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 False:

(i) An enterprise selecting FIFO or Weighted average method etc. for valuation of inventory is not a selection of accounting policy.

(ii) If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "Error of principle".

(iii) Discount column of cash book does not record the trade discount.

(iv) For debentures issued by unlisted companies (other than AIFIs, Banking companies, NBFCs and HFCs), Debenture Redemption Reserve will be considered adequate if it is 15% of the value of Debentures issued through public issue.

(v) Fees received for life membership from some members by a non-profit organization (NPO), to be capitalized in the books of NPO.

(vi) A company may issue fully paid bonus shares to its shareholders utilizing both Revenue reserves as well as capital reserves including revaluation reserves. ***(6 x 2 = 12 Marks)***

(b) Briefly discuss the fundamental accounting assumptions in the financial statements, about which, if nothing has been written, then it is assumed that they have already been followed in the preparation of financial statements.

(4 Marks)

(c) Journalise the following transactions in the books of Arun Enterprises.

(i) Sold goods for ₹60,000, charged CGST and SGST @9% each.

(ii) Sold goods to Mahesh for ₹53,100 including IGST @18%.

(iii) Sold goods to Rani for ₹60,000 charged IGST @ 18%. Received ₹24,000 immediately by cheque and balance to be received after three months.

(iv) Rani was allowed a rebate as goods supplied to turned out to be defective. charging IGST @ 18%. ₹ 10,000 as goods supplied to These goods were sold by charging IGST @18%. ***(4 Marks)***

Answer

(a) (i) False: An enterprise may either adopt FIFO or weighted average method for valuation of inventories. The method selected for inventory valuation is called an accounting policy.

(ii) False: If the amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be the case of error of commission and not error of principle.

(iii) True: Discount column of cash book records the cash discount. Trade discount is not recorded in the books of accounts.

(iv) False: For debentures issued by unlisted companies (other than AIFIs, Banking companies, NBFCs and HFCs), Debentures Redemption reserve will be considered adequate if it is 10% of the value of the outstanding debentures.

(v) True: Fees received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

(vi) False: Both the revenue and capital reserves may be utilised for issuing fully paid bonus shares, however bonus shares should not be issued out of revaluation reserves.

(b) There are three fundamental accounting assumptions:

(i) **Going Concern:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail

materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used needs to be disclosed.

(ii) **Consistency:** In order to achieve comparability of the financial statements of an enterprise through time, the accounting policies are followed consistently from one period to another; a change in an accounting policy is made only in certain exceptional circumstances.

(iii) **Accrual:** Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

If nothing has been written about the fundamental accounting assumption in the financial statements then it is assumed that they have already been followed in their preparation of financial statements. However, if any of the above-mentioned fundamental accounting assumption is not followed then this fact should be specifically disclosed.

(c) **In the Books of Arun Enterprises**

Journal

	Particulars	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
(i)	Bank A/c Dr.		70,800	
	To Sales A/c			60,000
	To Output CGST A/c			5,400
	To Output SGST A/c			5,400
	(Being goods sold for cash, charged CGST and SGST @ 9% each)			
(ii)	Mahesh's A/c Dr.		53,100	
	To Sales A/c			45,000
	To Output IGST A/c			8,100
	(Being goods sold to Mahesh for ₹ 53,100 including IGST @ 18%)			

(iii)	Bank A/c	Dr.		24,000	
	Rani's A/c	Dr.		46,800	
	To Sales A/c				60,000
	To Output IGST A/c				10,800
	(Being goods sold to Rani, charged IGST @ 18% and received ₹ 24,000 in cash and balance receivable after three months)				
(iv)	Rebate A/c	Dr.		10,000	
	Output IGST A/c	Dr.		1,800	
	To Rani's A/c				11,800
	(Being rebate allowed on goods sold to Rani, Output IGST charged at the time of sales, now reversed)				

Question 2

(a) Roshan & Sons (the firm) acquired a machinery on 01.01.2020 for ₹ 80,000 and spent ₹ 20,000 on its installation. The machine was put to use on 01.07.2020. The expected useful life of the machine was 10 years and estimated scrap value was ₹ 20,000. The firm followed straight line method of depreciation.

The books are closed on 31st December every year.

On 01.01.2023, the firm received the government grant of ₹ 10,000 for the said machine and on the same date, the firm revalued the machinery upward by ₹ 40,000, also re-assessed the remaining useful life to 9 years with scrap value ₹ 20,000. On 15.8.2025, the machine was destroyed by fire. The insurance company paid 60% of book value as on the date of destruction as per Insurance policy.

Show Machinery Account in the books of Roshan & Sons.

Show workings of (i) depreciation to be charged each year (ii) Insurance claim received and loss on destruction of machine. ***(10 Marks)***

(b) The Trial Balance of Mr. Abhay Kumar as on 31st March, 2026 did not agree and the difference was posted to Suspense Account. On a close scrutiny of the books, the following errors were located:

(i) A sale of ₹ 5,500 made to Mr. Ashok was correctly entered in Sales Day Book but wrongly posted to debit of Mr. Abhishek as ₹ 5,000.

(ii) The total of Purchase Returns Book for February 2026 has been casted short by ₹ 2,000.

(iii) The total of sales book have been casted short by ₹ 15,000 for January 2026 and casted in excess by ₹16,000 for March 2026.

(iv) An accrual of ₹ 2,400 for telephone charges had been completely omitted.

(v) Withdrawal of goods worth ₹ 4,000 for being personal use of Abhay Kumar not recorded in the books.

(vi) Receipt of cash ₹ 5,000 from Mr. Arpit was posted to the debit of his account.

(vii) A cheque for ₹ 7,500 received from Mr. Deep Kumar had been dishonoured and was posted to the debit of Mr. Deepak Kumar.

(viii) Goods of the value of ₹ 2,500 returned by a customer were entered in the Sales day Book and posted therefrom to the credit of his account.

