------|-------------|-------------------------------------------|-------------|
| Particulars    | Amount<br>₹ | Particulars                               | Amount<br>₹ |
| To Balance b/d | 16,25,000   | By Bank charges                           | 6,250       |
| To Dividend    | 62,500      | By Insurance premium                      | 7,950       |
|                |             | By Trade receivables (cheque dishonoured) | 65,000      |
|                |             | By Cash A/c (wrongly recorded cash sales) | 1,27,500    |
|                |             | By Balance c/d                            | 14,80,800   |
|                | 16,87,500   |                                           | 16,87,500   |

**Bank Reconciliation Statement as on 31.3.2024**

| Particulars                                                  | Details   | Amount<br>₹ |
|--------------------------------------------------------------|-----------|-------------|
| Bank balance as per the cash book                            |           | 14,80,800   |
| <i>Add:</i> Cheques issued but not yet presented for payment | 17,81,000 |             |
| Wrong credit given by bank                                   | 75,000    | 18,56,000   |
|                                                              |           | 33,36,800   |
| <i>Less:</i> Cheques deposited but not yet credited by bank  |           | (22,37,500) |
| Balance as per the pass book                                 |           | 10,99,300   |

The bank balance of ₹ 14,80,800 will appear in the trial balance as on 31st March, 2024.

**Note:** Cash sales should have been recorded by passing the following entry:

|              |    |          |          |
|--------------|----|----------|----------|
| Cash A/c     | Dr | 1,27,500 |          |
| To Sales A/c |    |          | 1,27,500 |

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

|             |     |          |          |
|-------------|-----|----------|----------|
| Cash A/c    | Dr. | 1,27,500 |          |
| To Bank A/c |     |          | 1,27,500 |

**6. Statement showing the valuation of stock  
as on 31<sup>st</sup> March, 2024**

| Particulars                           | ₹        |
|---------------------------------------|----------|
| Value of Stock as on 10th April, 2024 | 5,02,500 |

|                                                                                            |                 |
|--------------------------------------------------------------------------------------------|-----------------|
| Add: Cost of sales after 31 <sup>st</sup> March, till stock taking<br>(₹ 20,625 – ₹ 5,156) | 15,469          |
| Less: Purchases for the next period (net)                                                  | (24,300)        |
| Less: Cost of Sales Returns (900-225)                                                      | (675)           |
| Less: Loss on revaluation of slow moving inventories<br>(3,375-1,575)                      | (1,800)         |
| Less: Reduction in value on account of default (4,650-<br>3,750)                           | <u>(900)</u>    |
| Value of Stock on 31 <sup>st</sup> March, 2024                                             | <u>4,90,294</u> |

**Note:** Profit margin of 33.33 percent on cost means 25 percent on sale price.

**7. Plant and Machinery Account for the year ended 31<sup>st</sup> March, 2024**

|          |                                    | ₹          |          |                                               | ₹          |
|----------|------------------------------------|------------|----------|-----------------------------------------------|------------|
| 01-04-23 | To Balance b/d                     | 95,00,000  | 01-09-24 | By Bank (Sales)                               | 3,75,000   |
| 01-09-23 | To Bank<br>(14,00,000 +<br>44,600) | 14,44,600  |          | By Depreciation<br>(on sold<br>machine)       | 73,811     |
|          |                                    |            |          | By Loss on sale                               | 13,22,659  |
|          |                                    |            |          | By Loss on<br>scrapping the<br>machine        | 18,84,562  |
|          |                                    |            |          | By Depreciation<br>(on Scrapped<br>machinery) | 81,938     |
|          |                                    |            |          | By Depreciation<br>(Note iii)                 | 6,60,471   |
|          |                                    |            | 31-03-24 | By Balance c/d                                | 65,46,159  |
|          |                                    | 109,44,600 |          |                                               | 109,44,600 |

