Corrigendum & Supplement

To the Printed version of Restructured CSEET Study Material

Paper 2 - Fundamentals of Accounting

Dear Students,

Please note that certain illustrations in the specified lessons of the printed version of the Study Material of "**Fundamentals of Accounting"** of the Restructured CSEET have been revised and are included in the supplement. **The supplement is appended below.**

Students are advised that they should refer the supplement along with the printed version of the study material.

The same has also been incorporated in the electronic version of the study material of "Fundamentals of Accounting" available at ICSI website at the following weblink:

https://www.icsi.edu/media/webmodules/student/Paper_2_Fundamental_of_Accounting_CSEET_18122025.pdf

Students are advised to take note of the same.

Team ICSI

Paper -2 Fundamentals of Accounting

Supplements for the Printed Version of Study Material (Re-structured CSEET)

Lesson 1

Basic Concepts and Principles of Accounting

Reflect a True and Fair View – Example [Page No. 13]

Example: A company must decide whether to value fixed assets at historical cost (original purchase price) or fair value as per applicable regulatory standards.

Accounting Policies [Page No. 13]

Example: At the end of the accounting year, A Ltd. holds investments in shares of XYZ Ltd. purchased through a recognized stock exchange in India. For the purpose of valuation, the company may adopt methods such as FIFO or any other method. The choice of valuation method represents an accounting policy applied by A Ltd. in preparing its financial statements.

Impact of Change in Accounting Policies [Page No. 13]

Example: If the inventory is valued at cost on FIFO basis and thereafter the basis of valuation of inventory is changed from FIFO basis to weighted average, this change may increase or decrease the profits. The effect of such change should be quantified and disclosed in the financial statements.

Valuation – Example [Page No. 18]

Example (Stock/Inventory):

- Closing stock worth Rs. 1,00,000 (cost).
- NRV = Rs. 90,000.

As per **prudence principle**, stock is valued at **lower of cost or NRV** = Rs. 90,000.

Lesson 2

Accounting Process

Journal Proper [Page No. 42]

Transactions not covered under subsidiary books are recorded here.

Types of Entries in Journal Proper:

1. **Opening Entries** – Bringing forward balances of assets & liabilities.

   Example: Assets A/c Dr.
   To Liabilities A/c,
   To Capital A/c.

2. **Closing Entries** – Transfer of expenses and revenues to Trading & P&L A/c.
Example: Trading A/c Dr.
To Purchases A/c.

3. **Rectification Entries** – Correcting errors.
Example: If Wages wrongly debited to Machinery, then
Wages A/c Dr.
To Machinery A/c.

4. **Adjusting Entries** – Outstanding, prepaid, depreciation.
Example: Salary A/c Dr.
To Salary Outstanding A/c.

5. **Entries for Dishonor of Bills** – Debtor A/c Dr.
To Bills Receivable A/c

Illustration 9 [Page No. 42]

Record the following in proper Subsidiary Books:

1. Purchased goods on credit from Ram & Co. Rs. 30,000.
2. Sold goods on credit to Shyam & Co. Rs. 20,000.
3. Returned goods to Ram & Co. Rs. 5,000.
4. Shyam & Co. returned goods worth Rs. 3,000.
5. Received a bill from Shyam & Co. Rs. 17,000.
6. Accepted a bill in favor of Ram & Co. Rs. 25,000.

Solution:

- Purchases Book Rs. 30,000 (Ram & Co.)
- Sales Book Rs. 20,000 (Shyam & Co.)
- Purchases Return Book Rs. 5,000 (Ram & Co.)
- Sales Return Book Rs. 3,000 (Shyam & Co.)
- Bills Receivable Book Rs. 17,000 (Shyam & Co.)
- Bills Payable Book Rs. 25,000 (Ram & Co.)

Journal Entries

● Purchases A/c	Dr.	Rs. 30,000	
To Ram & Co. A/c			Rs. 30,000
● Shyam & Co. A/c	Dr.	Rs. 20,000	
To Sales A/c			Rs. 20,000
● Ram & Co. A/c	Dr.	Rs. 5,000	
To Purchases Return A/c			Rs. 5,000
● Sales Return A/c	Dr.	Rs. 3,000	
To Shyam & Co. A/c			Rs. 3,000
● Bills Receivable A/c	Dr.	Rs. 17,000	
To Shyam & Co. A/c			Rs. 17,000
● Ram & Co. A/c	Dr.	Rs. 25,000	
To Bills Payable A/c			Rs. 25,000

Illustration No. 11 & 12 [Page No. 46]

Illustration 11: **Enter the following transactions in Double Column Cash Book:**

1 May: Cash in hand Rs. 5,000, Bank balance Rs. 10,000

2 May: Deposited Rs. 2,000 into bank

4 May: Received cheque from Ram 3,000 and deposited in Bank on same day

6 May: Issued cheque to Shyam Rs. 4,000

Solution:

Double Column Cash Book

Date	Particulars	Cash Dr	Bank Dr	Date	Particulars	Cash Cr	Bank Cr
May 1	To Balance b/d	5,000	10,000				
May 2	To Cash (C)		2,000	May 2	By Bank (C)	2,000	
May 4	To Ram		3,000				
				May 6	By Shyam		4,000
					By Balance c/d	3,000	11,000
	Total	**5,000**	**15,000**		**Total**	**5,000**	**15,000**
Jun 1	To Balance b/d	3,000	11,000				

Illustration 12: **Triple Column Cash Book**

Transactions:

1 June: Cash in hand Rs. 8,000, Bank balance Rs. 12,000

2 June: Cash sales Rs. 6,000, after allowing discount Rs. 200

5 June: Paid to Ramesh by cheque Rs. 5,000, received discount Rs. 100

Solution:

Triple Column Cash Book

Date	Particulars	Disc Dr (Rs.)	Cash Dr (Rs.)	Bank Dr (Rs.)	Date	Particulars	Disc Cr (Rs.)	Cash Cr (Rs.)	Bank Cr (Rs.)
Jun 1	Balance b/d		8,000	12,000					
Jun 2	Sales	200	6,000						
Jun 5					Jun 5	Ramesh	100		5,000
						Balance c/d		14,000	7,000
		200	**14,000**	**12,000**			**100**	**14,000**	**12,000**
Jul 1	Balance b/d		14,000	7,000					

Specimen of a Trial Balance [Page No. 48]

Trial Balance of M/s XYZ Ltd. as on 31st March, 20XX

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c	50,000	
Purchases A/c	80,000	
Sales A/c		1,20,000
Capital A/c		60,000
Rent A/c	50,000	
Total	**1,80,000**	**1,80,000**

Illustration No. 15 [Page No. 49]

Illustration 15: **Adjusted Trial Balance through Suspense Account**

A trial balance shows a difference of Rs. 500 carried to Suspense A/c. On rechecking:

- Sales return of Rs. 1,000 not recorded in books.
- Rent received Rs. 500 posted twice.
- Machinery purchased for Rs. 500 wrongly debited to Purchases A/c.

Solution:

Adjusting errors:

- Sales return not recorded - Debit Returns A/c Rs. 1,000, Credit Debtors A/c Rs. 1,000.
- Rent received double - Debit Rent received A/c Rs. 500, Credit Suspense A/c Rs. 500.
- Machinery wrongly posted - Debit Machinery A/c Rs. 500, Credit Purchases A/c Rs. 500.
  Suspense A/c will be closed after rectification.

STAGES OF ERRORS – Rectification Entry - [Page No. 50]

At the stage of recording in Journal

- Error: Machinery purchase of Rs. 10,000 recorded in Purchases A/c.
  Rectification:

Machinery A/c	Dr.	Rs. 10,000	
To Purchase A/c			Rs. 10,000

Illustration No. 16 [Page No. 51]

Illustration 16:

Purchase of Stationery Rs. 2,000 wrongly entered in Purchases A/c.

Stationery A/c	Dr.	Rs. 2,000	
To Purchases A/c			Rs. 2,000

MCQ No. 5 [Page No. 54]

Which error is NOT revealed by Trial Balance?

a) Error of Complete Omission
b) Error of Commission
c) Error of Casting
d) None of the above

Answer: a) Error of Complete Omission

Lesson 3

Bank Reconciliation Statement (BRS)

Procedure for Reconciling the Cash Book with Pass Book [Page No. 63]

Dr. Balance as per Cash Book	Cr. Balance as per Cash Book	Dr. Balance as per Pass Book	Cr. Balance as per Pass Book

Example [Page No. 64]

X Ltd. has the following entries in its **Cash Book** (bank column only) and **Pass Book** for May 2025:

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
May 1	To Balance b/d	80,000	May 15	By Richa Ltd.	20,000
May 9	To Avengers Ltd.	50,000	May 30	By Balance c/d	1,90,000
May 13	To Cash A/c	80,000			
Total		**2,10,000**			**2,10,000**

Pass Book

Date	Particulars	Withdrawals Rs.	Deposits	Dr./Cr. Balance	Balance Rs.
May 1	Balance b/d	–	–	Cr.	1,10,000
May 7	To Mr. A	30,000	–	Cr.	80,000
May 12	By Avengers Ltd.	–	50,000	Cr.	1,30,000
May 13	By Cash A/c	–	80,000	Cr.	2,10,000
May 23	To Richa Ltd.	20,000	–	Cr.	1,90,000
May 29	Bank Charges	2,000	–	Cr.	1,88,000

On comparing both books, it was observed that:

1. Two entries in the Pass Book — cheque paid to **Mr. A** (Rs. 30,000) and **Bank Charges** (Rs. 2,000) — do not appear in the Cash Book.
2. The difference in **closing balances** between the two books is Rs. 2,000.
3. The difference in **opening balances** between the two books is Rs. 30,000.

Therefore, the unticked items are classified as:

- **Opening Balance Difference**:

  Cheque to Mr. A – Rs. 30,000 (likely issued in the previous month and recorded in that month's BRS, but presented to the bank in April).

- **Closing Balance Difference**:

  Bank Charges – Rs. 2,000 (charged by the bank in May but not yet recorded in the company's Cash Book).

Illustration 1 to 3: [Page No. 69 to 71]

***Illustration 1*:**

On **30th September 2025**, the Bank column of Mr. Kuldeep's Cash Book showed an overdraft of Rs. 10,000. However, the Bank Statement (Pass Book) for the same date reflected a **credit balance** of Rs.5,000 in his favour.

A comparison of the two records revealed the following differences:

1. A cheque worth Rs. 13,20,000 was deposited on 29th September 2025 but was credited by the bank only on 3rd October 2025.
2. A cheque payment of Rs. 20,000 was entered twice in the Cash Book by mistake.
3. On 29th September 2025, the bank credited Rs. 1,20,000 directly to Kuldeep's account (payment from a customer), but the advice reached Kuldeep only on 1st October 2025.
4. Bank charges of Rs. 1,000 had not been recorded in the Cash Book.
5. On 6th September 2025, the bank wrongly credited Rs. 20,000 to Kuldeep's account.
6. A bill of exchange worth Rs. 1,50,000, discounted with the bank, was dishonoured on 28th September 2025, but no entry was made in Kuldeep's books.
7. Cheques issued up to 30th September 2025 but not presented to the bank until after that date totalled Rs. 13,26,000.

Additional Note:

- Errors in the Pass Book are **not** to be rectified in the Cash Book.
- Adjustments made in the Cash Book are **not** repeated in the Bank Reconciliation Statement.

