SUGGESTED ANSWERS JANUARY 2026

PAPER 1: ACCOUNTING - FOUNDATION COURSE

PAPER – 1: ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) State with reasons, whether the following statements are True or Fales:

(i) Money spent to reduce working expenses is revenue expenditure.

(ii) Transactions regarding the purchase of fixed assets on credit are recorded in the purchase book.

(iii) A present financial obligation of an uncertain amount, which can be measured reliably by using a substantial degree of estimation, is termed as liability.

(iv) Nominal Accounts are kept under Single Entry System.

(v) Winding up of a LLP may be initiated by Tribunal if the LLP has failed to submit the Statements of Accounts and Solvency or the LLP Annual Returns for more than three consecutive financial years with the Registrar.

(vi) As per Section 52 of the Companies Act, 2013, a company may utilise the Securities Premium Account to write off its preliminary expenses.

(6 x 2 = 12 Marks)

(b) What are Accounting Standards? Briefly explain the main advantage of setting Accounting Standards and their limitations. ***(4 Marks)***

(c) Mr. Vijay has entered into the following transactions during the month of December, 2025. You are required to journalise the same in his books of account.

(i) Purchased goods from Ramsons for ₹ 20,000 at a trade discount of 10% plus CGST and SGST @ 9% each. ₹ 10,000 was paid immediately and the balance is payable after 2 months.

(ii) Goods costing ₹ 10,000 were withdrawn for personal use. Such goods were purchased by paying CGST and SGST @9% each.

(iii) Purchased machinery for ₹ 52,500 including IGST @5% by issuing a cheque to the supplier.

(iv) Goods costing ₹ 3,000 (before trade discount of 10%) were returned to Vinod. Such goods were purchased by paying CGST and SGST@9% each.

(4 Marks)

Answer

(a) (i) False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So, this is capital expenditure.

(ii) False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it. Credit Purchase of fixed assets are recorded through Journal.

(iii) False: A present financial obligation of an uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as Provision and not liability.

(iv) False: Under the single-entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no Nominal ledger account is maintained. Nominal ledger Accounts are maintained in Double entry system of accounting.

(v) False: Winding up of an LLP may be initiated by Tribunal if the LLP has failed to submit with the statements of accounts and solvency or the LLP annual returns for more than five consecutive financial years (within prescribed time) with the Registrar not three years.

(vi) True: As per section 52 of the Companies Act, 2013 the securities premium account may be applied to write off preliminary expenses of the company.

(b) Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

Following are the limitations of Accounting Standards:

(i) Difficulties in making choices between different treatments.

(ii) Accounting Standards cannot override the statute.

(c) **In the Books of Mr. Vijay**

	Particulars		LF	Amount (Dr)	Amount (Cr)
(i)	Purchases A/c	Dr.		18,000	
	Input CGST A/c	Dr.		1,620	
	Input SGST A/c	Dr.		1,620	
	To Ramsons A/c				11,240

	To Bank/Cash A/c			10,000
	(Being goods purchased from Ramson's, CGST and SGST payable @ 9% each)			
(ii)	Drawings A/c Dr.		11,800	
	To Purchase A/c			10,000
	To Input CGST A/c			900
	To Input SGST A/c			900
	(Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)			
(iii)	Machinery A/c (WN 1) Dr.		50,000	
	Input IGST A/c Dr.		2,500	
	To Bank A/c			52,500
	(Being machinery purchased and IGST paid @ 5%)			
(iv)	Vinod A/c Dr.		3,186	
	To Purchase Return A/c			2,700
	To Input CGST A/c			243
	To Input SGST A/c			243
	(Being goods returned to Vinod and input CGST & SGST debited at the time of purchases reversed)			

Working Note 1:

Machinery purchased is including IGST @5%.

So, the value of machinery excluding IGST = 52,500x 100/105 = 50,000

IGST =50,000X5%= 2,500

Question 2

(a) *Mr. A's Trial Balance as on 31st March, 2025 did not agree and he wrote off the difference to the Profit and Loss Account for that year. Next year, he engaged the services of an accountant. who after a close scrutiny of the books of account for the year, observed the following errors:*

(i) Goods worth ₹ 5,000 were dispatched to a customer before the close of the year but no invoice was made out.

(ii) ₹ 3,000 due to Mr. X was omitted to be taken to the Trial Balance.

(iii) Wages of ₹ 5,000 paid for erection of Machinery were debited to Wages Account.

(iv) Purchase of goods from Mr. R for ₹ 20,000 was omitted to be recorded.

(v) Cash Payment of ₹5,000 to Mr. C was posted to the credit of his account.

(vi) Purchase of ₹15,390 was wrongly posted as ₹ 15,930.

(vii) Goods worth ₹ 16,000 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. Gross Profit Margin was 25% on sales.

(viii)A return to a creditor, ₹ 550 was entered in Returns Inward Book. However, the creditor's account was correctly posted.

Mr. A charges depreciation @ 10% on Machinery.

You are required to pass the necessary rectification entries in the books of Mr. A. **(12 Marks)**

(c) *Mehta and Company had the following balance appearing in its books of account as on 1st April, 2024:*

Particulars	***Amount (₹)***
Plant and Machinery A/c	*1,42,50,000*

Its accounts are made up to 31st March every year and depreciation is charged @ 10% per annum under the Written Down Value Method.