**Working Note:**

|                                                             |           |             |
|-------------------------------------------------------------|-----------|-------------|
| (i) Calculation of loss on sale of machine on 01-09-2023    |           |             |
|                                                             |           | ₹           |
| Cost on 1-4-2021                                            |           | 21,87,000   |
| Less: Depreciation @ 10% on ₹ 21,87,000                     |           | (2,18,700)  |
| W.D.V. on 31-03-2022                                        |           | 19,68,300   |
| Less: Depreciation @ 10% on ₹ 19,68,300                     |           | (1,96,830)  |
| W.D.V. on 31-03-2023                                        |           | 17,71,470   |
| Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months        |           | (73,811)    |
|                                                             |           | 16,97,659   |
| Less: Sale proceeds on 01-09-2023                           |           | (3,75,000)  |
| Loss                                                        |           | 13,22,659   |
| (ii) Calculation of loss on scrapped machine                |           |             |
| Cost on 1-4-2022                                            |           | 21,85,000   |
| Less: Depreciation @ 10% on ₹ 21,85,000                     |           | (2,18,500)  |
| W.D.V. on 31-3-2023                                         |           | 19,66,500   |
| Less: Depreciation @ 10% on ₹ 19,66,500 for 5 months        |           | (81,938)    |
| Loss                                                        |           | 18,84,562   |
| (iii) Depreciation                                          |           |             |
| Balance of machinery account on 1-4-2023                    |           | 95,00,000   |
| Less: W.D.V of machinery sold                               | 17,71,470 |             |
| W.D.V. of machinery scrapped                                | 19,66,500 | (37,37,970) |
| Balance of other machinery after sale and scrap on 1-4-2023 |           | 57,62,030   |
| Depreciation @ 10% on ₹ 57,62,030 for 12 months             |           | 5,76,203    |
| Depreciation @ 10% on ₹ 14,44,600 for 7 months              |           | 84,268      |
|                                                             |           | 6,60,471    |

Note: The figures are rounded off to nearest rupee.

8. Journal Entries in the books of Samar

| Date          | Particulars<br>L.F.                                                                                                                                                          | Dr.<br>₹         | Cr.<br>₹         |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| 2024<br>Oct.1 | Amar A/c Dr.<br>To Sales A/c<br>To Output IGST A/c<br>(Being the inter-state sale of goods to Amar, charged to IGST @ 18%)                                                   | 29,500           | 25,000<br>4,500  |
| Oct.1         | Bills Receivable (No. 1) A/c Dr.<br>Bills Receivable (No. 2) A/c Dr.<br>To Amar A/c<br>(Being the two bills acceptance - one for ₹15,000 and the other for ₹14,500 received) | 15,000<br>14,500 | 29,500           |
| Oct.1         | Bills sent for collection A/c Dr.<br>To Bills Receivable (No.1) A/c<br>To Bills Receivable (No.2) A/c<br>(Being the bills sent to bank for collection)                       | 29,500           | 15,000<br>14,500 |
| Dec.4         | Bank A/c Dr.<br>To Bills sent for collection A/c<br>(Being the amount duly collected by bank on first bill)                                                                  | 15,000           | 15,000           |
| 2025<br>Jan.4 | Amar A/c Dr.<br>To Bills sent for collection A/c<br>To Bank A/c<br>(Being the second bill dishonored and bank paid ₹500 as noting charges)                                   | 15,000           | 14,500<br>500    |

9. In the books of M/s Bella Designer wear  
Trading and Profit & Loss Account (for the year ending 31.3.2024)

|                                          | ₹                |                  | ₹                |
|------------------------------------------|------------------|------------------|------------------|
| To Purchases                             | 17,00,000        | By Sales         | 20,00,000        |
| To Gross profit                          | <u>8,50,000</u>  | By Closing stock | <u>5,50,000</u>  |
|                                          | <u>25,50,000</u> |                  | <u>25,50,000</u> |
| To Interest<br>(9,000+8,550+8,100+7,650) | 33,300           | By Gross profit  | 8,50,000         |
| To Telephone charges                     | 50,000           |                  |                  |
| To Travelling expenses                   | 45,000           |                  |                  |
| To Maintenance expenses                  | 25,000           |                  |                  |
| To Entertainment expenses                | 5,000            |                  |                  |
| To Electricity exp 40,000                |                  |                  |                  |
| Add: outstanding <u>20,000</u>           | 60,000           |                  |                  |
| To Carriage outward                      | 60,000           |                  |                  |
| To Depreciation                          |                  |                  |                  |
| Building 5% 30,000                       |                  |                  |                  |
| Furniture 10% <u>1,000</u>               | 31,000           |                  |                  |
| To Misc. exp                             | 15,000           |                  |                  |
| To Net profit                            | <u>5,25,700</u>  |                  |                  |
|                                          | <u>8,50,000</u>  |                  | <u>8,50,000</u>  |