You are required to pass necessary journal entries with narrations to rectify the above errors and prepare Suspense Account. ***(10 Marks)***

Answer

(a) Note:

1. Depreciation commences when an asset is available for use and not necessarily when it is actually put to use. In the absence of clear information regarding the date on which the asset became available for use, the question may be solved by adopting either of the following assumptions:
   a. The asset became available for use on 1 January 2020, i.e., the date of its acquisition and installation.
   b. The asset became available for use on 1 July 2020, i.e., the date on which it was actually put to use.
2. As per the applicable Accounting Standard, Government grants related to specific fixed assets may be accounted for either by deducting the grant from the gross value of the asset or treating it as deferred

income, which is recognised in the Statement of Profit and Loss over the useful life of the depreciable asset on a systematic and rational basis.

Accordingly, the question may be solved by adopting either of the following assumptions:

(a) Grant amount is deducted from the value of asset.

(b) Grant amount is not deducted from the value of asset and is instead treated as deferred income.

Accordingly, the Machinery Account may be prepared by adopting either of the above assumptions, as applicable

When depreciation has been calculated from the date of acquiring assets i.e. 1st January,2020 and not considering receipt of grant

Dr. **Machinery Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Bank A/c	80,000	31.12.2020	By Depreciation A/c (WN -I)	8,000
01.01.2020	To Bank-Installation	20,000		By Balance c/d	92,000
		1,00,000			1,00,000
01.01.2021	To Balance b/d	92,000	31.12.2021	By Depreciation A/c (WN -I)	8,000
			31.12.2021	By Balance c/d	84,000
		92,000			92,000
01.01.2022	To Balance b/d	84,000	31.12.2022	By Depreciation A/c (WN -I)	8,000
			31.12.2022	By Balance c/d	76,000
		84,000			84,000
01.01.2023	To Balance b/d	76,000	01.01.2023	By Depreciation A/c (W.N.II)	10,667
01.01.2023	To Revaluation Reserve A/c	40,000	31.12.2023	By Balance c/d	1,05,333
		1,16,000			1,16,000

01.01.2024	To balance b/d	1,05,333	31.12.2024	By depreciation A/c (WN -II)	10,667
			31.12.2024	By Balance c/d	94,666
		1,05,333			1,05,333
01.01.2025	To balance b/d	94,666	15.08.2025	By depreciation A/c	6,666
			15.08.2025	By Bank- Insurance claim (WN-III)	52,800
			15.08.2025	By Profit and Loss A/c- Loss on destruction (WN -III)	35,200
		94,666			94,666

Working Notes:

(i) Calculation of annual depreciation on machinery from 1.1.2020 to 31.12.2022

Cost of Machinery 80,000+20,000 =1,00,000

$$\text{Annual Depreciation} = \frac{1,00,000 - 20,000}{10} \text{(scrap Value)} = 8,000 \text{ p.a.}$$

Year	Depreciation per annum
2020-2022 (from 01-1-2020-31-12-2022)	8,000

(ii) Calculation of annual depreciation on machinery from 1-1-2023

WDV as on 31-12-2022	76,000
Add: upward revaluation	40,000
Less: Scrap Value	(20,000)
WDV as on 1-1-2023	96,000

$$\text{Annual Depreciation from 2023} = \frac{76,000 + 40,000 - 20,000}{9} = 10,667 \text{ p.a.}$$

Year	Depreciation per annum
2023-2024 (from 1-1-2023 to 31-12-2024)	10,667 per annum
2025 (from 1-1-2025 to 15-8-2025) {i.e. (10,667/12) x 7.5)	6,666

(iii) Calculation of Insurance Claim received and Loss on Destruction of Machinery

	₹
WDV as on 1-1-2025	94,666
Less: Depreciation till 15-8-2025	(6,666)
W.D.V. on 15-8-2025	88,000
Less: Insurance Claim (60% on WDV as on 15.8.2025)	(52,800)
Loss on Destruction of Machinery transferred to P&L A/c	35,200

Alternative 1: When the depreciation has been calculated from the date of acquiring assets i.e. 1st January 2020 and receipt of grant is considered.

(a) Dr. Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Bank A/c	80,000	31.12.2020	By Depreciation A/c (WN -I)	8,000
01.01.2020	To Bank-Installation	20,000		By Balance c/d	92,000
		1,00,000			1,00,000
01.01.2021	To Balance b/d	92,000	31.12.2021	By Depreciation A/c (WN -I)	8,000
			31.12.2021	By Balance c/d	84,000
		92,000			92,000
01.01.2022	To Balance b/d	84,000	31.12.2022	By Depreciation A/c (WN -I)	8,000
			31.12.2022	By Balance c/d	76,000
		84,000			84,000

01.01.2023	To Balance b/d	76,000	01.01.2023	By bank A/c- Govt grant received	10,000
01.01.2023	To Revaluation Reserve A/c	40,000	31.12.2023	By Depreciation A/c (WN -II)	9,556
			31.12.2023	By Balance c/d	96,444
		1,16,000			1,16,000
01.01.2024	To balance b/d	96,444	31.12.2024	By depreciation A/c (WN -II)	9,556
			31.12.2024	By Balance c/d	86,888
		96,444			96,444
01.01.2025	To balance b/d	86,888	15.08.2025	By depreciation A/c	5,973
			15.08.2025	By Bank- Insurance claim (WN-III)	48,549
			15.08.2025	By Profit and Loss, A/c- Loss on destruction (WN -III)	32,366
		86,888			86,888

Working Notes:

(i) Calculation of annual depreciation on machinery from 1.1.2020 to 31.12.2022

Cost of Machinery 80,000+20,000 =1,000,00

Annual Depreciation = $\frac{1,00,000 - 20,000}{10}$ (scrap Value) = 8,000 p.a.

Year	Depreciation per annum
2020-2022 (from 01-1-2020-31-12-2022)	8,000

(ii) Calculation of annual depreciation on machinery from 1-1-2023

WDV as on 31-12-2022 76,000

Add: upward revaluation	40,000
Less: Govt. Grant received	(10,000)
Less: Scrap Value	(20,000)
WDV as on 1-1-2023	86,000

Annual Depreciation from 2023 = $\frac{76,000 + 40,000 - 10,000 - 20,000}{9}$

= 9,556 p.a.