On 1st September, 2024 a new machine was acquired at a cost of ₹ 21,20,000 and a sum of ₹ 46,900 was incurred on the same day towards installation charges for erecting the said machine. On the same date a machine which had cost ₹ 32,80,500 on 1st April, 2022 was auctioned for ₹ 5,62,500. Another machine which had cost ₹ 32,77,500 on 1st April, 2023 *having become obsolete, was scrapped on 1st September, 2024 and it realized nothing.*

You are required to prepare the Plant and Machinery Account in the books of Mehta and Company for the year ended 31st March, 2025. Also show the working for profit loss on sale and scrapping of the machines. Round off the figures to the nearest multiple of a rupee. ***(8 Marks)***

Answer

(a) Journal Entries in the books of Mr. A

Sr. No.	Particulars	Dr. (₹)	Cr. (₹)
(i)	Customer A/c Dr.	5,000	
	To Profit and Loss Adjustment A/c		5,000
	(Being rectification of error arising from non-preparation of invoice for goods delivered)		
(ii)	Suspense A/c Dr.	3,000	
	To Mr. X A/c		3,000
	(Being ₹ 3,000 due to Mr. X not taken into trial balance; now rectified)		
(iii)	Machinery A/c Dr.	4,500	
	To Profit & Loss Adjustment A/c		4,500
	(Being wages paid for correction of Machinery wrongly debited to wages A/c now, rectified after capitalisation of ₹ 4,500 i.e. 5,000 less 10% deprecation)		
(iv)	Profit & Loss Adjustment A/c Dr.	20,000	
	To Mr., R's A/c		20,000
	(Being purchases from R omitted to be recorded, now rectified)		

(v)	Mr. C A/c Dr. To Suspense A/c (Being Cash payment to Mr C was wrongly credited to his A/c, now rectified)	10,000	 10,000
(vi)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being purchase of ₹ 15,390 was wrongly posted as ₹ 15,930, now rectified)	540	 540
(vii)	Inventory A/c Dr. Profit & Loss Adjustment A/c Dr. To Customer A/c (Being the customer A/c credited for the goods not yet purchased by him, cost of the goods debited to inventory and profit debited to profit and loss adjustment A/c)	12,000 4,000	 16,000
(viii)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being return to a creditor was wrongly entered in return inward book now rectified)	1,100	 1,100
(ix)	A's Capital Account A/c Dr. To Profit & Loss Adjustment A/c (Being balance of Profit & Loss Adjustment A/c transferred to the Capital Account)	12,860	 12,860
(x)	Suspense A/c Dr. To A's Capital A/c (Being balance of suspense A/c transferred to the Capital A/c)	5,360	 5,360

Workings:

I. Profit and Loss Adjustment Account (Prior Period Items)

Particulars	Amount ₹	Particulars	Amount ₹
To R's A/c	20,000	By Customer A/c	5,000
To Customer A/c	4,000	By Machinery A/c	4,500
		By Suspense A/c	540
		By Suspense A/c	1100
		By A's Capital A/c (bal. fig)	12,860
	24,000		24,000

II. Suspense Account

Particulars	Amount ₹	Particulars	Amount ₹
To Profit & Loss Adjustment A/c	1,100	By Mr. C A/c	10,000
To Mr. X	3,000		
To Profit & Loss Adjustment A/c	540		
To A's Capital A/c (bal. fig)	5,360		
	10,000		10,000

(b) In the books of Mehta and Company

Plant and Machinery Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.04.24	To Balance b/d	1,42,50,000	01.09.24	By Bank (Sales)	5,62,500
01.09.24	To Bank (21,20,000 + 46,900)	21,66,900	01.09.24	By Depreciation (Note i) (on sold machine)	1,10,717
			01.09.24	By Loss on sale	19,83,988
			01.09.24	By Loss on scrapping the machine	28,26,844

			01.09.24	By Depreciation (on scrapped machinery) (Note ii)	1,22,906
			31.03.25	By Depreciation (Note iii)	9,90,707
			31.03.25	By Balance c/d	98,19,238
		1,64,16,900			1,64,16,900

Working Note:

(i)	Calculation of loss on sale of machine on 1-9-2024		₹
	Cost on 1-4-2022		32,80,500
	Less: Depreciation @ 10%		(3,28,050)
	W.D.V. on 31-3-2023		29,52,450
	Less: Depreciation @ 10%		(2,95,245)
	W.D.V. on 31-3-2024		26,57,205
	Less: Depreciation @ 10% on ₹ 2,65,705 for 5 months		(1,10,717)
			25,46,488
	Less: Sale proceeds on 1-9-2024		(5,62,500)
	Loss on sale of machine		19,83,988
(ii)	Calculation of loss on scrapped machine on 1-9-2024		₹
	Cost on 1-4-2023		32,77,500
	Less: Depreciation @ 10% on ₹ 32,77,500		(3,27,750)
	W.D.V. on 31-3-2024		29,49,750
	Less: Depreciation @ 10% on ₹ 29,49,750 for 5 months		(1,22,906)
	Loss		28,26,844