Balance Sheet as on 31st March, 2024

| LIABILITIES     | ₹               | ₹        | ASSETS    | ₹             | ₹        |
|-----------------|-----------------|----------|-----------|---------------|----------|
| Capital         | 3,00,000        |          | Building  | 6,00,000      |          |
| Further Capital | 2,00,000        |          | Less: dep | <u>30,000</u> | 5,70,000 |
| Less: Drawings  | (60,000)        |          | Furniture | 10,000        |          |
| Add: Net profit | <u>5,25,700</u> | 9,65,700 | Less: dep | <u>1,000</u>  | 9,000    |

|                                             |               |                  |                            |  |                  |
|---------------------------------------------|---------------|------------------|----------------------------|--|------------------|
| Bank Loan                                   | 3,00,000      |                  | Security deposit-Telephone |  | 7,000            |
| Less: repayment outstanding electricity exp | <u>60,000</u> | 2,40,000         | Bank                       |  | 89,700           |
|                                             |               | <u>20,000</u>    | Closing stock              |  | <u>5,50,000</u>  |
|                                             |               | <u>12,25,700</u> |                            |  | <u>12,25,700</u> |

**Working note:**
**Bank Account**

| PARTICULARS        | ₹                | PARTICULARS                  | ₹             |
|--------------------|------------------|------------------------------|---------------|
| To Capital         | 3,00,000         | By Building                  | 6,00,000      |
| To Further capital | 2,00,000         | By Furniture                 | 10,000        |
| To Bank loan       | 3,00,000         | By Bank loan repaid          | 60,000        |
| To Sales           | 20,00,000        | By Interest                  | 33,300        |
|                    |                  | By Security deposit          | 7,000         |
|                    |                  | By Drawings                  | 60,000        |
|                    |                  | By Purchase                  | 17,00,000     |
|                    |                  | By Telephone charges         | 50,000        |
|                    |                  | By Travelling expenses       | 45,000        |
|                    |                  | By Maintenance expenses      | 25,000        |
|                    |                  | By Entertainment expenses    | 5,000         |
|                    |                  | By Electricity expenses paid | 40,000        |
|                    |                  | By Carriage outward          | 60,000        |
|                    |                  | By Misc. expenses            | 15,000        |
|                    |                  | By Balance c/d               | <u>89,700</u> |
|                    | <u>28,00,000</u> |                              | 28,00,000     |

10.

**Finance Professionals Club**  
**Income and Expenditure Account**  
**for the year ended 31st March, 2024**

| Expenditure                  | ₹         | Income                        | ₹         |
|------------------------------|-----------|-------------------------------|-----------|
| To Salaries                  | 7,42,500  | By Subscriptions 22,86,000    |           |
| To Stationery (WN. 2)        | 1,07,550  | Add: Arrears <u>2,02,500</u>  |           |
| To Miscellaneous Expenses    | 1,12,500  | 24,88,500                     |           |
| To Insurance Premium         |           | Less: Advance <u>(58,500)</u> |           |
| 40,500                       | -         |                               | 24,30,000 |
| Less: Prepaid <u>(4,500)</u> | 36,000    | By Entrance Fees              | 2,70,000  |
| To Surplus - Excess of       |           | By Interest on Investments    | 27,000    |
| Income over Expenditures     | 18,36,450 | By Interest Received from     |           |
|                              |           | Bank                          | 94,500    |
|                              |           | By Sale of Old Newspapers     | 13,500    |
|                              |           |                               |           |
|                              | 28,35,000 |                               | 28,35,000 |

**Working Note:****Computation of consumption of Stationery during the year****1. Creditors for Stationery Account**

| Particulars        | ₹        | Particulars                                   | ₹        |
|--------------------|----------|-----------------------------------------------|----------|
| To bank A/c (Paid) | 1,34,550 | By Balance b/d                                | 39,000   |
| To Balance c/d     | 60,000   | By Stock of Stationery A/c (Balancing Figure) | 1,45,050 |
|                    |          | By advance paid for stationary purchased      | 10,500   |
|                    | 1,94,550 |                                               | 1,94,550 |

**2. Stock of Stationery Account**

| Particulars                                | ₹        | Particulars                                                     | ₹         |
|--------------------------------------------|----------|-----------------------------------------------------------------|-----------|
| To Balance b/d                             | 7,500    | By Income and Expenditure A/c (Bal. Fig.) (Stationery Consumed) | 1,07,550  |
| To Creditors for Stationery A/c (Transfer) | 1,45,050 | By Balance c/d                                                  | 45,000    |
|                                            | 1,52,550 |                                                                 | 1,52,550d |