Year	Depreciation per annum
2023 -2024 (from 1-1-2023 to 31-12-2024)	9, 556 per annum
2025 (from 1-1-2025 to 15-8-2025) {i.e. (9556/12) x 7.5)	5,973

(iii) Calculation of Insurance Claim received and Loss on Destruction of Machinery

	₹
WDV as on 1-1-2025	86,888
Less: Depreciation till 15-8-2025	(5,973)
W.D.V. on 15-8-2025	80,915
Less: Insurance Claim (60% on WDV as on 15.8.2025)	(48,549)
Loss on Destruction of Machinery transferred to P&L A/c	32,366

Alternative 2: When depreciation has been calculated from the date of putting asset on use i.e. from 1st July 2020 and receipt of government grant is not considered.

(a) Dr. Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Bank A/c	80,000	31.12.2020	By Depreciation A/c (WN -I)	4,000
01.01.2020	To Bank-Installation	20,000			
				By Balance c/d	96,000
		1,00,000			1,00,000

01.01.2021	To Balance b/d	96,000	31.12.2021	By Depreciation A/c (WN-I)	8,000
			31.12.2021	By Balance c/d	88,000
		96,000			96,000
01.01.2022	To Balance b/d	88,000	31.12.2022	By Depreciation A/c (WN-I)	8,000
			31.12.2022	By Balance c/d	80,000
		88,000			88,000
01.01.2023	To Balance b/d	80,000	01.01.2023	By Depreciation A/c (W.N-II)	11,111
01.01.2023	To Revaluation Reserve A/c	40,000	31.12.2023	By Balance c/d	1,08,889
			31.12.2023		
		1,20,000			1,20,000
01.01.2024	To balance b/d	1,08,889	31.12.2024	By depreciation A/c (WN-II)	11,111
			31.12.2024	By Balance c/d	97,778
		1,08,889			1,08,889
01.01.2025	To balance b/d	97,778	15.08.2025	By depreciation A/c	6,944
			15.08.2025	By Bank- Insurance claim (WN-III)	54,500
			15.08.2025	By Profit and Loss A/c- Loss on destruction (WN-III)	36,334
		97,778			97,778

Working Notes:

(i) Calculation of annual depreciation on machinery from 1.1.2020 to 31.12.2022

Cost of Machinery 80,000+20,000 = 1,00,000

Annual Depreciation= $\frac{1,00,000 - 20,000}{10}$ (scrap Value) = 8,000 p.a.

Year	Depreciation per annum
2020 (from 01-7-2020 to 31-12-2020)	4,000
2021-2022(from 01-01-2021 to 31-12-2022)	8,000

(ii) Calculation of annual depreciation on machinery from 1-1-2023

WDV as on 31-12-2022	80,000
Add: upward revaluation	40,000
Less: Scrap Value	(20,000)
WDV as on 1-1-2023	1,00,000

Annual Depreciation from 2023 $= \frac{80,000 + 40,000 - 20,000}{9}$

= 11,111 p.a.

Year	Depreciation per annum
2023 -2024 (From 1-1-2023 to 31-12-2024	11,111 per annum
2025 (from 1-1-2025 to 15-8-2025) (i.e. {11,111/12) x7.5)}	6,944

(iii) Calculation of Insurance Claim received and Loss on Destruction of Machinery

	₹
WDV as on 1-1-2025	97,778
Less: Depreciation till 15-8-2025	(6,944)
W.D.V. on 15-8-2025	90,834
Less: Insurance Claim (60% on WDV as on 15.8.2025)	(54,500)
Loss on Destruction of Machinery transferred to P&L A/c	36,334

Alternative 3: When depreciation has been calculated from the date of putting asset on use i.e. from 1st July 2020 and receipt of grant is considered.

(a) Dr. Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Bank A/c	80,000	31.12.2020	By Depreciation A/c (WN -I)	4,000
01.01.2020	To Bank-Installation	20,000		By Balance c/d	96,000
		1,00,000			1,00,000
01.01.2021	To Balance b/d	96,000	31.12.2021	By Depreciation A/c (WN -I)	8,000
			31.12.2021	By Balance c/d	88,000
		96,000			96,000
01.01.2022	To Balance b/d	88,000	31.12.2022	By Depreciation A/c (WN -I)	8,000
			31.12.2022	By Balance c/d	80,000
		88,000			88,000
01.01.2023	To Balance b/d	80,000	01.01.2023	By bank A/c- Govt grant received	10,000
01.01.2023	To Revaluation Reserve A/c	40,000	31.12.2023	By Depreciation A/c (WN -II)	10,000
			31.12.2023	By Balance c/d	1,00,000
		1,20,000			1,20,000
01.01.2024	To balance b/d	1,00,000	31.12.2024	By depreciation A/c (WN -II)	10,000
			31.12.2024	By Balance c/d	90,000
		1,00,000			1,00,000
01.01.2025	To balance b/d	90,000	15.08.2025	By depreciation A/c	6,250
			15.08.2025	By Bank- Insurance claim (WN-III)	50,250
			15.08.2025	By Profit and Loss A/c- Loss on destruction (WN -III)	33,500
		90,000			90,000

Working Note :

(i) Calculation of annual depreciation on machinery from 1.1.2020 to 31.12.2022

Cost of Machinery 80,000+20,000 =1,000,00

Annual Depreciation = $\frac{1,00,000 - 20,000}{10}$ (scrap Value) = 8,000 p.a.

Year	Depreciation per annum
2020 (from 01-7-2020 to 31-12-2020)	4,000
2021-2022 (01-01-2021 to 31-12-2022)	8,000

(ii) Calculation of annual depreciation on machinery from 1-1-2023

WDV as on 31-12-2022	80,000
Add: upward revaluation	40,000
Less: Govt. Grant received	(10,000)
Less: Scrap Value	(20,000)
WDV as on 1-1-2023	90,000

Annual Depreciation from 2023 = $\frac{80,000 + 40,000 - 10,000 - 20,000}{9}$

= 10,000 p.a.