Required:

(a) Prepare the adjusted Cash Book (Bank column) of Kuldeep to find the corrected balance as on 30th September 2025.

(b) Prepare the Bank Reconciliation Statement on that date.

Solution

(a) Adjusted Cash Book (Bank Column only)

Date	Particulars	Amount Rs.	Date	Particulars	Amount (Rs.)
2025 Sept. 30	To Party A/c (Cheque wrongly entered twice)	20,000	2025 Sept. 30	By Balance b/d (Overdraft)	10,000
Sept. 30	To Customer A/c (Direct bank deposit)	1,20,000	Sept. 30	By Bank Charges	1,000
Sept. 30	To Balance c/d	21,000	Sept. 30	By Customer A/c (B/R dishonoured)	1,50,000
Total		**1,61,000**	**Total**		**1,61,000**
Corrected balance as per Cash Book (overdraft) = Rs. 21,000					

b) Bank Reconciliation Statement as on 30th September 2025

Particulars	Amount (Rs.)
Overdraft as per Cash Book	21,000
Add: Cheque deposited but not yet collected	13,20,000
Total	13,41,000
Less: Cheques issued but not yet presented	(13,26,000)
Less: Bank's erroneous credit on 6th September	(20,000)
Credit Balance as per Bank Statement	**5,000**

Note: If the bank corrects its error of crediting Rs. 20,000, this item will be excluded from the reconciliation. In that case: Rs. 13,41,000 − Rs. 13,26,000= Rs. (15,000)

This means the **debit balance** in the Pass Book would then be Rs. 15,000

Illustration 2:

On 30th June, 2025, the Bank Statement of **ABC** showed a favourable balance of Rs. 10,00,000. However, this balance did not match the bank column of their Cash Book.

A review of the Cash Book and the Bank Statement revealed the following points of difference:

1. A deposit of Rs. 3,00,000 made on 29th June, 2025, was credited by the bank only on 1st July, 2025.
2. As per a hire purchase agreement dated 30th March, 2025, the firm was required to pay Rs. 3,00,000 by bank order on the 10th of each month starting April 2025. No entry for these payments had been recorded in the Cash Book.
3. On 12th June, a customer paid off an account of Rs. 4,00,000 after availing a 4% cash discount. The cashier mistakenly recorded the full Rs. 4,00,000 in the bank column instead of the net amount.
4. Bank charges of Rs. 5,000 had not yet been entered in the Cash Book.
5. On 28th June, a customer directly deposited Rs. 5,00,000 into the company's bank account, but the entry was not made in the Cash Book.
6. An amount of Rs. 20,000 deposited into the bank was entered twice in the Cash Book.
7. A debit of Rs. 10,00,000 appeared in the Bank Statement for a cheque returned as "out of date." The customer later re-dated and redeposited the cheque on 5th July, 2025.

Required:

Prepare the **Bank Reconciliation Statement** for ABC as on 30th June, 2025.

Solution: Bank Reconciliation Statement as on 30th June, 2025

Particulars	Amount
Balance as per Bank Pass Book (Credit)	10,00,000
Add: Deposit made on 29 June but credited by bank on 1 July	3,00,000
Add: Hire-purchase instalments paid by bank (April–June: Rs.3,00,000 × 3) not recorded in Cash Book	9,00,000
Add: Excess credit in Cash Book due to wrong recording of discount (Rs.4,00,000 − Rs.3,84,000)	16,000
Add: Bank charges not recorded in Cash Book	5,000
Add: Cheque returned as "out of date" debited by bank but will be re-credited later	10,00,000
Add: Amount deposited but entered twice in Cash Book	20,000
Less: Direct deposit by customer not recorded in Cash Book	(5,00,000)
Balance as per Cash Book	27,41,000

Illustration 3:

The Cash Book (bank column) of X shows an overdraft of Rs. 4,062 as on 30th September 2025, whereas the Bank Statement shows a debit balance of Rs. 8,59,412. Upon examination, the following reconciling items were identified:

1. A cheque of Rs. 13,14,000 deposited on 29-09-2025 was credited by the bank on 3-10-2025.
2. Bank charges of Rs. 350 have been debited in the Bank Statement but not yet recorded in the Cash Book.
3. Cheques issued worth Rs. 4,56,000 have not been presented for payment till 30-09-2025.
4. Direct deposit by a customer of Rs. 3,000 is recorded in the Bank Statement but not in the Cash Book.

Prepare Bank Reconciliation Statement

Solution:

Bank Reconciliation Statement
As on 30th September 2025

Particulars	Amount
Balance as per Cash Book (Overdraft)	4,062
Less: Cheques issued but not presented for payment	(4,56,000)
Less: Direct deposit by customer not recorded in Cash Book	(3,000)
Add: Cheque deposited but not yet credited by bank	13,14,000
Add: Bank charges not yet recorded in Cash Book	350
Balance as per Bank Statement (Overdraft)	8,59,412

Working Notes:

- Overdraft as per Cash Book is treated as a negative balance and added or subtracted as per reconciliation rules.
- Cheques issued but not presented increase the bank balance in the statement compared to the Cash Book.
- Cheques deposited but not credited reduce the bank balance in the statement compared to the Cash Book.
- Direct deposits by customers and bank charges are items recorded in the Bank Statement but pending in the Cash Book.

True/False Questions [Printed version page No. 75, E-version Page No. 74]

S. No.	Statement	True/False	Reasoning
9.	Overdraft as per passbook is treated as a debit balance.	True	Overdraft in passbook means debit balance (as the bank has lent you money).

Multiple Choice Questions (MCQs) [Page No. 74, 75 & 76]

3. Dishonour of a bill discounted with the bank should be treated as:

A. No effect on BRS
B. Deducted when starting from Cash Book balance
C. Deducted when starting from Pass Book balance
D. Added when starting from Cash Book balance

Answer: B. Deducted when starting from Cash Book balance
Reason: Dishonoured bills increase bank liability and must be reduced from the cash book balance.

4. **When preparing BRS from the Pass Book balance, an interest credited by the bank but not recorded in Cash Book should be:**

A. Deducted
B. Added
C. Ignored
D. None of the above

Answer: A. Deducted
Reason: Since the bank has added interest but it is not yet in the cash book, it must be deducted while reconciling from pass book to cash book.

5. **An error in the cash book where Rs. 5,000 deposited is wrongly posted as Rs. 500 will lead to:**
   A. No change in BRS if no amended cash book is made
   B. Rs. 4,500 to be added
   C. Rs. 4,500 to be deducted
   D. Rs. 5,500 to be added

   Answer: B. 4,500 to be added

   Reason: The cash book is short by Rs. 4,500 due to an under-posting; hence, it must be added.

6. **A cheque received from a customer and entered in the cash book but not sent to the bank at all will be (if starting from cash book debit balance):**
   A. Added
   B. Deducted
   C. Ignored
   D. Error in both books

   Answer: B. Deducted

   Reason: Since it's recorded in the cash book but not in the bank, it overstates the cash book balance.

8. **Which of the following is not a timing difference in BRS?**
   A. Cheques issued but not presented
   B. Direct bank charges
   C. Cheques deposited but not cleared
   D. None of the above

   Answer: B. Direct bank charges

   Reason: Bank charges are transaction differences, not timing differences. Timing differences occur when the same transaction is recorded at different times in both books.

Practical Questions 1 to 6 [Printed version page No. 79 to 84, E-version Page No. 78 to 83]

Question 1. A firm's Cash Book showed a debit bank balance of Rs. 1,00,000 as on 31st December 2025. However, upon comparing it with the bank passbook, several discrepancies were identified:

1. Cheques amounting to 14,00,000 were issued, but only Rs. 3,00,000 worth were presented for payment until 31st December.
2. Cheques totalling Rs. 11,00,000 were deposited on 28th December, 2025 but were not credited by the bank as of 31st December, 2025. Additionally, a cheque worth 5,00,000 was entered in the Cash Book on 30th December but actually deposited in the bank on 3rd January 2026.
3. A cheque received from a customer (Susan) worth Rs. 3,50,000 was deposited on 26th December and was later dishonoured, but the information was received on 2nd January 2026.
4. Bank charges of Rs. 5,000 were recorded in the bank passbook but not in the Cash Book.
5. A debtor directly deposited Rs. 4,00,000 into the firm's bank account on 20th December. However, this information was not communicated to the firm until 2nd January.
6. The bank statement showed a debit balance of Rs. 3,55,000 on 31st December.

Prepare a **Bank Reconciliation Statement** as of 31st December 2025.

Solution:

Bank Reconciliation Statement as on 31st December, 2025
(Based on Cash Book Balance)

Particulars	Amount (Rs.)
Balance as per Cash Book (Dr)	1,00,000
Add: Cheques issued but not yet presented (14,00,000 - 3,00,000)	11,00,000
Less: Cheques deposited but not yet credited	(11,00,000)
Less: Cheque deposited on 30 Dec but banked on 3 Jan	(5,00,000)
Less: Dishonour of cheque (Susan)	(3,50,000)
Less: Bank charges not recorded in Cash Book	(5,000)
Add: Direct deposit by debtor (Not recorded in Cash Book)	4,00,000
Balance as per Pass Book (Dr)	**(3,55,000)**

Question 2.

The bank balance as per the **Cash Book** of M/s XYZ on **31st March 2025** was Rs. 25,000. However, upon comparing with the bank statement, various discrepancies were discovered due to timing differences, errors, and omissions. The following items were noted:

1. A government subsidy of Rs. 10,000 was directly credited by the bank but was not recorded in the company's books.
2. On 15th March, the payment side of the Cash Book was undercast by Rs. 300.
3. On 20th March, a debit balance of Rs. 2,000 from the previous day was wrongly carried forward as a credit balance in the Cash Book.
4. A customer who was allowed a 5% discount on a payment of Rs. 2,000 paid the net amount via cheque on 24th March. However, the gross amount was recorded in the Cash Book.
5. A bill worth Rs. 5,700 was discounted on 10th March. It was recorded in the Cash Book at face value, but the bank credited only Rs. 5,600.
6. A cheque of Rs. 2,000 issued earlier was returned dishonoured by the bank as "out of date." No rectification was done in the Cash Book.
7. Insurance premium of Rs. 700 was debited by the bank through a standing instruction, which was not yet entered in the Cash Book.
8. A bill receivable for Rs. 1,600, discounted for Rs. 1,500, was dishonoured on 30th March. The intimation was received only on 1st April.
9. The bank erroneously recorded a cash deposit of Rs. 1,550 as Rs. 1,500.

Prepare the **Bank Reconciliation Statement** as on **31st March, 2025**, after correcting errors in the **Cash Book** if necessary.