**11. Trading and Profit and Loss Account  
for the year ended 31<sup>st</sup> March,2025**

| Particulars             | ₹         | Particulars            | ₹         |
|-------------------------|-----------|------------------------|-----------|
| To Opening stock        | 91,500    | By Sales               |           |
| To Purchases (bal fig)  | 12,59,700 | Cash 11,07,000         |           |
| To Gross Profit @ 10%   | 1,39,300  | Credit <u>2,86,000</u> | 13,93,000 |
|                         | 14,90,500 | By Closing stock       | 97,500    |
| To Expenses (WN .2)     | 90,975    | By Gross Profit        | 1,39,300  |
| To Insurance (WN .3)    | 900       | By Discount Received   | 4,250     |
| To Discount Allowed     | 5,400     |                        |           |
| To Depreciation         | 2,250     |                        |           |
| To Net profit (bal fig) | 44,025    |                        |           |
|                         | 1,43,550  |                        | 1,43,550  |

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

| Liabilities     | ₹      | ₹ | Assets           | ₹              | ₹      |
|-----------------|--------|---|------------------|----------------|--------|
| Capital A/c     |        |   | Furniture        | 15,000         |        |
| Opening balance | 67,500 |   | (-) Depreciation | <u>(2,250)</u> | 12,750 |

|                 |          |          |                   |  |          |
|-----------------|----------|----------|-------------------|--|----------|
| (+) Profit      | 44,025   |          | Debtors           |  | 34,300   |
|                 | 1,11,525 |          | Stock             |  | 97,500   |
| (-) Drawings    | (36,000) | 75,525   | Bank              |  | 19,095   |
| Creditors       |          | 82,900   | Prepaid Insurance |  | 300      |
| Outstanding exp |          | 5,520    |                   |  |          |
|                 |          | 1,63,945 |                   |  | 1,63,945 |

**W. N. 1**
**Creditors A/c**

| Particulars          | ₹         | Particulars | ₹         |
|----------------------|-----------|-------------|-----------|
| To Bank a/c          | 12,48,300 | By Bal b/d  | 75,750    |
| To Discount          | 4,250     | By Purchase | 12,59,700 |
| To Bal c/d (bal fig) | 82,900    |             |           |
|                      | 13,35,450 |             | 13,35,450 |

**W.N. 2**
**Expenses A/c**

| Particulars          | ₹      | Particulars                                          | ₹      |
|----------------------|--------|------------------------------------------------------|--------|
| To Bank (93,105-900) | 92,205 | By Outstanding expenses as per opening balance sheet | 6,750  |
| To Payable           | 5,520  | By P&L (bal fig)                                     | 90,975 |
|                      | 97,725 |                                                      | 97,725 |

**W.N.3**
**Insurance A/c**

| Particulars                             | ₹   | Particulars           | ₹   |
|-----------------------------------------|-----|-----------------------|-----|
| To Prepaid as per opening Balance Sheet | 300 | By Prepaid (900*4/12) | 300 |

|         |       |                  |       |
|---------|-------|------------------|-------|
| To Bank | 900   | By P&L (bal fig) | 900   |
|         | 1,200 |                  | 1,200 |

**W.N. 4 Debtors A/c**

| Particulars               | ₹        | Particulars | ₹        |
|---------------------------|----------|-------------|----------|
| To Bal b/d                | 31,200   | By bank     | 2,77,500 |
| To Credit Sales (Bal fig) | 2,86,000 | By Discount | 5,400    |
|                           |          | By Bal c/d  | 34,300   |
|                           | 3,17,200 |             | 3,17,200 |

**12. (a) Revaluation Account**

| Particulars                          | ₹      | Particulars                       | ₹      |
|--------------------------------------|--------|-----------------------------------|--------|
| To Stock                             | 1,500  | By Land & Building                | 25,000 |
| To Partners:<br>(Revaluation Profit) |        | By Provision for<br>doubtful debt | 2,000  |
| Seema                                | 8,500  |                                   |        |
| Yedhant                              | 8,500  |                                   |        |
| Zoya                                 | 8,500  |                                   |        |
|                                      | 27,000 |                                   | 27,000 |