Year	Depreciation per annum
2023 -2024(from 01-01-2023 to 31-12-2024	10,000 per annum
2025 (from 1-1-2025 to 15-8-2025)	6,250

(iii) Calculation of Insurance Claim received and Loss on Destruction of Machinery

	₹
WDV as on 1-12025	90,000
Less: Depreciation till 15-8-2025	(6,250)

W.D.V. on 15.08.2025	83,750
Less: Insurance Claim (60% on WDV as on 15.8.2025)	(50,250)
Loss on Destruction of Machinery transferred to P&L A/c	33,500

(b) Journal entries in the books of Mr. Abhay Kumar

	Particulars	Dr. (₹)	Cr. (₹)
(i)	Mr. Ashok Dr.	5,500	
	To Suspense A/c		500
	To Mr. Abhishek		5,000
	(Being sale to Mr Ashok for ₹ 5,500 wrongly posted to Mr. Abhishek as 5,000, now rectified)		
(ii)	Suspense A/c Dr.	2,000	
	To Purchase Return A/c		2,000
	(Being purchase return book casted short by 2,000 now rectified)		
(iii)	Sales A/c Dr.	1,000	
	To Suspense A/c		1,000
	(Being sales book casted short in January 2026 and casted in excess in March, 2026 now rectified)		
(iv)	Telephone Charges A/c Dr.	2,400	
	To Outstanding Expenses A/c		2,400
	(Being Outstanding telephone charges omitted to be recorded, now rectified)		
(v)	Drawings A/c Dr.	4,000	
	To Purchases A/c		4,000
	(Being Goods withdrawn for personal use not recorded, now rectified)		

(vi)	Suspense A/c Dr.	10,000	
	To Mr. Arpit		10,000
	(Being cash received from Mr. Arpit wrongly posted to the debit of his A/c, now rectified)		
(vii)	Mr. Deep Kumar A/c Dr.	7,500	
	To Mr. Deepak Kumar A/c		7,500
	(Being the dishonoured cheque wrongly debited to Mr. Deepak Kumar, instead of Mr. Deep Kumar now rectified)		
(viii)	Sales Return A/c Dr.	2,500	
	Sales A/c	2,500	
	To Suspense A/c		5,000
	(Being goods returned by the customer were wrongly entered in sales day book, now rectified)		

Suspense Account

	₹		₹
To Purchase Return A/c	2,000	By Mr. Ashok	500
To Customers A/c- Arpit	10,000	By Sales A/c	1,000
		By Sales A/c	2,500
		By Sales Return A/c	2,500
		By Difference in trial balance (Balance figure)	5,500
	12,000		12,000

Alternatively, following two separate entries can also be passed in Case (iii)

Sales A/c Dr.	16,000	
To Suspense Account		16,000
(Being Sales book casted in excess in March, 2026 now rectified)		

Suspense A/c	Dr,	15,000	
To Sales Account			15,000
(Being sales book casted short in January 2026 now rectified)			

Question 3

(a) Monu Singh is a cloth merchant. He follows the practice of paying creditors for goods purchased through his Bank account and making payment in cash on all nominal accounts.

Monu Singh had not kept his books on the double entry principles nor had he balanced his two-column cash book.

However, the following information has been extracted from his accounting records:

Particulars	***On 1st April, 2025 (in ₹)***	***On 31st March, 2026 (in ₹)***
Cash in Hand	*300*	*500*
Cash at Bank	*12,000*	*17,000*
Sundry Debtors	*17,500*	*25,000*
Sundry Creditors	*34,100*	*37,500*
Inventories	*25,000*	*18,700*
Furniture	*20,000*	*??*

Transactions during the year ended 31st March, 2026 were as follows:

Particulars	***Amount in ₹***
Salaries Paid	*35,000*
General Expenses Paid	*15,000*
Payment for Stationery	*8,700*
Payment for Advertisement	*7,000*
Lighting Charges paid	*2,500*
Cash Receipt from Debtors	*3,12,500*

Payment to creditors through bank and trade expenses in cash	*2,00,000*
Cash deposit into bank-business	*1,87,500*
Payment into bank-Additional Capital	*2,500*
Payment from bank account-Personal use	*32,500*
Cash Payment - Personal use	*9,100*
Stock taken for personal use	*1,400*
New Furniture purchased on October 01, 2025, payment made through personal saving account	*8,000*
Depreciation on Furniture @ 10% p.a. on WDV basis	*-*

You are required to prepare Trading and Profit and Loss Account for the year ending on 31st March, 2026 and Balance Sheet of Monu Singh as on 31st March, 2026. ***(10 Marks)***

(b) *Amit, Bharat, and Charan are partners in a firm, sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on 31st March, 2025.*

Balance Sheet as on 31st March 2025

Liabilities	***Amount (₹)***	***Assets***		***Amount (₹)***
Sundry Creditors	*35,000*	*Cash at Bank*		*25,000*
General Reserve	*27,000*	*Sundry Debtors*	*30,000*	
Amit's Loan A/c	*20,000*	*Less: Provision for*		
Capital Accounts:		*Doubtful Debts*	*(2,500)*	*27,500*
Amit	*40,000*	*Furniture*		*12,500*
Bharat	*15,000*	*Plant and Machinery*		*45,000*
Charan	*8,000*	*Stock*		*35,000*
	1,45,000			*1,45,000*

With effect from 1st April, 2025, the partners decided to change their profit and loss sharing ratio as 2:2:1, instead of their former ratio of 5:3:2. For that purpose, the following adjustments were agreed upon:

(i) The Provision for Doubtful Debts to be raised to 12% on Debtors.

(ii) The furniture to be appreciated by ₹6,400.

However, they did not want to alter the book value of the assets and liabilities but record the changes by passing a single journal entry.

The Profit and Loss Account of the firm for the year ended 31st March, 2026, showed a net profit of ₹36,000 before taking into consideration the following adjustments:

(i) Interest on Capital at 10% p.a.

(ii) Transfer 20% of the divisible profit to General Reserve, after charging such Reserve.

(iii) Interest on partners loan to be provided as per the partnership laws.

You are required to:

(A) show the single journal entry adjusting the partners' capital as on 1st April, 2025.