Solution:

Bank Reconciliation Statement of M/s XYZ as on 31st March, 2025

Step 1: Prepare the Adjusted Cash Book

Particulars	Amount (Rs.)
Balance as per Cash Book (Dr.)	25,000
Add: Subsidy directly credited by bank	10,000
Cheque dishonoured not reversed	2,000
Wrong carry forward of balance (Dr. as Cr.) - Effect: Double increase - Add twice	4,000
Less: Undercasting of payment side	(300)
Discount not deducted (2,000 x 5%)	(100)
Difference in bill proceeds credited by bank	(100)
Insurance premium paid by bank	(700)
Dishonour of discounted bill	(1,600)
Adjusted Cash Book Balance (Dr.)	**38,200**

Step 2: Prepare Bank Reconciliation Statement (BRS)

Bank Reconciliation Statement of M/s XYZ as on 31st March, 2025

Particulars	Amount (Rs.)
Balance as per Adjusted Cash Book (Dr.)	38,200
Less: Cash deposit recorded less by bank (1,550 - 1,500)	(50)
Balance as per Bank Statement	38,150

Question 3:

On March 31, 2025, a business entity reviewed its bank statement and cash book records to reconcile the differences between them. The following discrepancies were noted:

1. The bank passbook shows an overdraft of Rs. 2,00,000 as on March 31, 2025.
2. Interest charged by the bank on the overdraft amounting to Rs. 30,000 was not yet recorded in the cash book.
3. The bank has paid an insurance premium of Rs. 20,000 on behalf of the business, which has not been accounted for in the firm's books.
4. Cheques amounting to Rs. 15,000 and Rs. 20,000 were issued during the last week of March but were not presented for payment by March 31.
5. A cheque of Rs. 50,000 was deposited in February, but it remains uncredited by the bank as of March 31.
6. The bank has wrongly debited Rs. 20,000 from the account.
7. Interest on investments amounting to Rs. 80,000 was collected and credited by the bank, but it is not yet recorded in the cash book.

Prepare a **Bank Reconciliation Statement** as on **31st March, 2025**, and ascertain the **balance as per the Cash Book**.

Solution:

Bank Reconciliation Statement as on 31st March, 2025

(Starting with overdraft as per Pass Book)

Particulars	Amount (Rs.)	Amount (Rs.)
Overdraft as per Pass Book (given)		2,00,000
Less: Items not yet recorded in Cash Book (i.e., deductions)		
Interest on overdraft not entered in Cash Book	(30,000)	
Insurance premium paid by bank not recorded	(20,000)	
Cheque deposited but not yet credited by bank	(50,000)	
Amount wrongly debited by the bank	(20,000)	
	(1,20,000)	
Add: Items to be added to Cash Book (i.e., additions)		
Cheques issued but not yet presented (15,000 + 20,000)	35,000	
Interest on investment credited by bank but not recorded	80,000	
	1,15,000	
Balance as per Cash Book (Overdraft)		**1,95,000**

Question 4.

Ram's Cash Book shows a bank balance of Rs. 45,00,000 on 30th June 2025. Upon comparison with the bank passbook, the following discrepancies were observed:

1. Cheques issued to creditors amounting to Rs. 5,00,000 have not yet been presented for payment.
2. Cheques of Rs. 10,00,000 were deposited, but only Rs. 5,00,000 were collected by the bank by 30th June 2025.
3. A dividend of Rs. 50,000 and rent of Rs. 5,00,000 were directly collected by the bank but not recorded in the cash book.
4. Insurance premium paid by the bank (valid till 31st December 2025) Rs. 25,000 was omitted from the cash book.
5. The payment side of the cash book was undercast by Rs. 5,000.
6. Bank charges of Rs. 2,000 were recorded in the pass book but omitted from the cash book.
7. A bill payable of Rs. 3,00,000 was paid by the bank but not recorded in the cash book.
8. A bill receivable for Rs. 60,000 was discounted with the bank with discount Rs. 1,000. This transaction not recorded in the cash book.

You are required to:

(a) Make appropriate adjustments in the cash book.

(b) Prepare a Bank Reconciliation Statement as on 30th June 2025

Solution:

(a) Adjusted Cash Book of Ram

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance B/d	45,00,000	By Insurance Premium Paid	25,000
To Dividend Received	50,000	By Bank Charges	2,000
To Rent Received	5,00,000	By Under-casting Error	5,000
To Bills receivable	59,000	By Bill Payable Paid by Bank	3,00,000
		By Balance C/d	47,77,000
Total	51,09,000	**Total**	51,09,000

Adjusted Bank Balance (Cash Book) = Rs. 47,77,000

(b) Bank Reconciliation Statement of Ram as on 30th June 2025

Particulars	Amount (Rs.)
Balance as per Adjusted Cash Book	47,77,000
Add: Cheques issued but not presented	5,00,000
	52,77,000
Less: Cheques deposited but not yet collected	5,00,000*
Balance as per Pass Book	**47,77,000**

*Cheques deposited Rs. 10,00,000 - collected Rs. 5,00,000 = Rs. 5,00,000 not yet collected.

Question 5:

On 30th September, 2025, Shyam's bank column of the Cash Book showed an overdraft of Rs. 5,000. The bank statement as on the same date showed a credit balance of Rs. 20,000 in favour of Shyam. On examining the Cash Book and Bank Statement the following items were found:

- A cheque for Rs. 13,00,000 deposited on 29-09-2025 was credited by the bank only on 03-10-2025.
- A payment by cheque of Rs. 15,000 has been entered twice in the Cash Book.
- On 29-09-2025 the bank credited Rs. 1,20,000 received from a customer of Shyam, but advice was received by Shyam only on 01-10-2025 (so it was not in Cash Book on 30-09-2025).
- Bank charges of Rs. 2,000 had not been entered in the Cash Book.
- On 06-09-2025 the bank credited Rs. 69,000 to Shyam in error.
- A bill of exchange for Rs. 1,50,000 discounted by Shyam with the bank was dishonoured on 28-09-2025 but no entry had been made in Shyam's books.
- Cheques issued up to 30-09-2025 but not presented for payment up to that date totalled Rs. 12,73,000.

  (a) Show the rectifications required in the Cash Book of Shyam to arrive at the correct balance on 30-09-2025.

  (b) Prepare a Bank Reconciliation Statement as on 30-09-2025.

Solution:

(a) Rectifications in the Cash Book and corrected Cash Book balance (30-09-2025)

Balance as per Cash Book (bank column) on 30-09-2025 (Overdraft) = **(Rs. 5,000)**

Adjustments to Cash Book:

- Add: Payment by cheque entered twice (reverse duplicate) = **+ Rs. 15,000**
- Add: Bank credited collection from customer not recorded = **+ Rs. 1,20,000**
- Less: Bank charges not recorded = **− Rs. 2,000**
- Less: Dishonour of bill of exchange not recorded = **− 1,50,000**

Corrected balance as per Cash Book (30-09-2025) = **Bank Overdraft Rs. 22,000**

(b) Bank Reconciliation Statement as on 30-09-2025

Balance as per Bank Statement (30-09-2025) (credit in favour of Shyam) = **Rs. 20,000**

	Rs.
Balance as per Bank Statement (30-09-2025)	20,000
Add: Deposit in transit (cheque deposited 29-09-2025)	13,00,000
Subtotal	13,20,000
Less: Outstanding cheques	(12,73,000)
Less: Bank's erroneous credit	(69,000)
Adjusted balance (reconciled)	(22,000)

Corrected balance as per Cash Book (Overdraft) (Rs. 22,000)

Question 6:

The Pass Book of Mrs Madhu’s Account No. 9458 shows an **overdraft of Rs. 30,000** as on **31 March 2025**. On examining the Pass Book the following items were found:

1. Bank credited interest of **Rs. 3,000** to her account; this has not been entered in the Cash Book.
2. On 31-Mar-2025 Mrs Madhu paid in **Rs. 20,000** (cash and cheques); cheques of **Rs. 7,000** out of this were collected by the bank only on 7-Apr-2025.
3. Out of cheques drawn by her totalling **Rs. 7,800** on 27-Mar-2025, a cheque for **Rs. 2,500** was encashed by the bank on 3-Apr-2025.
4. The bank wrongly credited her account with **Rs. 500** (this amount belonged to A/c No.8765) and wrongly debited her account with **Rs. 300** (also relating to A/c No.8765).
5. A cheque for **Rs. 1,000** was entered in the Cash Book but was omitted to be banked on 31-Mar-2025.
6. A bill for **Rs. 10,000** was retired/paid by the bank under a rebate of **Rs. 175**, but the full 10,000 was credited in the Bank column of the Cash Book.
7. A cheque for **Rs. 2,500** was deposited into the bank but omitted to be recorded in the Cash Book; the bank collected it on **31-Mar-2025**.

Prepare the **Bank Reconciliation Statement** as on **31-Mar-2025** (show reconciliation between Pass Book overdraft and Cash Book balance).

Solution:

Bank Reconciliation Statement

Particulars	Amount (Rs.)
Overdraft as per Pass Book (31-Mar-2025)	30,000
Add:	
Interest credited by bank not recorded in Cash Book	3,000
Cheque drawn encashed after date (not yet debited in Pass Book)	2,500
Bank's wrong credit/debit (net wrong credit of Pass Book) [500-300]	200
Cheque collected by bank but omitted in Cash Book	2,500
Rebate effect – Cash Book overstated	175
Total additions	8,375
Less:	
Cheques paid in but collected after date (deposits in transit)	7,000
Cheque entered in Cash Book but omitted to be banked (deposit in transit)	1,000
Total deductions	8,000
Overdraft as per Cash Book (31-Mar-2025)	**30,375**

Lesson 4

Depreciation and Amortization

Review Questions 3 [Page No. 96]

Fixed costs are to be recorded in the books of accounts at value less any applicable discounts or deductions.

Change in Method of Depreciation [Page No. 100]

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

Steps for change in method of calculating depreciation

For example - WDV method to SLM Method

- Find the Net Book Value (NBV): Calculate the asset's current book value on the date of the change (NBV = Original Cost -Accumulated Depreciation).
- Determine Remaining Variables: Identify the asset's remaining useful life and any revised salvage (residual) value.
- Calculate the Depreciation: Divide the adjusted (NBV) minus the revised salvage value by the remaining useful life.

New Annual Depreciation = (Net Book Value - Revised Salvage Value) / Remaining Useful life

Illustration 3: [Page No. 101]

M Ltd. which depreciates its machinery @ 10% per annum according to diminishing balance method, had on 1st April, 2024 Rs. 4,86,000 balance in its machinery account. During the year ended 31st March, 2025, the machinery purchased on 1st April, 2022 for Rs. 60,000 was sold for Rs. 40,000 on 1st October, 2024 and a new machinery costing Rs. 70,000 was purchased and installed on the same date; installation charges being Rs. 5,000.

The company wants to change its method of depreciation from diminishing balance method to straight line method on 31st March, 2025. The rate of depreciation remaining the same as before.

Show the machinery account for the year ended 31st March, 2025.

Solution:

Dr. **Machinery Account** ***Cr.***

Date	Particulars	Rs.	Date	Particulars	Rs.
2024			2024		
Apr. 1	To Bank b/d	4,86,000	Oct 1	By Depreciation a/c (Machinery Sold)	2,430
Oct. 1	To Bank (cost and installation charges)	75,000		By Bank	40,000
				By Profit and Loss A/c (loss on sale of machinery)	6,170
			2025		
			Mar. 31	By Depreciation A/c	57,750
				By Balance c/d	4,54,650
		5,61,000			5,61,000

Working Notes:

	Rs.
(1) Calculation of loss on sale of machinery:	
Cost of machinery on April 1, 2022	60,000
Less: Depreciation for 2022-23	6,000
	54,000
Less: Depreciation for 2023-24	5,400
	48,600
Less: Depreciation for half year	2,430
Book value as on 1st October, 2024	46,170
Less: Amount realised from sale	40,000
Loss on sale	6,170

(2) Calculation of original cost of machine depreciation:

Cost of machinery on 1st April, 2022 Rs.4, 86,000 x (100/90) x (100/90) =	6,00,000
Book value on 1st April, 2022 for machinery sold in 2024	60,000
Book value on 1st April, 2022 on original group	5,40,000

(3) Depreciation for 2024-25

On machinery sold	2,430
On machinery purchased and installed	3,750
On machinery brought from previous year (i.e. on Rs. 5,40,000 on straight line method)	54,000
Total	60,180

Illustration 4 [Page No. 104]:

On 1st April, 2022, a firm purchased a machinery for Rs. 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October, 2023, the machinery purchased on 1st April, 2022, having become obsolete, was sold off for Rs. 90,000. On 1st October, 2024, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October, 2022 was sold for Rs. 85,000 on the same day.