**Partners' Capital Accounts**

| Particulars           | Seema    | Yedhant | Zoya   | Particulars                                         | Seema    | Yedhant | Zoya   |
|-----------------------|----------|---------|--------|-----------------------------------------------------|----------|---------|--------|
| To Zoya               | 4,375    | 4,375   | -      | By Bal b/d.                                         | 1,00,000 | 75,000  | 75,000 |
| To Zoya's<br>Executor | -        | -       | 98,125 | By General reserve                                  | 4,000    | 4,000   | 4,000  |
|                       |          |         |        | By Seema &<br>Yedhant                               | -        | -       | 8,750  |
| To Bal. c/d           | 1,08,125 | 83,125  |        | By Profit and Loss<br>Adjustment*<br>(suspense) A/c | -        | -       | 1,875  |

|  |          |        |        |                |          |        |        |
|--|----------|--------|--------|----------------|----------|--------|--------|
|  |          |        |        | By Revaluation | 8,500    | 8,500  | 8,500  |
|  | 1,12,500 | 87,500 | 98,125 |                | 1,12,500 | 87,500 | 98,125 |

\*Profit and Loss Adjustment =  $[(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$

### Balance Sheet of Firm as on 1<sup>st</sup> July,2024

| Particulars   | ₹        | Particulars              | ₹        |
|---------------|----------|--------------------------|----------|
| Seema         | 1,08,125 | Land & Building          | 1,75,000 |
| Yedhant       | 83,125   | Investment               | 65,000   |
| Zoya Executor | 98,125   | Stock                    | 13,500   |
| Creditors     | 20,000   | Trade receivable         | 35,000   |
|               |          | Profit & Loss Adjustment | 1,875    |
|               |          | Cash in hand             | 7,000    |
|               |          | Cash at bank             | 12,000   |
|               | 3,09,375 |                          | 3,09,375 |

### Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31<sup>st</sup> March.

|                |                 |
|----------------|-----------------|
| 31.3.2020      | 28,750          |
| 31.3.2021      | 35,000          |
| 31.3.2022      | 22,500          |
| 31.3.2023      | 20,000          |
| 31.3.2024      | <u>25,000</u>   |
| Total          | <u>1,31,250</u> |
| Average profit | 26,250          |

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250 x 1/3  
= ₹ 8,750

Which is contributed by Seema and Yedhant in their gaining Ratio

Seema = ₹ 8750X1/2 = ₹ 4375

Yedhant = ₹ 8750X1/2 = ₹ 4375

13.

| Particulars                                                                              | A        | B        | C        | Total Profit of firm |
|------------------------------------------------------------------------------------------|----------|----------|----------|----------------------|
| I. Amount already credited:<br>Share of profit (in the ratio of 1:1:1) (2022-23,2023-24) | 1,30,000 | 1,30,000 | 1,30,000 | 3,90,000             |
| Amount which should have been credited:<br>Khan's Salary (2022-23,2023-24)               |          |          | 50,000   | 50,000               |
| Interest on Capital (2022-23,2023-24)                                                    | 25,000   | 12,500   | 12,500   | 50,000               |
| Share of Profit                                                                          | 1,45,000 | 72,500   | 72,500   | 2,90,000             |
|                                                                                          | 1,70,000 | 85,000   | 1,35,000 |                      |
| Net effect (I-II)                                                                        | (40,000) | 45,000   | (5,000)  | -                    |

The necessary journal entry will be:

| Particulars                                                                                              | Debit (₹) | Credit (₹) |
|----------------------------------------------------------------------------------------------------------|-----------|------------|
| Samuel's Current A/c                                                                                     | 45,000    |            |
| To Agarwal's Current A/c                                                                                 |           | 40,000     |
| To Khan's Current A/c                                                                                    |           | 5,000      |
| (Salary to Khan's, Interest on capital charged and profit shared among partners in the ratio of capital) |           |            |

14.