(B) prepare Memorandum Revaluation Account as on 01.04.2025 and Profit and Loss Appropriation Account for the year ended 31st March 2026. ***(10 Marks)***

Answer

(a)

In the books of Mr. Monu Singh

Trading Account for the year ending 31st March, 2026

Particulars		Amount ₹	Particulars	Amount ₹
To Opening Inventory		25,000	By Sales (W.N. ii)	3,20,000
To Purchases (W.N. iii)	1,55,900	1,54,500	By Closing Inventory	18,700
Less: Drawings	(1,400)			
To Gross profit c/d		1,59,200		
		3,38,700		3,38,700

Profit & Loss Account for the year ending 31st March, 2026

Particulars	Amount ₹	Particulars	Amount ₹
To Salaries	35,000	By Gross profit b/d	1,59,200
To General expenses	15,000		

To Stationary	8,700		
To Advertisement expenses	7,000		
To Depreciation on furniture	2,400		
To Lighting Charges	2,500		
To Trade expenses (WN i)	47,500		
To Net Profit transfer to Capital	41,100		
	1,59,200		1,59,200

Balance Sheet of Mr. Monu Singh as at 31st March, 2026

Liabilities	₹	₹	Assets		₹
Capital			Furniture	28,000	
			Less: Dep.	2,400	25,600
Opening balance (W.N. iv)	40,700		Inventory		18,700
Add: Additional Capital	2,500		Sundry debtors		25,000
Add: Furniture	8,000				
Net Profit	41,100		Cash in hand		500
	92,300		Cash at Bank		17,000
Less: Drawings					
Cash	(9,100)				
Bank	(32,500)				
Inventory	(1,400)	49,300			
Sundry creditors		37,500			
		86,800			86,800

Working Notes:

(i) Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	300	12,000	By Salaries	35,000	
To Cash (Contra)		1,87,500	By General expenses	15,000	

To	Sundry Debtors	3,12,500		By Stationary	8,700	
				By Advertisement	7,000	
To	Capital A/c		2,500	By Lighting Charges	2,500	
				By Drawing	9,100	32,500
				By Bank (contra)	1,87,500	
				By Trade expenses (bal. fig.)	47,500	
				By Balance c/d	500	17,000
				By Creditors (bal. fig.)		1,52,500
		3,12,800	2,02,000		3,12,800	2,02,000

(ii) Total Debtors Account

	₹		₹
To Balance b/d	17,500	By Cash received from debtors	3,12,500
To Credit Sales (bal. fig.)	3,20,000	By Balance c/d	25,000
	3,37,500		3,37,500

(iii) Total Creditors Account

	₹		₹
To Bank	1,52,500	By Balance b/d	34,100
To Balance c/d	37,500	By Credit Purchases (bal. fig.)	1,55,900
	1,90,000		1,90,000

(iv) Balance Sheet as on 1st April, 2025

Liabilities	₹	Assets	₹
Capital (bal. fig.)	40,700	Furniture	20,000

Sundry Creditors	34,100	Inventory	25,000
		Sundry Debtors	17,500
		Cash in hand	300
		Cash at Bank	12,000
	74,800		74,800

(b) (A) Amount to be adjusted in Partners Capital A/c

Furniture	6,400
Provision for Doubtful Debts	(1,100)
General Reserve	27,000
	32,300

Calculation of Sacrificing ratio

Old Ratio = 5:3:2

Partners	Old Ratio	New Ratio	Sacrificing Ratio
Amit	5/10	2/5	1/10 (Sacrifice)
Bharat	3/10	2/5	1/10 (Gain)
Charan	2/10	1/5	

Amount to be Adjusted 32,300 X 1/10 = 3,230

Adjustment entry as on 1st April,2025

Bharat Capital A/c	Dr.	3,230	
To Amit's Capital A/c			3,230
(Being adjustment entry passed for general reserve, revaluation of provision for bad debts & furniture on change in profit sharing ratio)			

Alternatively, amount to be adjusted in Partners Capital A/c can be calculated as follows:

(i) Writing off General Reserve in old ratio:

General Reserve A/c Dr. 27,000

To Amit's Capital a/c			13,500
To Bharat's Capital a/c			8,100
To Charan's Capital a/c			5,400

(ii) Reversal of writing off in new ratio:

Amit's Capital a/c	Dr.	10,800	
Bharat's Capital a/c	Dr.	10,800	
Charan's Capital a/c	Dr.	5,400	
To General Reserve			27,000

Computation of effect on Partners capital A/c due to change in Profit sharing ratio

	Amit	Bharat	Charan
Profit of revaluation of assets and liabilities credited in old profit-sharing ratio	2,650	1,590	1,060
General Reserve credited in old profit-sharing ratio	13,500	8,100	5,400
Total amount to be credited	16,150	9,690	6,460
Less: Profit of revaluation of assets and liabilities Debited in new profit-sharing ratio	(2,120)	(2,120)	(1,060)
Less: General Reserve debited in new profit-sharing ratio	(10,800)	(10,800)	(5,400)
Amount to be credited	3,230		
Amount to be debited		3,230	

Adjustment entry as on 1st April,2025

Bharat Capital A/c	Dr.	3,230	
To Amit's Capital A/c			3,230
(Being adjustment entry passed for general reserve, revaluation of provision for bad debts & furniture on change in profit sharing ratio)			

(B) Memorandum Revaluation Account as on 1st April, 2025

	Particulars	₹		Particulars	₹
To	Provision for Bad Debts A/c	1,100	By	Furniture	6,400
To	Profit on Revaluation A/c				
	Amit's 2,650				
	Bharat 1,590				
	Charan 1,060	5,300			
		6,400			6,400
To	Furniture A/c	6,400	By	Provision for Bad Debts A/c	1,100
			By	Loss on Revaluation	
				Amit's 2,120	
				Bharat 2,120	
				Charan 1,060	5,300
		6,400			6,400

Profit and Loss Appropriation Account for the year ended 31st March, 2026

	₹	₹		₹
To Interest on Capital (WN 2)			By Net Profit (WN 1)	34,800
Amit (43,230 x10 %)	4,323			
Bharat (11,770 x10%)	1,177			
Charan (8,000x10%)	800	6,300		
To General Reserve (28,500 X 20/120)		4,750		
To Share of profit:				
Amit	9,500			
Bharat	9,500			
Charan	4,750	23,750		
		34,800		34,800