(iii) Depreciation		
Balance of machinery account on 1-4-2024		1,42,50,000
Less: W.D.V of machinery sold	26,57,205	
W.D.V. of machinery scrapped	29,49,750	(56,06,955)
W.D.V. of other machinery on 1-4-2024		86,43,045
Depreciation @ 10% on ₹ 86,43,045 for 12 months		8,64,305
Depreciation @ 10% on ₹ 21,66,900 for 7 months		1,26,402
		9,90,707

Question 3

(a) *The Income and Expenditure Account of Global Sports Club for the year ended on 31st March,2025 is given as under:*

Expenditure		₹	***Income***		₹
To Upkeep of grounds		*24,000*	*By Subscription*		*1,80,000*
To Salary		*1,14,000*	*By Entrance Fees*		*6,000*
To Books and Magazines		*12,000*	*By Income from Annual Meet:*		
To Annual Dinner Expenses:			*Receipts*	*35,450*	
			Less: Expenses	*18,000*	*17,450*
Expenses	*36,000*				
Less: Contribution	*24,000*	*12,000*	*By Interest on investment @11%. (Cost of Investment ₹ 2,05,000 Purchases on 31st March, 2024)*		*22,550*
To Audit Fees		*6,000*			
To Electricity Expenses		*10,800*			
To Interest & Bank Charges		*3,600*			

To Depreciation on Sports Equipment		7,200			
To Surplus		36,400			
		2,26,000			2,26,000

This account has been prepared after the following adjustments:

		31st March,2024	**31st March,2025**
(1)	Subscription Outstanding	14,400	18,000
(2)	Subscription received in advance	10,800	6,480
(3)	Outstanding Salary	9,600	10,800
(4)	Prepaid Electricity Expenses	Nil	1,440

The club owned a sports ground valued at ₹ 2,40,000. The club had sports equipment on 1st April, 2024 valued at ₹ 62,400. At the end of the year, after depreciation, the value of this equipment amounted to ₹ 64,800. Audit fees of ₹ 4,800 for the year 2023-24 was paid during the current year. Audit fees for 2024-25 is as yet outstanding. During 2023-24, the club had raised a bank loan of ₹ 48,000. This loan was outstanding throughout the current year. On 1st April, 2024 cash in hand amounted to ₹ 33,360.

You are required to prepare:

(i) Receipts and Payments Account for the year ended on 31st March, 2025

(ii) Balance Sheet as at 31st March, 2025. ***(10 Marks)***

(b) Ram and Shyam are partners sharing profits and losses in the ratio of 3:2. The Balance Sheet of the firm as at 31st March, 2025 stood as under:

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts:		Fixed Assets	6,00,000
Ram	2,40,000	Investments	1,00,000
Shyam	1,60,000	Inventories	3,25,000

Long Term Loan	*4,50,000*	*Trade Receivables*	*1,25,000*
Current Liabilities	*5,00,000*	*Loans and Advances*	*2,00,000*
Total	*13,50,000*	*Total*	*13,50,000*

Due to financial difficulties, it was decided to admit Mohan as a Partner in the firm from 1st April 2025 on the following terms:

(i) Mohan would be paid 40% share in the profits. The new profit sharing ratio after the admission of Mohan would be 7:5:8.

(ii) Mohan will bring ₹ 2,00,000 towards capital in cash.

(iii) On the admission of Mohan, the goodwill of the firm will be valued at 2 years' purchase of 3 years normal average profits of the firm. Mohan will bring his share of goodwill in cash. The partners will neither withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

2022-23	*₹ 40,000 (Profit)*	*(includes insurance claim of ₹ 80,000)*
2023-24	*₹20,000 (Loss)*	*(includes Voluntary retirement compensation of ₹ 2,20,000)*
2024-25	*₹ 1,00,000 (Profit)*	*(includes profit of ₹ 50,000 on sale of fixed assets)*

It was decided to revalue the assets on 31 March 2025 as under:

Fixed Assets	*₹ 8,00,000*
Investments	*₹ Nil*
Inventory	*₹ 2,96,000*

Of the Trade Receivables, ₹5,000 are considered as irrecoverable and a further 5% is to be provided for bad and doubtful debts.

You are required to prepare the Revaluation Account, Partners' Capital Accounts and Balance Sheet as on 1st April 2025 after the admission of Mohan. ***(10 Marks)***

Answer

(a) **Global Sports Club**

Receipts and Payments Account for the year ended 31st March, 2025

Receipts	Amount ₹	Amount ₹	Payments	Amount ₹	Amount ₹
To Balance b/d		33,360	By Upkeep of Ground		24,000
			By Salaries	1,14,000	
To Subscription (WN 2)		1,72,080	*Add*: outstanding during 2023-24	9,600	
			Less: outstanding during 2024-25	(10,800)	1,12,800
To Entrance Fees		6,000	By Books and Magazines		12,000
To Contribution for annual dinner		24,000	By Audit fee (2023-24)		4,800
			BY Annual meet Expenses		18,000
To Annual meet receipts		35,450	By Annual Dinner Expenses		36,000
			By Electricity expenses	10,800	
To Interest on Investment		22,550	*Add:* Prepaid	1,440	12,240
			By Interest & Bank Charges		3,600
			By Sports Equipment's [64,800-(62,400-7,200)]		9,600
			By Balance c/d		60,400
		2,93,440			2,93,440
To Balance b/d		60,400			