**Realisation Account**

| Particulars                  |        |  | Particulars   |  |        |
|------------------------------|--------|--|---------------|--|--------|
| To Sundry Assets – Transfer: |        |  | By Creditors  |  | 51,000 |
| Debtors                      | 93,000 |  | By bank A/c – |  |        |

|                                                                   |                 |                 |                                        |               |                 |
|-------------------------------------------------------------------|-----------------|-----------------|----------------------------------------|---------------|-----------------|
| Stock                                                             | 55,500          |                 | Assets Realised:                       |               |                 |
| Tools                                                             | 12,000          |                 | Machinery                              | 1,23,000      |                 |
| Car                                                               | 18,000          |                 | Car                                    | 37,500        |                 |
| Machinery                                                         | 90,000          |                 | Debtors                                | 88,500        |                 |
| Building                                                          | <u>1,50,000</u> | 4,18,500        | Tools                                  | 7,500         |                 |
| To bank A/c                                                       |                 | 12,000          | Building                               | 1,26,000      |                 |
| (outstanding Salary)                                              |                 |                 | Goodwill                               | <u>90,000</u> | 4,72,500        |
| To gain (Profit) on realization transferred to Aman's Capital A/c | 54,000          |                 | By Yaman's Capital A/c (Old Furniture) |               | 12,000          |
| Yaman's Capital A/c                                               | 36,000          |                 | By Aman's Capital A/c Unrecorded Asset |               | 3,000           |
| Zaman's Capital A/c                                               | 18,000          | 1,08,000        |                                        |               |                 |
|                                                                   |                 | <u>5,38,500</u> |                                        |               | <u>5,38,500</u> |

**Partners Capital Accounts**

| Particulars        | Aman (₹)        | Yaman (₹)       | Zaman (₹)       | Particulars               | Aman (₹)        | Yaman (₹)       | Zaman (₹)       |
|--------------------|-----------------|-----------------|-----------------|---------------------------|-----------------|-----------------|-----------------|
| To Realisation A/c | 3,000           | 12,000          |                 | By Balance b/d            | 1,80,000        | 1,35,000        | 90,000          |
| To Bank A/c        | 2,31,000        | 1,59,000        | 1,08,000        | By Realisation A/c (Gain) | 54,000          | 36,000          | 18,000          |
|                    | <u>2,34,000</u> | <u>1,71,000</u> | <u>1,08,000</u> |                           | <u>2,34,000</u> | <u>1,71,000</u> | <u>1,08,000</u> |

**Bank Account**

| Particulars        | ₹        | Particulars                             | ₹        |
|--------------------|----------|-----------------------------------------|----------|
| To Balance b/d     | 37,500   | By Realisation A/c (Outstanding Salary) | 12,000   |
| To Realisation A/c | 4,72,500 | By Aman's Capital A/c                   | 2,31,000 |

|                 |          |                        |          |
|-----------------|----------|------------------------|----------|
| Assets Realised | -        | By Yaman's Capital A/c | 1,59,000 |
|                 | -        | By Zaman's Capital A/c | 1,08,000 |
|                 | 5,10,000 |                        | 5,10,000 |

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

**15. Journal Entries in the books of Ambiance Ltd.**

|   |                                                                                                                                                                                                                                        | <b>Dr.</b><br>₹    | <b>Cr.</b><br>₹                                |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------------------------------|
| 1 | Bank Account Dr.<br>To Share Application & Allotment A/c<br>(Being Application money on 9,00,000 shares at ₹ 9 per share received.)                                                                                                    | 81,00,000          | 81,00,000                                      |
| 2 | Share Application & Allotment A/c Dr.<br>To Share Capital A/c (225,000 x ₹ 4)<br>To Securities premium A/c (225,000 x ₹ 5)<br>To Bank A/c (6,00,000 x ₹ 9)<br>To Share First & Final Call A/c<br>(Being application money transferred) | 81,00,000          | 9,00,000<br>11,25,000<br>54,00,000<br>6,75,000 |
| 3 | Share First & Final Call A/c (225,000 x 6) Dr.<br>To Share Capital Account<br>(Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)                                                         | 13,50,000          | 13,50,000                                      |
| 4 | Bank Account A/c Dr.<br>Calls in arrear A/c Dr.<br>To Share First & Final Call Account<br>(Being Receipt of the amounts due on first call)                                                                                             | 6,64,875<br>10,125 | 6,75,000                                       |
| 5 | Equity share capital A/c Dr.                                                                                                                                                                                                           | 33,750             |                                                |

|   |                                                               |        |        |
|---|---------------------------------------------------------------|--------|--------|
|   | To Share forfeiture A/c                                       |        | 23,625 |
|   | To Calls in arrear A/c                                        |        | 10,125 |
|   | (Being 3,375 shares forfeited for non payment of final call.) |        |        |
| 6 | Bank Account A/c (3,375 x ₹ 6) Dr.                            | 20,250 |        |
|   | Share forfeiture A/c (3,375 x ₹ 4)                            | 13,500 |        |
|   | To Share Capital Account (3,375 x ₹ 10)                       |        | 33,750 |
|   | (Being forfeited shares reissued at ₹ 4 discount)             |        |        |
| 7 | Share forfeiture A/c                                          | 10,125 |        |
|   | To Capital reserve A/c                                        |        | 10,125 |
|   | (Being share forfeiture transferred to capital reserve*)      |        |        |