WN 1: Calculation of Net Profit

	₹
Net Profit	36,000
Less: Interest on Loan	(1,200)
Net Profit	34,800

WN 2: Calculation of Adjusted Capital

Amit = ₹40,000 + ₹3,230 = ₹43,230

Bharat = ₹15,000 - ₹3,230 = ₹11,770

Charan = ₹8,000

Question 4

(a) Aman and Bhavesh were partners sharing profits and losses in the ratio of 1:3. On 31st March 2026, their Balance Sheet was as follows:

Balance Sheet as on 31st March 2026

Liabilities	***Amount in (₹)***	***Assets***	***Amount in (₹)***
Creditors	*1,20,000*	*Investments*	*1,00,000*
Bank's Loan	*60,000*	*Stock*	*80,000*
Employees' Provident Fund	*40,000*	*Machinery*	*1,50,000*
Investment fluctuation Fund	*15,000*	*Land and Buildings*	*50,000*
Capital A/cs:		*Sundry Debtors 90,000*	
Aman: 1,30,000		*Less: Provision (3,000)*	*87,000*
Bhavesh: 1,12,000	*2,42,000*	*Bank Balance*	*10,000*
	4,77,000		*4,77,000*

The firm was dissolved on the above date and the assets and liabilities were settled as follows:

(i) Stock was sold at 20% less than book value and machinery realised 10% more than the book value.

(ii) Debtors amounting ₹ 12,000 turned out to be bad and the remaining paid the amount due.

(iii) *A Laptop, which was fully depreciated, is now valued at ₹ 5,000 and is taken over by Aman at this value.*

(iv) *Bhavesh took over 50% of investments at a 10% discount. The remaining investments were handed over to a creditor of ₹ 70,000. The balance payment of creditors was made in cash.*

(v) *Aman was appointed to realise the assets and pay off the liabilities, for which he was to be paid a commission of ₹ 3,000.*

(vi) *Land and Buildings were valued at ₹ 85,000. The Bank took it to settle off the loan of ₹60,000 and paid the balance amount of ₹ 25,000 to the firm.*

You are required to prepare the Realisation Account, Partners' Capital Accounts, and Bank Account to close the books of the firm. ***(10 Marks)***

(b) *From the following trial balance and additional information, prepare Trading and Profit and Loss Account of Mr. Karan Kumar for the year ending on 31st March, 2026 and Balance Sheet as at that date.*

Particulars	***Dr. Balance (₹)***	***Cr. Balance (₹)***
Capital / Drawings	*20,000*	*3,40,000*
Plant & Machinery	*2,20,000*	
Sale / Purchases	*1,68,000*	*3,30,000*
Returns	*10,000*	*8,000*
Bad Debts / Bad Debts Recovered	*10,000*	*74,900*
Freight Inward	*10,000*	
Freight Outward	*14,000*	
Office & Administration Expenses	*55,000*	
Creditors / Debtors	*4,50,000*	*4,15,200*
Loan	*40,000*	*1,00,000*
Investments	*1,00,000*	
Opening stock	*1,08,000*	
Cash in hand and bank	*1,01,100*	
Bank Overdraft		*40,000*

Wages	*2,000*	
Total	*13,08,100*	*13,08,100*

Additional Information:

(i) Market price of the closing stock in hand as at 31st March, 2026 was ₹ 1,23,000. However, its cost was ₹ 1,60,000.

(ii) Provide for depreciation on Plant & Machinery @ 10% p.a.

(iii) Provide interest on capital @ 6% p.a. and an additional capital of ₹ 20,000 was introduced on 1st October, 2025.

(iv) Charge interest on drawings @ 9% p.a., drawings were made evenly throughout the year.

(v) Goods costing ₹ 20,000 were destroyed due to fire on 30th March, 2026. Insurance Company accepted claim to 60% and paid on 10th April, 2026

(vi) Goods worth ₹ 20,000 were sent out on approval basis and recorded as sale. They remained unsold. Cost of such goods was ₹ 16,000.

(vii) Received on credit a purchase invoice of ₹ 21,000 on 27th March, 2026 and recorded, but goods not received till year end (Goods-in-Transit).

(viii) Manager is entitled to a commission of 5% of final profit after charging his commission. ***(10 Marks)***

Answer

(a) **Realization Account**

Particulars		**₹**	**Particulars**		**₹**
To Sundry Assets: -			By Creditors		1,20,000
Investment	1,00,000		By Bank Loan		60,000
Stock	80,000		By Provision for Doubtful debts		3,000
Machinery	1,50,000		By Employee's Provident Fund		40,000
Land and Building	50,000		By Investment fluctuation fund		15,000
Sundry Debtors	90,000	4,70,000	By Bank- Debtors (90,000-12,000)	78,000	

To Bank-Creditors (1,20,000-70,000)		50,000	Stock (80,000 less 20%)	64,000	
To Bank-Employee's Provident Fund		40,000	Machinery	1,65,000	
To Aman's Capital A/c-Commission		3,000	Land & Building	25,000	3,32,000
To Revaluation Profit		57,000	By Bhavesh capital A/c- Investment		45,000
Aman	14,250		By Aman Capital A/c- Laptop taken over		5,000
Bhavesh	42,750				
		6,20,000			6,20,000

Capital Accounts

Particulars	Aman (₹)	Bhavesh (₹)	Particulars	Aman (₹)	Bhavesh (₹)
To Realization A/c (laptop)	5,000		By Bal. b/d	1,30,000	1,12,000
To Realization (Investment)		45,000	By Bank – Realization Profit	14,250	42,750
To Bank	1,42,250	1,09,750	By Realization-Commission	3,000	
	1,47,250	1,54,750		1,47,250	1,54,750

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Realization A/c- creditors	50,000
To Realization A/c-Assets realized	3,32,000	By Realization A/c-Employee Provident Fund	40,000
		By Aman's Capital A/c	1,42,250
		By Bhavesh's Capital A/c	1,09,750
	3,42,000		3,42,000