Balance Sheet of Global Sports Club as at 31st March, 2025

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Subscription received in advance		6,480	Sports Ground		2,40,000
Audit Fee Outstanding		6,000	Investments		2,05,000

Salaries Outstanding		10,800	Sport Equipment: As per last Balance Sheet	62,400	
Bank Loan		48,000	Additions	9,600	
Capital Fund as per balance sheet on 31st March, 2024 (WN 1)	4,81,960			72,000	
			Less: Depreciation	(7,200)	64,800
Add: Surplus for 2024-25	36,400	5,18,360	Subscription Outstanding		18,000
			Prepaid Electricity expenses		1,440
			Cash in hand		60,400
		5,89,640			5,89,640

Working Note:

1. Balance Sheet of Global Sports Club as at 31st March, 2024

Liabilities	₹	Assets	₹
Subscriptions received in advance	10,800	Sports Ground	2,40,000
Salaries outstanding	9,600	Sports Equipment	62,400
Audit fees Outstanding	4,800	Subscriptions Outstanding	14,400
Bank Loan	48,000	Cash in hand	33,360
Capital Fund (balancing figure)	4,81,960	Investment	2,05,000
	5,55,160		5,55,160

2. Calculation of Subscription received during the year:

Subscription as per Income and Expenditure Account		1,80,000
Add:	Outstanding on 31.03.2024	14,400
	Received in advance on 31.03.2025	6,480
		2,00,880
Less:	Received in advance on 31.03.2024	10,800

Outstanding on 31.03.2025	18,000
Subscription received during the year	1,72,080

(b) **In the books of Ram and Shyam**

Revaluation Account

Particulars		₹	Particulars	₹
To Investments A/c		1,00,000	By Fixed assets A/c	2,00,000
To Inventory A/c		29,000		
To Bad Debts		5,000		
To Prov for Doubtful Debts		6,000		
To Partner's capital A/c:				
(Profit on revaluation)				
Ram (3/5)	36,000	60,000		
Shyam (2/5)	24,000			
		2,00,000		2,00,000

Partners' Capital Accounts

Particulars	Ram ₹	Shyam ₹	Mohan ₹	Particulars	Ram ₹	Shyam ₹	Mohan ₹
To Balance c/d	3,11,000	2,05,000	2,00,000	By Balance b/d	2,40,000	1,60,000	
				By Bank A/c			2,00,000
				By Revaluation A/c (Profit)	36,000	24,000	
				By Bank/ Premium on Goodwill A/c (WN)	35,000	21,000	
	3,11,000	2,05,000	2,00,000		3,11,000	2,05,000	2,00,000

Balance Sheet (after admission of Mohan)
as at 1st April, 2025

Liabilities		Amount ₹	Assets	Amount ₹
Capital accounts:			Fixed assets	8,00,000

Ram	3,11,000		Trade Receivable	1,14,000
Shyam	2,05,000		Loans & advances	2,00,000
Mohan	2,00,000	7,16,000		
Long term loan		4,50,000	Inventories	2,96,000
Current liabilities		5,00,000	Bank Balance	2,56,000
		16,66,000		16,66,000

Working Notes:

1. Calculation of Goodwill

Calculation of Profit/ Loss for the year ended

	2022-23	2023-24	2024-25
Profit/(loss) for the year	40,000	(20,000)	1,00,000
Add/(*less*): Abnormal items	(80,000)	2,20,000	(50,000)
Net Profit/(loss)	(40,000)	2,00,000	50,000

$$\text{Average profit} = \frac{(40,000)+2,00,000+50,000}{3} = ₹\ 70,000$$

Two years' purchase of average profits = ₹ 70,000 x 2= ₹ 1,40,000

Goodwill to be brought in by Mohan = ₹ 1,40,000 x 40%=₹ 56,000

2. Goodwill Sacrifice or Gain calculation:

Goodwill brought in by Mohan shared (at the profit sacrificing ratio) by:

	₹
Ram (₹ 56,000 x 5/8)	35,000
Shyam (₹ 56,000 x 3/8)	21,000
	56,000

Calculation of profit sacrificing ratio

Profit sacrificed by Ram = 60%-35%=25%

Profit sacrificed by Shyam =40%-25%=15%

Sacrificing ratio =25%: 15% or 5:3

Alternatively Gain/Sacrifice of Goodwill can be calculated as:

	Ram	Shyam	Mohan
Credit in Old Ratio	84,000	56,000	
Debit in New Ratio	(49,000)	(35,000)	(56,000)
Difference (+sacrifice) (-tv Gain)	35,000 Cr.	21,000 Cr.	(56,000) Dr.