**Working notes:**
**1.**

| Shares Applied | Shares Allotted | Money Received on Application @ ₹ 9/- | Money Transferred to Share Capital @ ₹ 4/- | Money Transferred to Security Premium @ ₹ 5/- | Excess Application Money | Share First and Final Call @ ₹ 6/- | Amount received from Share First and Final Call after adjusting excess appl. money | Money Refunded |
|----------------|-----------------|---------------------------------------|--------------------------------------------|-----------------------------------------------|--------------------------|------------------------------------|------------------------------------------------------------------------------------|----------------|
| 6,00,000       | -               | 54,00,000                             | -                                          | -                                             | -                        | -                                  | -                                                                                  | 54,00,000      |
| 3,00,000       | 225,000         | 27,00,000                             | 9,00,000                                   | 11,25,000                                     | 6,75,000                 | 13,50,000                          | 12,75,000                                                                          | -              |
| 9,00,000       | 2,25,000        | 81,00,000                             | 9,00,000                                   | 11,25,000                                     | 6,75,000                 | 13,50,000                          | 13,39,875*                                                                         | 54,00,000      |

\* ₹ 13,50,000 less ₹ 10,125.

**2. Number of shares allotted to Mr. Kabir =  $4,500 \times 225,000 / 3,00,000 = 3,375$  shares**

**3. Calculation of calls in arrear**

|                                                                            |               |                 |
|----------------------------------------------------------------------------|---------------|-----------------|
| Application money received from Kabir                                      | (4,500<br>x9) | 40,500          |
| Less: actual application money                                             | 3,375 x9      | <u>30,375</u>   |
| Excess Application & Allotment Money<br>Adjusted with first and final call |               | <u>70,875</u>   |
| Final call due from Kabir                                                  |               | 20,250          |
| Less: Adjusted with final call                                             |               | <u>(10,125)</u> |
| Calls in arrear                                                            |               | <u>10,125</u>   |

**16. (i) Books of Strawberry Farms Ltd.**
**Journal**

| Particulars                                                                                                                                                                                                                                                                  | L.F. | Debit<br>Amount                | Credit<br>Amount    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------|---------------------|
| Bank A/c Dr.<br>To Debenture Application A/c<br>(Debentures application money received)                                                                                                                                                                                      |      | 10,00,000                      | 10,00,000           |
| Debenture Application A/c Dr.<br>To 11% Debentures A/c<br>(Application money transferred to 11% debentures account)                                                                                                                                                          |      | 10,00,000                      | 10,00,000           |
| Debenture Allotment A/c Dr.<br>Discount on issue of debentures Dr.<br>Loss on issue of debenture A/c Dr.<br>To 11% Debentures A/c<br>To Debenture redemption premium A/c<br>(Call made consequent upon allotment of debentures issued at discount and redeemable at premium) |      | 9,00,000<br>1,00,000<br>40,000 | 10,00,000<br>40,000 |

|                             |     |          |          |
|-----------------------------|-----|----------|----------|
| Bank A/c                    | Dr. | 8,80,000 |          |
| To Debenture Allotment A/c  |     |          | 8,80,000 |
| (Allotment amount received) |     |          |          |

**Working Notes:**

Amount of discount on issue = 20,000 X ₹100 X 5% = ₹ 1,00,000

Loss on issue of debentures = 20,000 X ₹100 X 2% = ₹ 40,000

Alternatively, the discount on issue of debentures, can be combined with loss on issue of debentures A/c as both discount and redemption premium represent loss to the company. In that case the journal entries will be

|                                                                                                  |     |          |           |
|--------------------------------------------------------------------------------------------------|-----|----------|-----------|
| Debenture Allotment A/c                                                                          | Dr. | 9,00,000 |           |
| Loss on issue of debenture A/c                                                                   | Dr. | 1,40,000 |           |
| To 11% Debentures A/c                                                                            |     |          | 10,00,000 |
| To Debenture redemption premium A/c                                                              |     |          | 40,000    |
| (Call made consequent upon allotment of debentures issued at discount and redeemable at premium) |     |          |           |