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

Trading Account for the year ended 31st March,2026

	₹	₹		₹	₹
To Opening stock		1,08,000	By Sales	3,30,000	
To Purchases	1,68,000		*Less:* Returns	(10,000)	3,00,000
Less: Returns	(8,000)		*Less:* Goods sent on approval	(20,000)	
Less: Goods destroyed by fire	(20,000)	1,40,000			
To wages		2,000			
To Freight inwards		10,000	By Closing stock	1,23,000	
			Add: Goods Sent for approval	16,000	
			Add: Goods in Transit	21,000	1,60,000
To Gross profit c/d		2,00,000			
		4,60,000			4,60,000

Profit & Loss Account for the year ended 31st March,2026

	₹	₹		₹	₹
To Freight Outward		14,000	By Gross profit b/d		2,00,000
To Office and administration expenses		55,000	By Bad debts recovered		74,900
To Depreciation on Machinery		22,000	By Interest on drawings (20,000 x 9% x 6/12)		900
To Loss by fire	20,000				
Less: Insurance claim receivable	(12,000)	8,000			
To Bad Debts		10,000			
To Interest on Capital (WN 2)		19,800			
To Managers commission outstanding (WN 1)		7,000			

To Capital A/c (Net profit transferred)		1,40,000			
		2,75,800			2,75,800

Balance Sheet as at 31st March,2026

Liabilities	₹	₹	**Assets**	₹	₹
Capital account:	3,20,000		Plant and Machinery	2,20,000	
Add: Additional Capital	20,000		*Less:* Depreciation	(22,000)	1,98,000
Add: Net profit	1,40,000				
Less: Drawings	(20,000)		Investments		1,00,000
Add: Interest on Capital	19,800		Loan		40,000
Less: Interest on Drawings	(900)	4,78,900			
Loan		1,00,000			
Sundry creditors		4,15,200	Closing Stock	1,23,000	
Managers Commission (WN 1)		7,000	*Add:* Goods in Transit	21,000	
			Add: Goods on approval	16,000	1,60,000
			Insurance Claim Receivable (60% of 20,000)		12,000
Bank Overdraft		40,000			
			Sundry debtors	4,50,000	
			Less: Goods Sent on approval	(20,000)	4,30,000
			Cash in hand and Bank		1,01,100
		10,41,100			10,41,100

W N 1: Calculation of Manager's Commission

Profit before Manager's Commission (2,75,800- 1,28,800) = ₹1,47,000

Manager's Commission = 1,47,000 x 5/105	=	₹ 7,000
WN 2: Interest of Capital		
Interest on Capital as on 1st April,2025 (3,20,000 x 6%)	=	19,200
Interest on Additional Capital (20,000 x 6% x 6/12) =		600
		₹ 19,800

Question 5

(a) Attempt any ONE of the two parts i.e. either (i) or (ii)

(i) Smt. Rajlaxmi is running a small grocery store, on 31st March, 2026, the bank pass book of Smt. Rajlaxmi showed a balance of ₹ 1,60,000 to her credit while balance as per cash book was ₹ 1,31,500. On scrutiny of the two books, she ascertained the following causes of difference:

(1) She has issued cheques amounting to ₹ 90,000 out of which only ₹ 32,000 were presented for payment.

(2) She received a cheque of ₹ 10,000 which she recorded in her cash book but forgot to deposit in the bank.

(3) A Cheque of ₹ 24,000 deposited by her has not been cleared yet.

(4) Mr. Ekka deposited an amount of ₹ 14,700 in her bank account which has not been recorded by her in cash book yet.

(5) Smt. Rajlaxmi provided the facility of receiving payments through debit cards, credit cards and through UPI (through QR Scanner). It is given that -

- *During the month of March, 2026, total amount of transactions through cards was ₹ 4,30,000. The bank charged a commission at the end of month amounting to ₹ 8,600.*
- *During the month of March, 2026, few customers showed the screen shot of fake payments through UPI and those fake payments amounted to ₹ 2,800.*

(6) Bank has credited an interest of ₹1,200.

Prepare a bank Reconciliation Statement for Smt. Rajlaxmi as on 31st March, 2026. ***(5 Marks)***

OR

(ii) *A trader prepared his accounts on 31st March, every year. Due to some reasons, no stock taking could be possible till 10th of April, 2026, on which date total cost of goods in his godown came to ₹ 60,000. The following facts were established between 31st March and 10th April, 2026.*

(1) Sales ₹ 51,000 (including cash sales of ₹ 10,000)

(2) Purchases ₹ 8,034 (including cash purchases ₹ 1,990)

(3) Sales return ₹ 1,000

(4) On 10th March, goods of the sale value of ₹ 20,000 were sent on sale of return basis to a customer, the period of approval being four weeks. He returned 30% of the goods on 5th April, approving the rest; the customer was billed on 11th April.

(5) The trader had also received goods costing ₹ 18,000 in March, for sale on consignment basis. 20% of the goods had been sold by 31st March, and another 50% by the 10th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 10% on sales.

You are required to ascertain the value of inventories as on 31st March, 2026. ***(5 Marks)***

(b) *During the year ended 31st March, 2026, The Youth Club received subscriptions as follows:*

	(in ₹)
For the year ended 31st March, 2025	*24,000*
For the year ended 31st March, 2026	*6,60,000*
For the year ended 31st March, 2027	*36,000*
Total	***7,20,000***

There are 400 members and annual subscription is ₹ 2,000 per annum per member. On 31st March, 2026, a sum of ₹ 22,000 was still in arrears for subscriptions for the year ended 31st March, 2025.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2026. Also

show how the items would appear in the Balance Sheet as on 31st March, 2025 and the Balance Sheet as on 31st March, 2026. ***(5 Marks)***

(c) *Sapna Ltd., with an authorized capital of ₹50,00,000 divided into Equity shares of ₹10 each, on 1st June 2025, invited applications for issuing 3,00,000 Equity shares at a premium of ₹5 per share. The amount was payable as follows:*

On Application	*₹2 per share*
On Allotment (1st July, 2025)	*₹8 (including premium) per share*
On Final call (1st November, 2025)	*₹5 per share*

Applications were received for 3,60,000 shares. Letter of regret were issued to applicants for 60,000 shares and shares were allotted to all the other applicants. Mr. Vishal, holder of 8,000 shares paid the whole of the amount due along with allotment. When the final call was made, one shareholder, Mr. Rohan failed to pay the money due on 2,000 shares held by him and another shareholder, Mr. Shanu having 5,000 shares agreed to pay his due amount after 2 months along with interest @ 10% p.a. on calls in arrears. Shares issued to Mr. Rohan were forfeited. The company also paid interest on calls in advance @ 12% p.a. to Mr. Vishal on 1st November 2025.