Question 4

(a) *A, B and C are partners of M/s ABC LLP sharing profits and losses in the ratio of 3: 2: 1. The Balance Sheet of the firm as at 31st March, 2025 stood as under:*

Liabilities		***Amount ₹***	***Assets***	***Amount ₹***
Capital Accounts			*Building*	*3,20,000*
A	*4,80,000*		*Plant and Machinery*	*3,20,000*
B	*3,20,000*		*Inventories*	*1,60,000*
C	*1,60,000*	*9,60,000*	*Trade Receivables*	*3,20,000*
Trade Payables		*3,20,000*	*Cash at Bank*	*1,60,000*
		12,80,000		*12,80,000*

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

(i) *Goodwill of the entire firm is valued at ₹ 2,88,000 and A's share of the goodwill is adjusted in the accounts of B and C who would share the profits equally in future.*

(ii) *Building is to be appreciated by 30%. Plant and machinery is to be depreciated by 20%. Inventories are to be written down to 80% of their carrying value as on 31st March, 2025.*

(iii) *Trade receivables are considered good only up to 95% of the Balance Sheet figure and the balance is to be provided for as doubtful.*

(iv) *Old credit balances of Trade payables ₹ 16,000 are to be written back.*

(v) *The Joint life policy of the partners is surrendered and a sum of ₹ 96,000 is realized therefrom.*

(vi) *The total capital of the reconstituted firm shall be the same as before the retirement of A. Individual capital of B and C shall be in their profit-sharing ratio and the same shall be brought in by them.*

(vii) *75% of the amount due to A on his retirement shall be settled in cash and the balance shall be settled after one year.*

You are required to draw up the following accounts after giving effect to the above transactions:

(1) *Revaluation Account*

(2) *Partners' Capital Account*

(3) *Bank Account* **(10 Marks)**

(b) *The following is the schedule of balances as on 31st March, 2025 extracted from the books of Mr. Radhey:*

Particulars	**Dr. (₹)**	**Cr. (₹)**
Advertisement Expenses	13,400	-
Bad Debts	4,400	-
Bad Debts Recovered	-	1,800
Cash at Bank	12,500	-
Bank Overdraft	-	3,20,000
Capital Account	-	2,60,000
Carriage Inwards	4,500	-
Carriage Outwards	5,400	-
Cash in Hand	5,800	-
Drawings	46,000	-
Furniture and Fittings	41,000	-
Interest paid on loan	12,000	-
Administrative Expenses	40,640	-
Openings Stock	1,29,000	-
Plant & Machinery	80,000	-
Prepaid Rent	1,200	-

Printing & Stationery	*5,000*	*-*
Provision for discount on Trade Receivables	*-*	*5,500*
Provisions for Doubtful debts	*-*	*12,800*
Purchases	*6,08,800*	*-*
Rent, Rates and Taxes	*17,200*	*-*
Salaries and Allowances	*90,200*	*-*
Salaries Payable	*-*	*9,800*
Sales	*-*	*8,44,000*
Trade Payables	*-*	*1,90,000*
Trade Receivables	*4,80,000*	*-*
Wages and Salary	*46,860*	*-*
Total	*16,43,900*	*16,43,900*

Additional information:

(i) During the year Mr. Radhey has distributed free samples costing ₹ 3,300 for publicity.

(ii) A fire took place in the warehouse on 20th March, 2025 and destroyed goods worth Rs 6,000/-, The Insurance company has admitted a claim of ₹ 4,500 on 31st March, 2025.

(iii) Create a provision for doubtful debts @ 5% and provision for discount on trade receivables @ 2.5%.

(iv) Depreciation is to be provided on Plant and Machinery @15% per annum and on Furniture and fittings @ 10% per annum.

(v) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding on 31.03.2025 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2025 and a Balance Sheet as at that date. ***(10 Marks)***

Answer

(a) **In the books of M/s ABC LLP**

Revaluation Account

Particulars		Amount ₹	Particulars	Amount ₹
To Plant & Machinery A/c		64,000	By Buildings A/c	96,000
To Inventory A/c		32,000	By trade payable A/c	16,000
To Provision for Bad Debts A/c		16,000	By Bank A/c– Joint Life policy surrendered **	96,000
To Partners' Capital A/cs:				
A	48,000			
B	32,000			
C	16,000	96,000		
		2,08,000		2,08,000

Partner's Capital Account

	A	B	C		A	B	C
To A's Capital A/c		48,000	96,000	By balance b/d	4,80,000	3,20,000	1,60,000
To A's Loan A/c	1,68,000			By Revaluation A/c	48,000	32,000	16,000
To bank A/c	5,04,000			By B's capital	48,000		
To balance c/d		4,80,000	4,80,000	By C's capital	96,000		
				By Bank A/c		1,76,000	4,00,000
	6,72,000	5,28,000	5,76,000		6,72,000	5,28,000	5,76,000

Bank Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1-4-2024	To Balance b/d	1,60,000	31-3-2025	By A's capital A/c	5,04,000
31-3-2025	To Revaluation A/c joint life policy surrendered	96,000	31-3-2025	By Balance c/d	3,28,000
31-3-2025	To B's Capital A/c	1,76,000			
31-3-2025	To C's Capital A/c	4,00,000			
		8,32,000			8,32,000

Working Notes:

1. Gaining ratio of existing partners:

   B 1/2-1/3 = 1/6

   C 1/2-1/6 = 2/6

2. Total goodwill of firm is ₹ 2,88,000

   A's share (1/2 x ₹ 2,88,000) = ₹ 1,44,000

   A's share of goodwill is to be borne by B and C in their gaining ratios i.e.

   B =1/3 x ₹ 1,44,000 = ₹ 48,000

   C = 2/3 x ₹ 1,44,000 = ₹ 96,000

   Alternatively, surrender value of JLP can also be routed through partners' capital A/c by directly crediting partners share instead of Revaluation A/c. In such case, there will be no surplus or deficit in the Revaluation Account.