The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show machinery account and depreciation account for the period of three accounting years ending 31st March, 2025.

Solution:

Dr. **Machinery Account** *Cr.*

Date	Particulars	Rs.	Date	Particulars	Rs.
2022			2022-23		
Apr. 1	To Bank	2,00,000	Mar.31	By Depreciation a/c	25,000
Oct. 1	To Bank	1,00,000	Mar.31	By Balance c/d	2,75,000
		3,00,000			3,00,000
2023			2023-24		
Apr. 1	To Balance b/d	2,75,000	Oct. 1	By Depreciation A/c (Machinery 1)	10,000
				By Bank Account	90,000
				By Profit & Loss A/c (Loss on Sale)	80,000
			Mar.31	By Depreciation A/c	10,000
			Mar.31	By Balance c/d	85,000
		2,75,000			2,75,000
2024-25			2024-25		
Apr. 1	To Balance b/d	85,000	Oct. 1	By Depreciation A/c	5,000

Oct. 1	To Profit & Loss (Gains) A/c	5,000		By Bank Account	85,000
	To Bank	2,50,000	Mar. 31	By Depreciation A/c	12,500
			Mar. 31	By Balance c/d	2,37,500
		3,40,000			3,40,000

Dr. **Depreciation Account** ***Cr.***

Date	Particulars	Rs.	Date	Particulars	Rs.
2023			2023		
Mar.31	To Provision for Depreciation A/c	25,000	Mar.31	By Profit & Loss A/c	25,000
		25,000			25,000
2023			2024		
Oct. 1	To Provision for Depreciation A/c	10,000	Mar.31	By Profit & Loss A/c	20,000
2024					
Mar.31	To Provision for Depreciation A/c	10,000			
		20,000			20,000
2024					
Oct. 1	To Provision for Depreciation A/c	5,000			
2025			2025		
Mar.31	To Provision for Depreciation A/c	12,500	Mar. 31	By Profit & Loss A/c	17,500
		17,500			17,500

Lesson 5

Preparation of Final Accounts for Sole Proprietorship

[Page No. 112] - Formula of Net Purchase to be read as:

Net Purchases = Total Purchases — Purchases Returns (Returns Outwards)

Illustration 1 [Page No. 132]

A business house maintains provision of 5% against bad debts and 3% for discount on debtors and a reserve for discount on creditors at 2%. On 1st April, 2023 it had the following balances:

Provision for Bad and Doubtful Debts	*Rs. 5,000*
Provision for Discount on Debtors	*Rs. 2,850*
Provision for Discount on Creditors	*Rs. 4,800*

During the year 2023-24, bad debts, discount allowed to debtors and discount received from creditors amounted to Rs. 3,950, Rs. 8,800 and Rs. 9,840 respectively while for 2024-25 they amounted to Rs. 1,800, Rs. 7,000 and Rs. 6,800 respectively. Sundry Debtors were Rs. 1,20,000 on March 31, 2024 and Rs. 80,000 on March 31, 2025. Sundry Creditors on these two dates were Rs. 2,10,000 and Rs. 1,95,000 respectively.

Show provision for bad debts account, provision for discount on debtors account and reserve for discount on creditors account along with relevant portions of profit and loss account.

Solution:

Dr. **Provision for Bad Debts Account** *Cr.*

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2024			2023		
March 31	To Bad Debts	3,950	April 1	By Balance b/d	5,000
March 31	To Balance c/d	6,000	2024		
			March 31	By Profit & Loss A/c (Balancing Figure)	4,950
		9,950			9,950
2025			2024		
March 31	To Bad Debts	1,800	April 1	By Balance b/d	6,000
March 31	By Profit & Loss A/c (Balancing Figure)	200			
March 31	To Balance c/d	4,000			
		6,000			6,000
			2025 April 1	By Balance b/d	4,000

Dr. **Provision for Discount on Debtors A/c** *Cr.*

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2024			2023		
March 31	To Discount Allowed	8,800	April 1	By Balance b/d	2,850
March 31	To Balance c/d	3,420	2024		
			March 31	By Profit & Loss A/c (Balancing Figure)	9,370
		12,220			12,220
2025			2024		
March 31	To Discount Allowed	7,000	April 1	By Balance b/d	3,420
March 31	To Balance c/d	2,280	2025		
			March 31	By Profit & Loss A/c (Balancing Figure)	5,860
		9,280			9,280
			2025		
			April 1	By Balance b/d	2,280

Dr. **Reserve for Discount on Creditors A/c** *Cr.*

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
2023			2024		
April 1	To Balance b/d	4,800	March 31	By Discount Received	9,840
2024 March 31	To Profit & Loss A/c (Balancing Figure)	9,240	March 31	By Balance c/d	4,200
		14,040			14,040
2024			2025		
April 1	To Balance b/d	4,200	March 31	By Discount Received	6,800
2025			March 31	By Balance c/d	3,900
March 31	To Profit & Loss A/c (Balancing Figure)	6,500			
		10,700			10,700
2025					
April 1	To Balance b/d	3,900			

Dr. **Profit and Loss Account for the year ended 31st March, 2024** ***Cr.***

Particulars	Rs.	Rs.	*Particulars*	Rs.	Rs.
To Bad Debts:	3,950		By Discount Received	9,840	
Add: New Provision for Bad and Doubtful Debts	<u>6,000</u>		Add: New Reserve for Discount on Creditors	<u>4,200</u>	
	9,950			14,040	
Less: Old Provision	<u>5,000</u>	4,950	Less: Old Reserve	<u>4,800</u>	9,240
To Discount Allowed	8,800				

Add: New Provision for Discount	3,420				
	12,220				
Less: Old Provision	2,850	9,370			

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

Particulars	Rs.	Rs.	*Particulars*	Rs.	Rs.
To Discount Allowed	7,000		By Old Provision for bad and doubtful debts	6,000	
Add: New Provision for Discount	2,280				
	9,280				
Less: Old Provision	3,420	5,860	Less: Bad Debts	1,800	
				4,200	
			Less: New Provision	4,000	200
			By Discount Received	6,800	
			Add: New Reserve for Discount on Creditors	3,900	
				10,700	
			Less: Old Reserve	4,200	6,500

Illustration 2 - Journal Book - Adjustment Entries No. 5 [Page No. 138]

Provision for Bad Debts Account Dr.	16,000	
To Bad Debts Account		16,000
(Transfer of bad debts to provision for bad debts)		

True / False Questions No. 12 [Page No. 149]

8. Manager's commission on net profit after charging such commission is calculated as: Commission = Profit before commission × Rate ÷ (100 + Rate) - True

12. Depreciation is debited to P&L and reduced from the asset in the Balance Sheet. - True

Practical Questions 1 [Page No. 151]

- Please read "the depreciate business premises by Rs. 3,000, furniture and fitings by Rs. 2,660 & carry forward Rs. 7000 for unexpired insurance" instead of Rs. 3,00 , Rs. 2,66 & Rs. 7 respectively.

Practical Questions 2 [Page No. 152]

- Please read "Rates have been prepaid to the extent of Rs. 17,500" instead of Rs. 1,75,000.

Practical Questions 4 [Page No. 154]

- Please read "Bad Debts Provision 52.05" instead of 5.05.

Lesson 6

Partnership and LLP Accounts

[Page No. 158] Essential features of Partnership: The following features must exist in order to constitute a partnership -

(i) There must be an agreement and for an agreement, at least two persons are required. The agreement must be entered into by all the persons concerned. The persons must be competent to contract.

(ii) The Partnership Act does not lay down any maximum number of partners. But Section 464 read with Rule 10 of Companies Miscellaneous Rules, 2014 prohibits partnership exceeding 50 partners in a partnership firms unless its register as a company.

(iii) There must be a 'business' and for this purpose business would include any trade, profession or occupation; For example, the jobs of medical practitioners or lawyers are covered under profession and can form partnership. There can be a partnership between doctors or lawyers.

(iv) The business must be carried on for the purpose of earning profits which would be divided among the partners i.e. there must be an agreement among the partners to share the profits (including negative profits, i.e., losses) of a business.

(v) The business must be carried on by some or all of the partners for the benefit of all of them. Consequently in partnership, there is a mutual agency among the partners and in the ordinary course of business acts of one partner are considered to be the acts of the firm.

Review Question Fill in the blanks [Page No. 159]

(i) If partnership deed is silent on the profit-sharing ratio; interest @___ per annum is allowed on loans advanced by partners.

(ii) At the most there can be ______________ partners is partnership firm.

Answer: (1) 6% (2) 50

Journal Entries [Page No. 183]

(ii) When the required amount of goodwill brought in by the new partner in cash is immediately withdrawn by the old partners

In this case the amount of goodwill is withdrawn by the partners in the sacrificing ratio and the entry for withdrawal will be:

Journal entries:

(a) Bank Dr.

To New Partner's Capital A/c

(Being amount of goodwill and capital brought by the new partner)

(b) New Partner's Capital A/c Dr.

To Old Partners' Capital Accounts

(Being the amount of goodwill brought in by the new partner is shared by the old partners in the sacrificing ratio)

(c) Old Partners' Capital Accounts Dr.

To Bank

(Being the amount of goodwill brought in by the new partner is withdrawn by the old partners in the sacrificing ratio)

(vi) When the goodwill is already appearing in the books of accounts:

When the goodwill is already appearing in the firm's books, first of all goodwill is to be written off from the books by debiting old partners' capital accounts in their profit-sharing ratio and crediting goodwill account. Then new partner's capital account is debited with his difference in share of goodwill not brought in cash and this amount is credited to old partners' capital accounts in sacrificing ratio.

Journal entries:

(a) Old Partners' Capital Accounts Dr.
To Goodwill A/c
(Being goodwill written off from the books)

(b) Bank Dr.
(Cash brought in)
New Partner's Capital A/c Dr.
(Difference not brought in cash)
To Old Partners' Capital Account
(Being the amount of goodwill brought in by the new partner is shared by the old partners in the sacrificing ratio)

Illustration 8 [Page No. 189]:

On 31st March, 2025 the following was the balance sheet of P and Q who were carrying on business in partnership sharing profits and losses in the ratio of 5:3 respectively.

Liabilities	*Rs.*	*Assets*	*Rs.*
Sundry Creditors	10,900	Furniture and Fittings	15,000
Capital Accounts		Stock	48,000
P	45,000	Sundry Debtors	16,500
Q	27,000	Cash	3,400
	82,900		82,900

On 1st April, 2025 R is admitted to the firm as a new partner, the new profit sharing ratio among P, Q and R is agreed upon as 7:5:4 respectively. R brings in Rs. 24,000 as his capital. R's share of goodwill is fixed at Rs. 5,000. Show journal entries and balance sheet immediately after R's admission in each of the following cases:

(a) R brings cash for his shares of goodwill and the old partners withdraw half of the amounts credited to their accounts for goodwill brought by R.

(b) R does not bring anything by way of his share of goodwill.