(ii)

**Books of Strawberry Farms Ltd.**
**Journal**

| Particulars                                               | L.F. | Debit Amount | Credit Amount |
|-----------------------------------------------------------|------|--------------|---------------|
| Bank A/c                                                  | Dr.  | 10,00,000    |               |
| To Debenture Application A/c                              |      |              | 10,00,000     |
| (Debentures application money received)                   |      |              |               |
| Debenture Application A/c                                 | Dr.  | 10,00,000    |               |
| To 11% Debentures A/c                                     |      |              | 10,00,000     |
| (Application money transferred to 11% debentures account) |      |              |               |

|                                                                                                                           |     |  |          |           |
|---------------------------------------------------------------------------------------------------------------------------|-----|--|----------|-----------|
| Debenture Allotment A/c                                                                                                   | Dr. |  | 9,00,000 |           |
| Discount on issue of debentures                                                                                           | Dr  |  | 1,00,000 |           |
| To 11% Debentures A/c<br>(Call made consequent upon allotment of debentures issued at discount and redeemable at premium) |     |  |          | 10,00,000 |
| Bank A/c                                                                                                                  | Dr. |  | 9,00,000 |           |
| To Debenture Allotment A/c<br>(Allotment amount received)                                                                 |     |  |          | 9,00,000  |

**17. In the books of Hari Om Ltd.**
**Journal Entries**

| Particulars                                                       |     | Cr. (₹)  | Cr. (₹) |
|-------------------------------------------------------------------|-----|----------|---------|
| Bank A/c                                                          | Dr. | 55,000   |         |
| To Equity Share Application and Allotment A/c                     |     |          | 55,000  |
| (Being Application money received)                                |     |          |         |
| Equity Share Application A/c                                      | Dr. | 55,000   |         |
| To Equity Share Capital A/c                                       |     |          | 50,000  |
| To Securities Premium A/c                                         |     |          | 5,000   |
| (Being capitalization of equity share application money received) |     |          |         |
| Bank A/c                                                          | Dr. | 70,800   |         |
| To Investments A/c                                                |     |          | 60,000  |
| To Profit on sale of investments A/c                              |     |          | 10,800  |
| (Being Investments Sold)                                          |     |          |         |
| 8% Redeemable Preference Share Capital A/c                        | Dr. | 1,00,000 |         |
| Premium on Redemption of Preference                               |     | 10,000   |         |

|                                                                                                                                                           |          |  |          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--|----------|
| Shares A/c<br>To 8% Preference Shareholders A/c<br>(Being amount payable to preference share holders on redemption of 10% premium)                        |          |  | 1,10,000 |
| Preference Shareholders A/c Dr.<br>To Bank A/c<br>(Being amount paid to Preference Shareholders)                                                          | 1,10,000 |  | 1,10,000 |
| Profit & Loss A/c Dr.<br>To Premium on Redemption of Preference Share A/c<br>(Being Premium on Redemption of preference shares written off out of profit) | 10,000   |  | 10,000   |
| Profit and Loss A/c Dr.<br>To Capital Redemption Reserve A/c (W.N.)<br>(Being amount transferred to Capital Redemption Reserve)                           | 50,000   |  | 50,000   |

**Working Note:**
**Amount to be transferred to Capital Redemption Reserve Account**

Face value of shares to be redeemed     ₹ 1,00,000

Less: Proceeds from new issue             ₹ (50,000)

Total Balance                                     ₹ 50,000

- 18. (i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15<sup>th</sup> century in Italy by Luca Pacioli. It has proved to be systematic

and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

- (a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
  - (b) The profit earned or loss suffered during a period can be ascertained together with details.
  - (c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.
  - (d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.
  - (e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.
- (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) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
  - (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
  - (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.
- (iv) Single entry system is an inaccurate and unsystematic method of recording business transactions. Features of Single entry system are as follows:
- (i) It is an inaccurate, unscientific and unsystematic method of recording business transactions.
  - (ii) There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
  - (iii) Cash book mixes up business and personal transactions of the owners.
  - (iv) There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
  - (v) Profit under this system is only an estimate based on available information and therefore true and correct profits

cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

**(v) Advantages of Right Issue**

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

**Disadvantages of Right Issue**

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.