(b) **In the books of Mr. Radhey**

Dr. **Trading Account for the year ended 31st March, 2025** ***Cr.***

Particulars	₹	Amount ₹	Particulars	₹	Amount ₹
To Opening stock		1,29,000	By Sales		8,44,000
To Purchase	6,08,800		By Closing stock (WN 3)		
Less: Goods distributed as free sample	(3,300)		$\left(₹3,20,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		5,00,000
Less: Goods lost by fire	(6,000)	5,99,500			
To Carriage inward		4,500			
To Wages and Salary		46,860			
To Gross profit c/d		5,64,140			
		13,44,000			13,44,000

Dr. **Profit and Loss for the year ended 31st March, 2025** ***Cr.***

Particulars		Amount ₹	Particulars		Amount ₹
To Salaries & Allowances		90,200	By Gross profit b/d		5,64,140
To Rent, Rate and Taxes		17,200	By Bad debts recovered		1,800
To Advertisement expenses	13,400				
Add: Free Sample	3,300	16,700			
To Printing and stationery		5,000			
To Bad debts		4,400			

To Carriage outward		5,400		
To Provision for doubtful debts (WN 1)		11,200		
To Provision for discount on trade receivables (WN 2))		5,900		
To Depreciation:				
Plant and machinery	12,000			
Furniture and fittings	4,100	16,100		
To Administrative expenditure		40,640		
To Interest on loan		12,000		
To Loss by fire		1,500		
To Net profit (Transferred to capital account)		3,39,700		
		5,65,940		5,65,940

Balance Sheet as at 31st March, 2025

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,39,700		*Less*: Depreciation	(12,000)	68,000
	5,99,700		Furniture and fittings	41,000	
Less: Drawings	46,000	5,53,700	*Less*: Depreciation	(4,100)	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Salaries Payables		9,800	Trade Receivables	4,80,000	
Trade Payables		1,90,000	*Less*: Provision for doubtful debts	(24,000)	
			Less: Provision for discount on trade receivables	(11,400)	4,44,600
			Prepaid rent		1,200

			Cash in hand		5,800
			Insurance claim Receivable		4,500
			Cash at bank		12,500
		10,73,500			10,73,500

Working Notes:

1. Provision for Doubtful Debts:

Trade Receivables	4,80,000
Required provision @ 5%	24,000
Existing Provision (Given)	(12,800)
Increase in Provision (P & L) 24000-12800	11,200

2. Provision for Discount on Trade Receivables:

Trade Receivables after new Provision (4,80,000-24,000)	4,56,000
Required Provision (@2.5%)	11,400
Existing Provision (Given)	(5,500)
Increase in Provision (P & L) 11,400-5,500	5,900

3. Calculation of Closing Stock

Bank Overdraft	3,20,000
Add: Margin 20/80	80,000
Total	4,00,000
Closing Stock 4,00,000 *100/80	5,00,000

Question 5

(a) Attempt any ONE of the two sub-parts ie either (i) OR (ii)

(i) On 30th November 2025, the Bank Statement of M/s Rama & Sons showed a Debit balance of ₹ 39,700 at bank. On comparing it with the Cash Book, the following discrepancies were observed:

(1) A cheque of ₹ 10,000 was issued to a supplier on 25th November but was not presented for payment till 3rd December.

(2) *A cheque of ₹ 3,000 was received from a customer and deposited on 28th November but was credited by the bank on 2nd December.*

(3) *The bank had directly collected interest of ₹ 2,400 on behalf of the firm, which has not yet been recorded in the cash book.*

(4) *Credit side of the Bank column of Cash book was overcast by ₹ 900.*

(5) *A customer had directly deposited ₹ 8,000 into the firm's bank account, but no entry was made in the cash book.*

(6) *A cheque of ₹ 2,000 deposited earlier was returned dishonoured and debited in the Bank Statement only.*

(7) *As per standing instructions to bank, EMI of ₹ 20,000 was paid by the bank. The same was omitted to be accounted for in the cash book.*

(8) *An amount of ₹ 5,000 was wrongly credited by bank to the firm's account for which details are not available.*

(9) *The Cashier had wrongly recorded a bank payment of ₹ 12,500 as ₹ 21500 in the Cash Book.*

You are required to ascertain the balance appearing in the Cash Book of M/s Rama and Sons as on 30th November, 2025. ***(5 Marks)***

OR

(ii) *T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2025 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paise in a rupee.*

Pass the necessary journal entries in the books of T. ***(5 Marks)***

(b) *Sumitra is engaged in the business of trading in detergents. She does not maintain proper records of her business. From the following details furnished* *by her, you are required to compute the amount of Total Purchases and Sales for the year ended 31st March, 2025:*

Particulars	**Amount (₹)**
Opening Balance (1st April,2024)	
Inventory	*2,00,000*
Sundry Creditors	*1,23,000*
Sundry Debtors	*1,50,000*
Closing Balance (31st March,2025)	
Inventory	*1,50,000*
Sundry Creditors	*1,38,000*
Sundry Debtors	*2,56,000*
Cash paid to Creditors	*2,63,700*
Cash received from Debtors	*4,56,000*
Cash Sales	*83,400*
Cash Purchases	*30,000*
Discount received during the year	*11,300*
Discount allowed during the year	*18,700*