(c) R brings Rs. 3,000 as his share of goodwill and an adjustment in capital accounts is made for the balance sheet.

Solution:

Case (a):

Journal Entries

Particulars		*Dr. (Rs.)*	*Cr. (Rs.)*
Bank	Dr.	29,000	
To R's Capital Account			24,000
To Goodwill Account			5000
(Amount brought in by R as his capital))			

Goodwill Account	Dr.	5,000	
To P's Capital Account			3,750
To Q's Capital Account			1250
(Goodwill brought in by R credited to old partners in their ratio of sacrifice i.e., 3:1)			
P's Capital Account	Dr.	1,875	
Q's Capital Account	Dr.	625	
To Bank			2,500
(Half of the amount of goodwill credited to old partners withdrawn by them in cash)			

Balance Sheet of P, Q and R as on 1st April, 2025

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	10,900	Furniture and Fittings	15,000
Capital Accounts		Stock	48,000
P	46,875	Sundry Debtors	16,500
Q	27,625	Bank	29,900
R	24,000		
	1,09,400		1,09,400

Case (b):

Particulars		*Dr. (Rs.)*	*Cr. (Rs.)*
Bank Account	Dr.	24,000	
To R's Capital Account			24,000
(Capital brought in by R)			
R's Capital Account	Dr.	5,000	
To P's Capital Account			3,750
To Q's Capital Account			1,250
(Being R's share of goodwill credited to old partners' capital account in the sacrificing ratio on his admission, credit being given to old partners in their ratio of sacrifice).			

Balance Sheet of P, Q and R as on 1st April, 2025

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	10,900	Furniture and Fittings	15,000
Capital Accounts		Stock	48,000
P	48,750	Sundry Debtors	16,500
Q	28,250	Bank	27,400
R	19,000		
	1,06,900		1,06,900

Case (c):

Particulars		*Dr. (Rs.)*	*Cr. (Rs.)*
Bank	Dr.	27,000	
To R's Capital Account			24,000
To Goodwill Account			3000
(Capital brought in by R)			
Goodwill Account	Dr.	3,000	
To P's Capital Account			2,250
To Q's Capital Account			750
Being the amount of goodwill brought in by R credited to old partners in sacrificing ratio)			

Particulars		*Dr. (Rs.)*	*Cr. (Rs.)*
R's Capital Account	Dr.	2,000	
To P's Capital Account			1,500
To Q's Capital Account			500
(Being portion of R's share of goodwill adjusted through the capital accounts by debiting new partner's capital account and credited to old partners' capital accounts in the sacrificing ratio.)			

Balance Sheet of P, Q and R as on 1st April, 2025

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	10,900	Furniture and Fittings	15,000
Capital Accounts		Stock	48,000
P	48,750	Sundry Debtors	16,500
Q	28,250	Bank	30,400
R	22,000		
	1,09,900		1,09,900

Illustration 10 [Page No. 195]

Ajay and Binoy are partners in a firm sharing profits and losses in the ratio of 2:1 respectively. On 31st March, 2025 their balance sheet stood as follows:

Liabilities	(Rs.)	Assets	(Rs.)
Bills payable	6,000	Cash at bank	90,000
Sundry creditors	90,000	Bills receivable	20,000
General reserve	42,000	Sundry debtors	1,00,000
Ajay's capital	2,82,000	Stock	1,60,000
Binoy's capital	2,40,000	Furniture	40,000
		Machinery	2,50,000
	6,60,000		6,60,000

On 1st April 2025, a new partner Harry is admitted into partnership on the following terms:

(i) That Harry brings in cash Rs. 60,000 as goodwill for his one-third share in future profits.

(ii) That Harry brings such an amount that his capital will be one-third of total capital of the new firm.

(iii) *That the value of stock be raised to Rs. 1,68,000.*

(iv) *That furniture and machinery be depreciated by 5% and 10% respectively.*

(v) *That a provision for doubtful debts be created at 5% on sundry debtors.*

(vi) *That the capital accounts of the partners be re-adjusted on the basis of their profit sharing ratio through their current accounts.*

Prepare the necessary ledger accounts and the opening balance sheet of the new firm.

Solution:

Dr. **Revaluation Account** *Cr.*

Particulars	Rs.	*Particulars*	Rs.
To Furniture A/c	2,000	By Stock A/c	8,000
To Machinery A/c	25,000	By Ajay's Capital A/c(2/3 loss)	16,000
To Provision for doubtful debts A/c	5,000	By Binoy's Capital A/c (1/3 loss)	8,000
	32,000		32,000

Dr. **Capital Accounts** *Cr.*

Particulars	*Ajay*	*Binoy*	*Harry*	*Particulars*	*Ajay*	*Binoy*	*Harry*
To Revaluation A/c (Loss)	16,000	8,000	--	By Balance b/d	2,82,000	2,40,000	–
To Ajay's Capital A/c (Goodwill)	–	–	40,000	By General Reserve	28,000	14,000	–
To Binoy's Capital A/c (Goodwill)	–	–	20,000	By Bank (Goodwill)	–	–	60,000
To Binoy's Current A/c	–	66,000		By Harry's Capital A/c (Goodwill)	40,000	20,000	
To Balance c/d	4,00,000	2,00,000	3,00,000	By Bank	–	–	3,00,000
				By Ajay's Current A/c	66,000		
	4,16,000	2,74,000	3,60,000		4,16,000	2,74,000	3,60,000

Balance Sheet of Ajay, Binoy and Harry as on 1st April, 2025

Liabilities	Rs.	Assets		Rs.
Bills Payable	6,000	Cash at Bank		4,50,000
Sundry Creditors	90,000	Bills Receivables		20,000
Binoy's Current A/c	66,000	Sundry Debtors	1,00,000	
Ajay's Capital A/c	4,00,000	Less : Provision for		
Binoy's Capital A/c	2,00,000	Doubtful Debts	(5,000)	95,000
Harry's Capital A/c	3,00,000	Stock		1,68,000
		Furniture		38,000
		Machinery		2,25,000
		Ajay's Current Account		66,000
	10,62,000			10,62,000

Working Notes:

(i) Calculation of Harry's Capital

Total capital:

Ajay's capital: Rs. (2,82,000 + 28,000 + 40,000 – 16,000) = Rs. 3,34,000

Binoy's capital: Rs. (2,40,000 + 14,000 + 20,000 – 8,000) = Rs. 2,66,000

Total capital of Ajay and Binoy before Harry's Admission Rs. 6,00,000

This capital is for 1-(1/3) = 2/3 share

So total capital of new firm (` 6,00,000 x 3/2) = Rs. 9,00,000

Harry's Capital = 1/3 x Rs. 9, 00,000 = Rs. 3,00,000

(ii) Calculation of new profit sharing ratio and capital of Ajay and Binoy:

Harry's share = 1/3

Balance = 1-(1/3) = 2/3 to be shared by Ajay and Binoy

Ajay's new share = 2/3 x 2/3 = 4/9

Binoy's new share = 2/3 x 1/3 = 2/9 New

profit share ratio = 4 : 2 : 3

Ajay's capital in new firm = 4/9 x Rs. 9,00,000 = Rs. 4,00,000

Binoy's capital in new firm = 2/9 x Rs. 9,00,000 = Rs. 2,00,000

Adjustment of capitals is made through partners' current accounts

Sacrifice by Ajay = (2/3) – (4/9) = 2/9

Sacrifice by Binoy = (1/3) – (2/9) = 1/9

Sacrificing ratio = 2 : 1

So goodwill is distributed between Ajay and Binoy in the ratio of 2 : 1 respectively.

Illustration 16 [Page No. 214]

On 31st March, 2024 the balance sheet of M/s. Ashok, Basu, and Chauhan, who were sharing profits and losses in proportion to their capitals, stood as follows:

Liabilities		Rs.	*Assets*	Rs.
Capital Accounts:			Land and Buildings	2,00,000
Ashok	3,00,000		Machinery	2,00,000
Basu	2,00,000		Closing Stock	1,00,000
Chauhan	1,00,000	6,00,000	Sundry Debtors	2,00,000
Sundry Creditors		2,00,000	Cash and Bank Balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2024, Ashok desired to retire from the firm and the remaining partners decided to carry on. They agreed on the following terms and conditions:

(i) *Land and buildings be appreciated by 30%*

(ii) *Machinery be depreciated by 20%*

(iii) *Closing stock to be valued at Rs. 80,000.*

(iv) *Provision for bad debts be made at 5%.*

(v) *Old credit balances of sundry creditors amounting to Rs. 10,000 be written back.*

(vi) *Joint Life Policy of the partners be surrendered. Cash received was Rs. 60,000.*

(vii) *Goodwill of the entire firm be valued at Rs. 1,80,000 and Ashok's share of the goodwill be adjusted in the accounts Basu and Chauhan who would share the future profits equally.*

(viii) *The total capital of the firm was to be the same as before retirement. Individual capitals of partners were to be in their profit sharing ratio.*

(ix) *Amount due to Ashok was to be settled on the following basis:*

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

Prepare Revaluation Account, Capital Accounts of the Partners, Loan Account of Ashok, Cash Book and Balance Sheet as on 1st April 2024 of M/s. Basu and Chauhan.

Solution:

Dr. **Revaluation Account** *Cr.*

Particulars		Rs.	*Particulars*	Rs.
To Machinery A/c		40,000	By Land and Building	60,000
To Closing Stock		20,000	By Sundry Creditors	10,000
To Provision for Bad Debts A/c		10,000	By Bank A/c (Joint Life Policy)	60,000
To Capital Accounts:				
Ashok	30,000			
Basu	20,000			
Chauhan	10,000	60,000		
		1,30,000		1,30,000

Dr. **Capital Accounts** *Cr.*

Particulars	*Basu* Rs.	*Chauhan Rs.*	*Particulars*	*Basu Rs.*	*Chauhan Rs.*
To Ashok			By Balance b/d	2,00,000	1,00,000
Capital A/c (Goodwill)	30,000	60,000	By Revaluation A/c	20,000	10,000
To Balance c/d	3,00,000	3,00,000	By Bank (Additional capital)	1,10,000	2,50,000
	3,30,000	3,60,000		3,30,000	3,60,000
			By Balance b/d	3,00,000	3,00,000

Dr. **Ashok's Capital Account** *Cr.*

Particulars	Rs.	*Particulars*	Rs.
To Bank	2,10,000	By Balance b/d	3,00,000
To Ashok's Loan A/c	2,10,000	By Revaluation A/c	30,000
		By Chauhan's Capital A/c (Goodwill)	60,000
		By Basu's Capital A/c (Goodwill)	30,000
	4,20,000		4,20,000

Dr. **Ashok's Loan Account** *Cr.*

Particulars	Rs.	*Particulars*	Rs.
To Balance c/d	2,10,000	By Ashok's Capital A/c	2,10,000
		By Balance b/d	2,10,000

Cash Book

Particulars	Rs.	*Particulars*	Rs.
To Balance b/d	1,00,000	By A's Capital A/c	2,10,000
To Revaluation A/c		By Balance c/d	3,10,000
(J.L. Policy surrendered)	60,000		
To Basu's Capital A/c	1,10,000		
To Chauhan's Capital A/c	2,50,000		
	5,20,000		5,20,000
To Balance b/d	3,10,000		

M/s. B and C Balance Sheet as on 1.4.2024

Liabilities	Rs.	Rs.	*Assets*		Rs.
Capital Accounts:			Land and Building		2,60,000
Basu	3,00,000		Machinery		1,60,000
Chauhan	3,00,000	6,00,000	Closing Stock		80,000
A's Loan		2,10,000	Sundry Debtors	2,00,000	
Sundry Creditors		1,90,000	Less: Provisions for Bad Debts	(10,000)	1,90,000
			Cash and Bank Balances		3,10,000
		10,00,000			10,00,000

Working Notes:

(1) Calculation of ratio of gain of remaining partners.

Ratio of gain = New ratio – Old ratio

Basu = 1/2 – 1/3 = 1/6

Chauhan	=	1/2 – 1/6 = 2/6
Ratio of gain	=	1:2.

(2) Goodwill borne by Basu and Chauhan:

Total goodwill of the firm	=	Rs. 1,80,000
Ashok's share	=	1/2 x Rs. 1,80,000 = Rs. 90,000

Ashok's share to be borne by Basu and Chauhan in their ratio of gain.

Basu	=	1/3 x Rs. 90,000 = Rs. 30,000
Chauhan	=	2/3 x Rs. 90,000 = Rs. 60,000

Illustration 23 [Page No. 236]

On 31st March, 2024 the following was the balance sheet of A, B and C who shared profits and losses in the ratio of 2:1:1 respectively.

Liabilities	Rs.	*Assets*	Rs.
Creditors	16,000	Cash in hand	200
General Reserve	5,000	Stock	18,800
Capital Accounts:		Debtors	11,300
A	30,000	Furniture	12,500
B	20,000	Plant & Machinery	20,000
C	1,000	Goodwill	9,200
	72,000		72,000

The firm was dissolved on this date due to C's insolvency. Assets realised Rs. 32,000. Expenses of dissolution came to Rs, 200. C's estate paid 50% of what was due to C. Close the books of the firm assuming that the loss due to C's insolvency has been divided:

(i) in the ratio of fixed capitals.

(ii) in the ratio of fluctuating capitals.

Solution:

Case (i) Loss due to deficiency is divided in the ratio of fixed capital accounts

Dr. **Realisation Account** *Cr.*

Particulars	Rs.	*Particulars*	Rs.
To Stock	18,800	By Creditors	16,000
To Debtors	11,300	By Cash (Assets)	32,000
To Furniture	12,500	By A's Capital Account	20,000
To Plant & Machinery	20,000	By B's Capital Account	10,000
To Goodwill	9,200	By C's Capital Account	10,000
To Cash (Creditors)	16,000		
To Cash (Expenses)	200		
	88,000		88,000

Dr. **Capital Account** Cr.

Particulars	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*	*Particulars*	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*
To Realisation	20,000	10,000	10,000	By Balance b/d	30,000	20,000	1,000
To C's Capital	2,325	1,550	–	By General Reserve	2,500	1,250	1,250
To Cash A/c	30,175	19,700	–	By Cash A/c	20,000	10,000	3,875
				By A's Cap	–	–	2,325
				By B's Cap	–	–	1,550
	52,500	31,250	10,000		52,500	31,250	10,000

Dr. **Cash Account** Cr.

Particulars	Rs.	*Particulars*	Rs.
To Balance b/d	200	By Realisation A/c (creditors)	16,000
To Realisation A/c (assets)	32,000	By Realisation A/c (expenses)	200
To A's Capital Account	20,000	By A's Capital Account	30,175
To B's Capital Account	10,000	By B's Capital Account	19,700
To C's Capital Account	3,875		
	66,075		66,075

Note: Since, current accounts have not been specified in the question the adjustments have been made in capital accounts.

Case (ii) Loss due to deficiency is divided in the ratio of fluctuating capital accounts

Realisation Account will be the same as in the case (i)

Capital Accounts

Particulars	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*	*Particulars*	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*
To Realisation	20,000	10,000	10,000	By Balance b/d	30,000	20,000	1,000
To C's Capital	2,343	1,532	–	By Gen. Res.	2,500	1,250	1,250
To Cash A/c	30,157	19,718	–	By Cash A/c	20,000	10,000	3,875
				By A's Capital (26/43ths share)	–	–	2,343
				By B's Capital A/c (17/43ths share)	–	–	1,532
	52,500	31,250	10,000		52,500	31,250	10,000

Balances in A's Capital Account and B's Capital Account after adjustment for General Reserve are Rs. 32,500 and Rs. 21,250 respectively. Hence, A and B will bear the loss of Rs. 3,875 due to C's insolvency in the ratio of 32,500 : 21,250 or 26 : 17 respectively.

A's Share = Rs. 3875 x 26 / 43 = Rs. 2343
B's Share = Rs. 3875 x 17/43 = Rs. 1532

Cash Account

Particulars	Rs.	*Particulars*	Rs.
To Balance b/d	200	By Realisation A/c (Creditors)	16,000
To Realisation A/c (Assets)	32,000	By Realisation A/c (Expenses)	200
To A's Capital Account	20,000	By A's Capital Account	30,157
To B's Capital Account	10,000	By B's Capital Account	19,718
To C's Capital Account	3,875		
	66,075		66,075

Difference Between Limited Liability Partnership and Partnership Firm [Page No. 245]

SR. NO.	BASIS	LIMITED LIABILITY PARTNERSHIP	PARTNERSHIP FIRM
10	Maximum number of Member	No cap of maximum number of its partners	Maximum fifty.

Lesson Round-up [Page 247]

- Admission of a new partner entails revaluation of assets and liabilities (via a Revaluation or Memorandum Revaluation Account), adjustment of goodwill, transfer of reserves, and computation of new profit-sharing and sacrificing ratios.
- When a partner is admitted for cash goodwill, the premium is credited to partners' capital accounts in the profit-sacrificing ratio.

MCQs No. 9, 10 & 14 (page No. 254 & 255]

9. If A and B share profits 3 : 2 and admit C for 1/5th share, A's new share is

A. 2/5
B. 3/10
C. 3/5
D. 12/25
Answer: D

10. In the event of retirement, a profit on revaluation is credited to

A. Retiring partner only
B. All partners in old ratio
C. All partners in new ratio
D. Goodwill Account
Answer: B

14. Under fluctuating-capital method, interest on drawings is recorded by crediting

A Drawings Account
B. Profit & Loss Appropriation Account
C. Capital Account
D. Trading Account

Answer: B

Lesson 7

Introduction to Company Accounts

Journal Entries – [Page No. 263]

(a) When shares are issued at par and are payable in full in a lump sum:

(1)	On receipt of application money -		
	Bank	Dr.	*(With the amount received on application)*
	To Share Application and Allotment A/c		
(2)	On allotment of shares –		
	Share Application and Allotment A/c	Dr.	(With the application money received
	To Bank		(excess money refunded)
	To Share Capital		(with the allotment of shares)

[Page No. 269]

Legal consequences **(Prohibition on issue of shares at discount- section 53)**	• Any share issued by a company at a discounted price shall be **void.** • Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less and the companies shall also be liable to refund all the monies received with interest @12% p.a. from the date of issue of such shares to the persons to whom such shares has been issued.

[Page No. 276] - Interest on calls in advance - Charge against profit of the company and must be paid.

Journal Entries [Page No.292]

Journal Entries		
Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited, i.e., no. of shares forfeited x called up value per share excluding premium).
Securities Premium A/c	Dr.	(with the amount of premium money remaining unpaid on shares forfeited.)
To Shares Forfeited A/c		(with the amount already paid by the shareholders on the shares forfeited.)
To Calls-in-Arrear A/c		(with the amount unpaid on calls.)
	OR	
Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited, i.e., no. of shares forfeited x called up value per share excluding premium.)
Securities Premium A/c	Dr.	(with the amount of premium money remaining unpaid on shares forfeited.)
To Shares Forfeited A/c		(with the amount already paid by the shareholders on the shares forfeited.)
To Share Allotment A/c		(with the amount failed on allotment, if any.)
To Share First Call A/c		(with the amount failed on first call, if any.)
To Share Final Call A/c		(with the amount failed on final call, if any.)

Illustration 4 [Page No. 282]

On 1st January, 2025, New Ventures Ltd. issued 1,00,000 equity shares of Rs.10 each payable as follows:

On application Rs. 3
On allotment Rs. 2
On 1st Call Rs.2 (Payable after 2 months, from the date of allotment)
On Final Call Rs. 3 (Payable after 1 months from the date of 1st call)

Applications were received on 15th January, 2025 for 1,20,000 shares and allotment was made on 1st February, 2025. Applicants for 50,000 shares were allotted in full, those for 60,000 shares were allotted 50,000 shares and applications for 10,000 shares were rejected.

Balance of amount due on allotment was received on 15th February. The calls were duly made on 1st March, 2025 and 1st April, 2025 respectively. One shareholder did not pay the 1st call money on 3,000 shares which he paid with the final call together with interest at 10% p.a. Another shareholder holding 2,000 share did not pay the final call money till end of the accounting year which ended on 31st December, 2025. Show the Cash Book and Journal Entries.

Solution:

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.2.2025	Equity Share Application A/c Dr.	3,00,000	
	To Equity Share Capital A/c		3,00,000
	(Being the transfer of application money on 1,00,000 shares @ Rs. 3 per share transferred to share capital account)		
1.2.2025	Equity Share Allotment A/c Dr.	2,00,000	
	To Equity Share Capital A/c		2,00,000
	(Being the amount due on allotment of 10,00,000 shares @ Rs. 1 per share)		
1.2.2025	Equity Share Application A/c Dr.	30,000	
	To Share Allotment A/c		30,000
	(Being the transfer of excess application money)		
1.3.2025	Equity Share Ist Call A/c Dr.	2,00,000	
	To Equity Share Capital A/c		2,00,000
	(Being the Ist call amount due on 1,00,000 shares @ Rs. 2 per share)		
1.4.2025	Calls-in-Arrear A/c Dr.	6,000	
	To Equity Share Ist Call A/c		6,000
	(Being the transfer of Ist call money on 3,000 equity shares @ Rs. 2 per share)		
1.4.2025	Equity Share Final Call A/c Dr.	3,00,000	
	To Equity Share Capital A/c		3,00,000
	(Being the final call amount due on 1,00,000 shares @ Rs. 3 per share)		

1.5.2025	Calls-in-Arrear A/c Dr. To Equity Share Final Call A/c (Being the transfer of final call money on 2,000 equity shares @ Rs. 3 per share)	6,000	 6,000
31.12.2025	Sundry Shareholders A/c Dr. To Interest on Calls-in-Arrears A/c (Being the interest due on Rs. 6,000 @ 10% for eight months)	400	 400

Cash Book (Bank Column)

Date	Particulars	Rs.	Date	Particulars	Rs.
15.1.2025	To Equity Share Application A/c (application money @ Rs. 3 per share 1,20,000 shares)	3,60,000	1.2.2025	By Equity Share Application A/c (refund of application money @ Rs. 3 per share on 10,000 shares rejected)	30,000
15.2.2025	To Equity Share Allotment A/c (balance of allotment money on Rs. 1,00,000 shares)	1,70,000	1.5.2025	By Balance c/d	9,94,050
1.4.2025	To Equity Share 1st Call A/c (1st call money on 97,000 shares)	1,94,000			
1.5.2025	To Equity Share Final A/c (final call money on 98,000 shares)	2,94,000			
1.5.2025	To Calls-in-Arrear A/c (arrears of 1st call money @ Rs. 2 per share on 3,000 shares)	6,000			
1.5.2025	To Interest on Calls- in- Arrear A/c (interest on Rs. 6,000 for one month @ 10% p.a.)	50			
		10,24,050			10,24,050

Illustration 7 [Page No. 295]

X Ltd. forfeited 1,000 equity shares of Rs. 10 each issued at par for non-payment of the first call of Rs. 2 per share and the final call of Rs. 3 per share. Give journal entry for the forfeiture.