(5 Marks)

(c) Ajanta Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5/- per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1,000 shares who failed to pay the Allotment and Call money and Y. holding 2,000 shares, failed to pay the Call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass the necessary journal entries in the books of Ajanta Limited to record the forfeiture and re-issue of the shares. Also prepare the extracts of the Balance Sheet and Notes to accounts of the company. ***(10 Marks)***

Answer

(a) **Bank Reconciliation Statement of M/s Rama & Sons as on 30th November,2025**

	₹	₹
Overdraft balance as per pass book		39,700
Add: Cheque issued but not presented to the bank	10,000	
Bank interest not entered in cash book	2,400	
Credit side of Bank column of cash book over-casted	900	
Cheque directly deposited into the bank	8,000	
Amount wrongly credited by Bank	5,000	
Error in entry of payment	9,000	35,300
		75,000
Less: Cheque dishonoured and debited to bank	2,000	
EMI paid by Bank	20,000	
Customer cheque deposited but not credited by bank	3,000	(25,000)
Overdraft balance as per cash book/ Cr		50,000

Or

In the books of T - Journal Entries

Date	Particulars		DR. (in ₹)	CR. (in ₹)
1/4/2025	Bills receivables A/c Dr.		1,80,000	
	To J A/c			1,80,000
	(Being bill of exchange drawn on Mr. J)			
1/4/2025	Bank A/c Dr.		1,72,800	
	Discount charges A/c Dr.		7,200	
	To Bills receivable A/c			1,80,000
	(Being the bills receivable discounted with the bank at a charge of ₹ 7,200)			

1/4/2025	J A/c Dr. To Bank A/c To Discount charges (Being the amount remitted to J along with his share of the bank charges)		60,000	 57,600 2,400
4/7/2025	J A/c Dr. To Bills payable A/c (Being the bills drawn by J, due to non-payment of earlier bill)		2,52,000	 2,52,000
4/7/2025	Bank A/ c Dr. Discount charges A/c Dr. $\left[\frac{1,20,000+40,440}{2,40,660}\times 11,340\right]$ To J A/c (Being the amount discounted and sent it by J to T)		40,440 7,560	 48,000
7/10/2025	Bills payable A/c Dr. To J's A/c (Being the bill due dishonoured due to bankruptcy)		2,52,000	 25,2,000
7/10/2025	J A/c Dr. To Bank A/c To Deficiency account (Being the amount due to J discharged by payment of 50 paise in a rupee)		1,68,000	 84,000 84,000

(b) **Sundry Creditors A/c**

	₹		₹
To Cash paid to creditors	2,63,700	By Balance b/d	1,23,000

To Discount (received)	11,300	By Purchases (balancing figure)	2,90,000
To Balance c/d	1,38,000		
	4,13,000		4,13,000

Total Purchases = Credit Purchases + Cash purchases

= ₹ 2,90,000 + ₹ 30,000 =₹ 3,20,000

Sundry Debtors A/c

	₹		₹
To Balance b/d	1,50,000	By Cash received from debtors	4,56,000
To Credit sales (balancing figure)	5,80,700	By Discount (allowed)	18,700
		By Balance c/d	2,56,000
	7,30,700		7,30,700

So total sales = credit sales + cash sales

= ₹ 5,80,700 + ₹ 83,400 = ₹ 6,64,100

(c) In the books of Ajanta Limited

Journal

S. No.	Particulars		Amount (Dr.) ₹	Amount (Cr.) ₹
1.	Equity Share Capital A/c	Dr.	30,000	
	Securities Premium A/c	Dr.	2,000	
	To Equity Share Allotment A/c			5,000
	To Equity Share Call A/c			12,000
	To Shares Forfeited A/c			15,000
	(Being forfeiture of 3,000 equity shares for non payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No.....dated ....)			

2.	Bank A/c	Dr.	20,000	
	Shares Forfeited A/c	Dr.	5,000	
	To Equity Share Capital A/c			25,000
	(Being re-issue of 2,500 shares @ ₹ 8 each as per Board's Resolution No......dated......)			
3.	Shares Forfeited A/c	Dr.	7,000	
	To Capital Reserve A/c			7,000
	(Being profit on re-issue transferred to Capital Reserve)			

Alternatively, Entry No. 1 can also be routed through calls in Arrear Account. In that case, the entry shall be:

	Equity Share Capital A/c	Dr.	30,000	
	Securities Premium A/c	Dr.	2,000	
	To Calls in Arrear A/c			17,000
	To Shares Forfeited A/c			15,000
	(Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No....... dated ....)			

Extract of Balance Sheet of Ajanta Limited as at......

Particulars	**Notes No.**	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)(workings)		6,03,000
Total		6,03,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, fully paid-up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Workings: Cash and cash equivalents		
Share application (50,000x3)	1,50,000	
Share allotment (49,000x 5)	2,45,000	
Share call money (47,000x 4)	1,88,000	
Share reissued (2,500x8)	20,000	
Total		6,03,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Forfeited share of X		No of Shares	Amount ₹	Forfeited share of Y	Amount	No of Shares	Amount ₹
Amount forfeited per share of X	₹ 3	1000	3000	Amount forfeited per share of Y	₹ 6	1500	9000
Less: Loss on re-issue per share	(₹ 2)	1000	2000	*Less*: Loss on re-issue per share	(₹ 2)	1500	3000

Surplus	₹ 1	1000	1000	Surplus	₹ 4	1500	6000
Transferred to Capital Reserve:			1,000				6,000
Total Transferred to Capital Reserve							₹ 7,000

(2) Balance of Securities Premium

Total Premium amount receivable on allotment = 1,00,000

Less: Amount reversed on forfeiture = (2,000)

Balance remaining (49,000 X ₹ 2) = 98,000

Question 6

(a) The Balance Sheet of Dynamic Limited as at 31st March, 2024, inter-alia, includes the following information

Particulars	***Amount (₹)***
10,00,000 Equity Shares of ₹ 10 each fully paid up	*100,00,000*
1,00,000 9% Preference Shares of ₹ 100 each. ₹ 70 paid up	*70,00,000*
Capital Redemption. Reserve	*40,00,000*
Securities Premium Reserve	*10,00,000*
General Reserve	*100,00,000*
Balance with Banks	*30,00,000*

Under the terms of their issue, the Preference Shares are redeemable on 31st March, 2025 at a premium of 5%. Preference Shareholders having 4,000 shares fail to make the payment for the Final Call made under Section 55 of the Companies Act, 2013. Their shares are forfeited after giving proper notices.

In order to finance the redemption, the company makes a right issue of 10,00,000 Equity Shares of ₹ 10 each at ₹ 11 per share. ₹ 2 being payable on application, ₹ 4 (including premium) on allotment and the balance on 1st June, 2025. The issue was fully subscribed and allotment made on 31st March, 2025. The money due on allotment was received on 31st March, 2025. The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries (with narrations) in the books of Dynamic Limited for the above. ***(15 Marks)***

(b) *What do you mean by principal books of account? What are the rules of posting of Journal Entries into the Ledger?* ***(5 Marks)***

Answer

(a) In the books of Dynamic Limited

Journal Entries

Particulars		**Amount ₹**	**Amount ₹**
9% Preference Share Final Call A/c	Dr.	30,00,000	
To 9% Preference Share Capital A/c			30,00,000
(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
Bank A/	Dr.	28,80,000	
Calls in arrears A/c		1,20,000	
To 9% Preference Share Final Call A/c			30,00,000
(For receipt of final call money on preference shares)			
9% Preference Share Capital A/c	Dr.	4,00,000	
To Calls in Arrears A/c			1,20,000
To Shares Forfeited A/c			2,80,000
(For Shares Forfeited after shareholders fail to pay the Final Call)			
Share Forfeiture A/c	Dr.	2,80,000	
To Capital Reserve			2,80,000
(Share forfeiture amount transferred to Capital reserve)			
Bank A/c	Dr.	20,00,000	
To Equity Share Application A/c			20,00,000
(For receipt of application money on 10,00,000 equity shares @ ₹ 2 per share)			
Equity Share Application A/c	Dr.	20,00,000	
To Equity Share Capital A/c			20,00,000
(For capitalisation of application money received)			

Equity Share Allotment A/c	Dr.	40,00,000	
To Equity Share Capital A/c			30,00,000
To Securities Premium A/c			10,00,000
(For allotment money due on 10,00,000 equity shares @ ₹ 4 per share including a premium of ₹ 1 per share)			
Bank A/c	Dr.	40,00,000	
To Equity Share Allotment A/c			40,00,000
(For receipt of allotment money on equity shares)			
General Reserve A/c (WN -1)	Dr.	46,00,000	
To Capital Redemption Reserve A/c			46,00,000
(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 96,00,000 - 20,00,000 - 30,00,000)			
9% Preference Share Capital A/c	Dr.	96,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	4,80,000	
To Preference Shareholders A/c			1,00,80,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	1,00,80,000	
To Bank A/c			1,00,80,000
(For amount paid to preference shareholders)			
General Reserve A/c/ Securities Premium A/c	Dr.	4,80,000	
To Premium on Redemption of Pref. Shares A/c			4,80,000
(For writing off premium on redemption of preference shares)			

Working Note:

(1) Amount transferred to Capital Redemption Reserve

Preference Shares to be redeemed (96,000x100)	96,00,000
(-) Face Value of shares issued (10,00,000x (2+3))	50,00,000
	46,00,000

Alternatively, journal entries for share forfeiture can also be passed without using calls in arrears A/c. In that case, the 2nd and 3rd entry shall be

Bank A/c	Dr.	28,80,000	
To 9% Preference Share Final Call A/c			28,80,000
(For receipt of final call money on preference shares)			
9% Preference Share Capital A/c	Dr.	4,00,000	
To 9% Preference Share Final Call A/c			1,20,000
To Shares Forfeited A/c			2,80,000
(For Shares Forfeited after shareholders fail to pay the Final Call)			

(b) After recording the original transactions in the journal, recorded entries are classified and grouped into by preparation of accounts. The book which contains all set of accounts (viz. personal, real and nominal accounts), is known as Ledger. Ledger is known as principal books of accounts since it provides full information regarding all the transactions pertaining to any individual account.

Rules regarding posting of Journal entries in the ledger:

a. Separate account is opened in ledger book for each account and entries from the Journal are posted to respective accounts accordingly.

b. 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.

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