Solution:

In the books of X Ltd. - Journal Entries

Date	Particulars		Debit (Rs.)	Credit (Rs.)
	Equity Share Capital A/c (1,000 x Rs.10)	Dr.	10,000	
	To Shares Forfeited A/c (1,000 x Rs. 5)			5,000
	To Calls-in-Arrear A/c (1,000 x Rs. 5)			5,000
	(Forfeiture of 1,000 equity shares for non-payment of the first call @ Rs. 2 per share and the final call @ Rs. 3 per share as per Board's resolution dated...) **Alternative**			
	Equity Share Capital A/c (1,000 x Rs. 10)	Dr.	10,000	
	To Shares Forfeited A/c (1,000 x Rs. 5)			5,000
	To Equity Share First Call A/c			2,000
	To Equity Share Final Call A/c			3,000
	(Forfeiture of 1000 equity shares for non-payment of the first call @ Rs. 2 per share and the final call @ Rs. 3 per share as per Board's resolution dated...)			

Illustration 11 [Page No. 303]:

A limited company issued a prospectus inviting applications for 2,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On Application	Rs. 2
On Allotment	Rs. 5 (including premium)
On First Call	Rs. 3
On Second and Final Call	Rs. 2

Applications were received for 3,000 shares and allotment was made pro-rata to the applicants of 2,400 shares. Money overpaid on applications was employed on account of sum due on allotment. Ramesh, to whom 40 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mohan, the holder of 60 shares failed to pay the two calls and his shares were forfeited after the second and final call. Of the shares forfeited, 80 shares were sold to Krishna credited as fully paid for Rs. 9 per share, the whole of Ramesh's share being included. Show journal and cash book entries and the Balance Sheet.

Solution:

Working Notes:

1. Ratio between allotment of shares and application for shares = 2,000: 2,400 = 5: 6,
2. Ramesh was allotted 40 shares.
   Therefore, Ramesh must have applied for 40 x 6/5 = 48 shares.
3. Ramesh must have paid excess application money on (48 - 40) = 8
   Excess applications @ Rs. 2 per share, i.e., 8 x Rs. 2 = Rs. 16 retained by the company for adjustment against allotment money.
4. Allotment money due from Ramesh on 40 shares @ Rs. 5 per share = 40 x Rs. 5 = Rs. 200.
5. As the allotment money was failed by Ramesh against which excess money paid on application was adjusted, the net amount failed by Ramesh on Allotment = Rs. (200 - 16) = Rs. 184.
6. As Mohan paid the allotment money and the excess amount paid by him along with the application had already been adjusted, pro rata allotment in this case has no significance.
7. Amount to be transferred to Capital Reserve A/c from Shares Forfeited A/c has to be determined as follows:

Amount forfeited on 40 shares held by Ramesh (48 x Rs. 2)	96
Amount forfeited on 60 shares held by Mohan (60 x Rs. 5)	300
Total amount credited to Shares Forfeited A/c	396
Less: Amount on 20 forfeited shares held by Mohan which are not yet re-issued (20 x Rs. 5)	100
	296
Less: Discount allowed @ Rs. 1 on 80 shares (80 x Rs. 1)	80
Net gain on 80 forfeited shares which are reissued to be transferred to Capital Reserve	216

Dr. **Cash Book (Bank Column)** *Cr.*

Particulars	Rs.	**Particulars**	Rs.
To Share application A/c (Application money on 3000 shares @ Rs. 2 per share)	6,000	By Share Application A/c (Refund of application money on 600 shares rejected @ Rs. 2 per share)	1,200
To Shares Allotment A/c (Balance of allotment money on 2,000 shares less amount failed by Ramesh)	9,016*	By Balance c/d	24,036
To Share First Call A/c (First call money on 1900 shares, i.e., 2000 shares - (40 + 60) shares @ Rs. 3 per share)	5,700		
To Shares Final call A/c (Final call money on 1900 shares, i.e., 1960 shares less 60 shares held by Mohan who failed @ Rs. 2 per share)	3,800		
To Share Capital A/c (Amount received on re-issue of 80 forfeited shares @ Rs. 9 per share)	720		
	25,236		25,236
To Balance b/d	24,036		

* (10000 – 40 x 5 + 16 – 800)

Journal Entries

Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
Share Application A/c	Dr.	4,000	
To Share Capital A/c			4,000
(Transfer of application money to share capital account as per Board's resolution dated...)			

Share Allotment A/c	Dr.	10,000	
To Share Capital A/c			6,000
To Securities Premium A/c			4,000
(Allotment of 2000 shares to the applicants for 2400 shares pro-rata and allotment money due @ Rs. 5 per share including premium of Rs. 2 per share as per Board's resolution dated...)			
Share Application A/c	Dr.	800	
To Share Allotment A/c			800
(Surplus application money adjusted towards share allotment account)			
Share First Call A/c	Dr.	6,000	
To Share Capital A/c			6,000
(First call money due on 2000 shares @ Rs. 3 per share as per Board's resolution dated...)			
Share Capital A/c	Dr.	320	
Securities Premium A/c	Dr.	80	
To Shares Forfeited A/c			96
To Share Allotment A/c			184
To Share First Call A/c			120
(Forfeiture of 40 shares held by Ramesh for non-payment of allotment of money @ ` Rs. 5 per share including premium @ Rs. 2 per share and first call money @ Rs. 3 per share as per Board's resolution dated...)			
Share Final Call A/c	Dr.	3,920	
To Share Capital A/c			3,920
(Share final call due on 1960 shares (i.e., 2000 shares-Ramesh's 40 shares forfeited) @ Rs. 2 per share as per Board's resolution dated...)			
Share Capital A/c	Dr.	600	
To Shares Forfeited A/c			300
To Share First Call A/c			180
To Share Final Call A/c			120
(Forfeited of 60 shares held by Mohan for non-payment of first call money @ Rs. 3 per share and final call money @ Rs. 2 per share as per Board's resolution dated...)			
Shares Forfeited A/c	Dr.	80	
To Share Capital A/c			80
(Discount allowed on re-issue of 80 forfeited share @ Rs. 1 per Board's resolution dated...)			

Shares Forfeited A/c (296 – 80)	Dr.	216	
To Capital Reserve A/c			216
(Transfer of net gain on re-issue of 80 forfeited shares to capital Reserve A/c)			

Balance Sheet of.....Ltd. as at.....

	Particulars		*Note No.*	*Amount (Rs.)*
I.	**Equity and Liabilities** **Shareholders' Funds**			
	Share Capital		1	19,9,00
	Reserves and Surplus		2	4,136
		Total		24,036
II	**Assets**			
	Current Assets			
	Cash and Cash Equivalents		3	24,036
	Total			24,036
Notes:				
1.	**Share Capital**			
	Authorised			
	Issued: 2,000 Equity Shares of Rs. 10 each			20,000
	Subscribed and Paid-up : 1,980 Equity Shares of Rs. 10 each, fully paid-up		19,800	
	Add: Shares Forfeited		100	19,900
2.	**Reserves and Surplus**			
	Capital Reserve Account			216
	Securities Premium Account			3,920
				4,136
4.	**Cash and Cash Equivalent**			
	Balance with Bank			24,036

Practice Questions [Page No. 307]

[1] SOS Limited issued a prospectus inviting applications for 6,000 shares of Rs.10 each at a premium of Rs.2 per share, payable as follows;

- On application Rs.2 per share;
- On allotment Rs.5 per share (including premium):
- On 1st call Rs.3 per share;
- On Second and Final Call Rs.2 per share.,

Applications were receiving for 9,000 shares and allotment was made prorate to the applicants of 7,500 shares, the remaining applicants were refused allotment. Money overpaid on applications were applied towards sums due on allotment. D to whom 100 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Z, the holder of 200 shares, failed to pay both the calls, and his shares were forfeited after the second and final call. Of the shares forfeited 200 shares were sold to C credited as fully paid up for Rs.8.50 per share, the whole of D's shares being included.

Solution:

Note: 1

Application	2
Allotment	5 (3 + 2 Premium)
First call	3
Second and final call	2
Issue Price	**12**

Note: 2 Computation of Adjustment of Pro-rata

Category	Sh Applied (No.)	Sh Allotted (No.)	Appl'n Money received (Rs.)	Adjustments of Application money received			
				Sh Capital (Rs.)	Sh Allotment (Rs.)	Calls in Advance (Rs.)	Refund Bank (Rs.)
1	1500	-	3000 (1500*2)	-	-	-	3000
2	7500	6000	15000 (7500*2)	12000 (6000*2)	3000	-	-
Total	9000	6000	18000 Dr.	12000 Cr.	3000 Cr.	-	3000 Cr.

Journal Entry in the books of SOS Ltd.

	Particulars		LF	Dr. (Rs.)	Cr. (Rs.)
Receipt	Bank A/c	(9000 sh. *2) Dr.		18000	
	To Equity share application A/c				18000
Transfer (Pro-Rata)	Sh Application A/c	Dr.		18000	
	To Sh Capital				12000
	To Sh Allotment				3000
	To Bank (Refund)				3000
	(Refer Note:2)				
Due	Eq sh Allotment A/c	(6000 sh *5) Dr.		30000	
	To Eq sh Capital A/c (6000 sh.*3)				18000
	To security Premium (6000 sh *2)				12000

Receipt	Bank A/c Dr.		26550	
	Calls in Arrears A/c Dr.		450	
	To Eq Sh Allotment A/c			27000
	(6000sh*5=30000-3000 Adjusted (Note-4)=27000-450 call in arrears			
Due	Eq Sh First Call (6000 sh *3) Dr.		18000	
	To Eq Sh Capital A/c			18000
Receipt	Bank A/c Dr.		17100	
	Calls in Arrears A/c [(200+100)*3] Dr.		900	
	To Eq Sh First Call			18000
Forfeiture	Sh Capital A/c (100*8) Dr.		800	
	Security Prem. A/c (100*2) Dr.		200	
	To Sh Forfeiture A/c (Paid)			250
	To Calls in Arrears A/c (Not Paid)			750
	Paid=125*2=250			
	Not Paid= 450 (Allotment) + 300(First Call)=750			
Due	Eq Sh Second & Final Call (5900 sh *2) Dr.		11800	
	To Eq Sh Capital A/c			11800
Receipt	Bank A/c Dr.		11400	
	Calls in Arrears A/c [200*2] Dr.		400	
	To Eq Sh Second and Final Call			11800
Forfeiture	Sh Capital A/c (200*10) Dr.		2000	
	To Sh Forfeiture A/c (Paid)			1000
	To Calls in Arrears A/c (Not Paid)			1000
	Paid=200*(2+3)=1000			
	Not Paid= 200*(2+3)=1000			
Reissue	Bank A/c (200*8.5) Dr.		1700	
	Sh Forfeiture A/c (200*1.5) Dr.		300	
	To Sh Capital (200*10)			2000
Transfer to CR	Sh Forfeiture A/c Dr.		450	
	To Capital Reserve A/c (Note:5)			450

Note: 3

Sh Allotted	**Sh Applied**
6000	7500
100	(?)

Sh Applied =125

Note: 4

Application Money received on sh applied (125*2)	250
Less: Application money due on sh allotted (100*2)	(200)
Excess Money (A)	50
Allotment due on sh allotted (100*5)	500
Less: Adjustment of Excess Money (A)	(50)
Allotment money due but not received (i.e. Calls in Arrears)	450

Note: 5

	Defaulter-1	Defaulter-2	Total
Amount of FF (Amt FF/No of sh FF)*No of Sh reissue	250 [(250/100*100)]	500 [(1000/200*100)]	750
Less:			
Reissue Discount	150 (100*1.5)	150 (100*1.5)	300
Profit on Reissue	100	350	450

Practice Questions [Page No. 310]

[2] Alpha Ltd issued a prospectus inviting applications for 2,000 shares of Rs.10 each at a premium of Rs.2 per share, payable as follows: On Application Rs. 2, On Allotment Rs. 5 (including premium) On First Call Rs. 3, On Second & Final Call Rs. 2 Applications were received for 3,000 shares and pro rata allotment was made on the applications for 2,400 shares. It was decided to utilise excess application money towards the amount due on allotment. Mohit, to whom 40 shares allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Jagat, the holder of 60 shares failed to pay the two calls and on his such failure, his shares were forfeited. Of the shares forfeited, 80 shares were sold to Rishav credited as fully paid for Rs. 9 per share, the whole of Mohit's shares being included. Required: Give Journal Entries to record the above transactions (including cash transactions)

Solution:

Note: 1

Application	2
Allotment	5 (3 + 2 Premium)
First call	3
Second and final call	2
Issue Price	**12**

Note: 2 Computation of Adjustment of Pro-rata

Category	Sh Applied (No.)	Sh Allotted (No.)	Appl. Money received (Rs.)	Adjustments of Application money received			
				Sh Capital (Rs.)	Sh Allotment (Rs.)	Calls in Advance (Rs.)	Refund Bank (Rs.)
1	600	-	1200 (600*2)	-	-	-	1200
2	2400	2000	4800 (2400*2)	4000 (2000*2)	800	-	-
Total	3000	2000	4800 Dr.	4000 Cr.	800 Cr.	-	1200 Cr.

Journal Entry in the books of Alpha Ltd.

	Particulars		LF	Dr.`	Cr.`
Receipt	Bank A/c	Dr. (3000 sh. *2)		6000	
	To Equity share application A/c				6000
Transfer (Pro- Rata)	Sh Application A/c	Dr.		4800	
	To Sh Capital				4000
	To Sh Allotment				800
	To Bank (Refund)				1200
	(Refer Note:2)				
Due	Eq sh Allotment A/c	Dr.(2000 sh *5)		10000	
	To Eq sh Capital A/c (2000 sh.*3)				6000
	To Security Premium (2000 sh *2)				4000
Receipt	Bank A/c	Dr.		9016	
	Calls in Arrears A/c	Dr. (Note:4)		184	
	To Eq Sh Allotment A/c				9200
	(2000sh*5=10000-800 Adjusted (Note-2)=9200				
Due	Eq Sh First Call	Dr.(2000 sh *3)		6000	
	To Eq Sh Capital A/c				6000
Receipt	Bank A/c	Dr.(1900sh *3)		5700	
	Calls in Arrears A/c	Dr.[(40*3)+(60*3)]=300		300	
	To Eq Sh First Call				6000

Forfeiture	Sh Capital A/c Dr.(40*8) Security Prem. A/c Dr.(40*2) To Sh Forfeiture A/c (Paid) To Calls in Arrears A/c (Not Paid) Paid=48*2=96 Not Paid= 184 + 120 (40*3)=304		320 80	 96 304
Due	Eq Sh Second & Final Call Dr.[(2000-40 =1960 *2) To Eq Sh Capital A/c		3920	 3920
Receipt	Bank A/c Dr.(1900*2) Calls in Arrears A/c Dr.[60*2] To Eq Sh Second and Final Call		3800 120	 3920
Forfeiture	Sh Capital A/c Dr.(60*10) To Sh Forfeiture A/c (Paid) To Calls in Arrears A/c (Not Paid) Paid=60*5=300, Not Paid= 60*(3+2)=300		600	 300 300
Reissue	Bank A/c Dr.(80*9) Sh Forfeiture A/c Dr. (80*1) To Sh Capital (80*10)		720 80	 800
Transfer to CR	Sh Forfeiture A/c Dr. To Capital Reserve A/c (Note:5)		216	 216

Note: 3

Sh Allotted	**Sh Applied**
2000	2400
40	(?)

Sh Applied =48

Note: 4

Application Money received on sh applied (48*2)	96
Less: Application money due on sh allotted (40*2)	(80)
Excess Money (A)	**16**
Allotment due on sh allotted (40*5)	200
Less: Adjustment of Excess Money (A)	(16)
Allotment money due but not received (i.e. Calls in Arrears)	**184**

Note: 5

	Mohit	Jagat	Total
Amount of FF (Amt FF/No of sh FF)*No of Sh reissue	96 [(96/40*40)]	200 [(300/60*40)]	296
Less:			
Reissue Discount	40 (40*1)	40 (40*1)	80
Profit on Reissue	**56**	**160**	**216**

Journal Entries [Page No. 322]

c) On allotment of debentures (at discount)

Vendors A/c
Discount on Issue of Debentures A/c
To Debentures A/c

Page No. 323]

[3] Z Ltd. took over the assets of Rs.6,00,000 and liabilities of Rs.80,000 of C Ltd. for an agreed purchase consideration of Rs.5,40,000 to be satisfied by the issue of 10% Debentures of Rs.1,000 each. Required: Show the necessary journal entries in the books of Z Ltd, assuming that–

Case (a) Such Debentures are issued at par;
Case (b) Such Debentures are issued at 20% premium; and
Case (c) Such Debentures are issued at 10% discount;

Solution:
Common Entry in All Cases

Sundry Assets A/c	Dr.	600000	
Goodwill A/c	Dr.	20000	
To Sundry Liabilities A/c			80000
To C Ltd. A/c			540000

(Being the purchase of assets and liabilities from C Ltd. as per agreement dated...)

Case (a) If Debentures are issued at par

C Ltd. A/c	Dr.	540000	
To 10% Debentures A/c			540000

(Being the issue of 5,400 debentures at par to C Ltd. as per Board's resolution dated. ...)

Case (b) If Debentures are issued at 20% premium

C Ltd. A/c	Dr.	540000	
To 10% Debentures A/c			450000
To Securities Premium A/c			90000

(Being the issue of 4,500 debentures at a premium of 20% to C Ltd. as per Board's resolution dated.)

Case (c) If Debentures are issued at 10% discount

C Ltd. A/c	Dr.	540000	
Discount on Issue of Debentures A/c	Dr.	60000	
To 10% Debentures A/c			600000

(Being the issue of 6,000 debentures at a discount of 10% to C Ltd. as per Board's resolution dated.)

[Page No. 326] - Transfer to capital redemption reserve account is allowed from these profits

1. General reserve
2. Reserve fund
3. Dividend equalisation fund
4. Voluntary debenture redemption account
5. Voluntary debenture sinking fund
6. Profit and loss account.

Page No. 336 [Solution to Illustration 22 – Last entry to be read as]

10% Preference Shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Amount due to 10% Preference Shareholders on redemption of their shares paid)			

*****In Balance sheet – Short term provision to be read as 39,500 instead of 4,39,500.

Question: 2 [Page No. 348]

The following balances appeared in the books of Apple Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2022:

(i) 12 % Debentures Rs. 75,000
(ii) Balance of DRR Rs. 2,500
(iii) DRR Investment Rs. 11,250 represented by 10%, 1,125 Secured Bonds of the Government of India of Rs.10 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2023, balance at bank was Rs. 75,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2023:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

Solution:

12% Debentures Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31 2023	To Debenture-holders A/c		75,000	April 1 2022	By Balance b/d		75,000

10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Apr. 1, 2022	To Balance b/d		11250	Mar. 31, 2023	By Bank		11250

Bank A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Apr 01, 2022	To Balance b/d		75,000	Mar 31, 2023	By Debenture-holders		82500
Mar 31, 2023	To Interest on Debentures Redemption Investments (11250 x 10%)		1125				
Mar 31, 2023	To Debentures Redemption Reserve investment A/c		11250	Mar 31, 2023	By Balance c/d		4875
			87375				87375

Debenture Redemption Reserve Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31, 2023	To General Reserve-(note)		7500	Apr.1, 2022	By Balance b/d		2,500
					By Profit & Loss		5,000
			7500				7,500

Note: *Calculation of DRR before redemption = 10% of Rs. 75,000 = 7500*
Available balance = 2500
DRR required = 7500 - 2500 = 5000.

Debenture Holder Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Mar 31, 2023	To Bank A/c		82500	Mar 31, 2023	By 12% Debenture		75000
				Mar 31, 2023	By Premium on redemption of debentures (75000 X 10%)		7500
			82500				82500

Practical Questions 6 [Page No. 353]

Bhalla and Co. Ltd. has an authorised equity capital of Rs. 20 lakhs divided into shares of Rs. 10 each. The paid-up capital was Rs. 12,50,000. Besides this, the company had 9% preference shares of Rs. 10 each for Rs. 2,50,000. Balance on other accounts were - Securities Premium Rs. 18,000; Profit and Loss Account Rs. 72,000 and General Reserve Rs. 3,40,000. Included in Sundry Assets were investments of the face value of Rs. 30,000 carried in the books at a cost of Rs. 34,000. The company decided to redeem the preference shares at 10% premium, partly by the issue of equity shares of the face value of Rs. 1,20,000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holding Rs. 2,500. Give the necessary journal entries bearing in mind that the Directors wanted a minimum reduction in free reserves, while effecting the above transactions. Working should form part of your answer.

Practical Questions 9 [Page No. 354]

On April 1, 2020, DP Ltd. purchased a running business from Y Ltd. for Rs.10,40,000 payables as to 25% by cheque and balance by issue of equity shares Rs. 100 each at a premium of 4%. The assets and liabilities consisted of the following: Building Rs.6,00,000, Plant and Machinery Rs. 1,00,000, Inventories Rs. 2,00,000, Trade Receivables Rs. 1,80,000, Trade Payables Rs. 80,000. Pass the necessary journal entries in the books of DP Ltd on April 1, 2020.

Practical Questions 17 [Page No. 355]

Books of N Limited show the following balances on 31st December 2024

• 15000 present equity shares of Rs.10 each fully paid	1,50,000
• 2500 10% preference shares of Rs.100 each fully paid	2,50,000
• 500 8% redeemable pref. shares pop ups Rs.108, what is Rs.70 paid up	35,000
• General Reserve	75,000
• Profit and Loss Account	1,60,000
• Securities Premium	15,000
• Investment	1,20,000
• Cash at Bank	39,600

On 1st January 2025, the board of directors decided to redeem the preference shares at a premium of 8%. In order to pay of preference shareholders, the company also decided to sell the Investments and use companies fund and to raise the balance by issue of sufficient number of equity shares of Rs.10 each at a premium of rupee 1 per share subject to leaving a minimum bank balance of Rs.9,600 after such Redemption. Investments were sold at Rs.1,08,000. Show the necessary journal entries (without narration) to record the transactions.

Lesson 8

Accounting for Non-Profit Organisation

MCQs No. 39 [Page No. 391]

In case of a non-profit organisation rent of building is due but not yet paid is considered as a/an

(a) Asset (b) Liability (c) Income (d) None of the above

Answer: (b) Liability