Show the necessary entries in Cash Book and entries in Journal (with narrations) to record the above transactions in the books of Sapna Ltd.

(10 Marks)

Answer

(a) (i) **Bank Reconciliation Statement of Smt. Rajlaxmi as on 31st March, 2026**

Particulars	**Details (₹)**	**Amount (₹)**
Balance as per Pass Book (Cr.)		1,60,000
Add: Cheque deposited but not yet cleared	24,000	
Add: Cheque recorded in Cash Book but not yet deposited	10,000	
Add: Commission charged by bank	8,600	
Add: Fake receipts recorded in Cash Book	2,800	45,400
Less: Cheque issued but not yet presented	58,000	

Less: Amount deposited but not recorded in Cash Book	14,700	
Less: Interest allowed by bank	1,200	(73,900)
Debit Balance as per Cash Book		1,31,500

Alternatively, the Bank Reconciliation Statement may be prepared by taking the balance as per the Cash Book as the starting point. In such a case, the Bank Reconciliation Statement will be prepared as follows:

Bank Reconciliation Statement of Smt. Rajlaxmi as on 31st March, 2026

Particulars	**Details (₹)**	**Amount (₹)**
Balance as per Cash Book (Dr.)		1,31,500
Add: Cheque issued but not yet presented	58,000	
Add: Amount deposited but not recorded in Cash Book	14,700	
Add: Interest allowed by bank	1,200	73,900
Less: Cheque deposited but not yet cleared	24,000	
Less: Cheque recorded in Cash Book but not yet deposited	10,000	
Less: Commission charged by bank	8,600	
Less: Fake receipts recorded in Cash Book	2,800	(45,400)
Credit Balance as per Pass Book		1,60,000

Or

(ii) Statement of Valuation of Stock on 31st March, 2026

	₹	₹
Value of stock as on 10th April, 2026		60,000
Add: Cost of sales during the period from 31st March, 2026 to 10th April, 2026		
Sales (₹ 51,000-₹ 1,000)	50,000	
Less: Gross profit (10% of ₹ 50,000)	(5,000)	45,000

Cost of goods sent on approval basis (90% of ₹ 14,000)		12,600
		1,17,600
Less: Purchases during the period from 31st March, 2026 to 10th April, 2026	8,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 18,000)	5,400	(13,434)
Value of Inventory as on 31st March,2026		1,04,166

Alternatively, valuation of stock can also be calculated using Trading Account.

(b) Income & Expenditure Account (An extract) of The Youth Club for the year ended 31st March, 2026

Expenditure	Amount ₹	Income	Amount ₹
		By Subscription (400 members × ₹ 2,000 per member)	8,00,000

Balance Sheet of The Youth Club as on 31st March, 2025 (An extract)

Liabilities	Amount ₹	Assets	Amount ₹
		Subscription Receivable (₹ 22,000 + ₹ 24,000)	46,000

Balance Sheet of The Youth Club as on 31st March, 2026 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	36,000	Outstanding Subscription of 2024-25	22,000
		Outstanding Subscription of 2025-26 ₹ (8,00,000 - 6,60,000)	1,40,000

(c) **In the books of Sapna Ltd.**
Journal Entries

S No	Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1.	1-6-25	Equity Share Application A/c Dr.		6,00,000	
		To Equity Share Capital A/c			6,00,000
		(Being application money on 3,00,000 shares transferred to share capital)			
2.	1-7-25	Equity Share Allotment A/c Dr.		24,00,000	
		To Equity Share Capital A/c			9,00,000
		To Securities Premium A/c			15,00,000
		(Being amount due on the allotment of 3,00,000 shares @ ₹ 3 per share and securities premium of ₹ 5 per share)			
3.	1-11-25	Equity Share Final Call A/c Dr.		15,00,000	
		To Equity Share Capital A/c			15,00,000
		(Being final call due on 3,00,000 shares at ₹ 5 per share)			
4.	1-11-25	Calls in Advance A/c Dr.		40,000	
		Calls in Arrears A/c		35,000	
		To Equity Share Final Call A/c			75,000
		(Being final call money received, calls in advance on 8,000 shares adjusted and call in arrears remained for 7,000 at ₹ 5 per share)			
5.	1-11-25	Equity Share Capital A/c Dr.		20,000	
		To Equity Share Forfeiture A/c			10,000
		To Calls in Arrears A/c			10,000
		(Being 2,000 shares issued to Rohan forfeited for non payment of final call money)			

6.	1-11-25	Interest on Calls in Advance A/c (WN 1) Dr.		1,600	
		To Shareholders A/c			1,600
		(Being interest made due on calls in advance at the rate of 12% p.a.)			
7.	1-1-26	Shareholders A/c Dr.		417	
		Interest on Calls in Arrears A/c (WN 2)			417
		(Being interest on calls in arrears charged at the rate of 10% p.a.			

WN 1: Calculation of Interest on Calls in Advance:

Final call from 1st July, 2025 to 1st November, 2025 = ₹ 40,000 x 12% x 4 / 12 = ₹ 1,600

WN 2: Calculation of Interest on Calls in Arrears:

First Call from 1st November, 2025 to 1st Jan, 2026 = ₹ 25,000 x 10% x 2 / 12 = ₹ 417

In the Books of Ms Sapna

Cash Book

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1-6-2025	To Equity Shares Applications Account (application money on received on 3,60,000 shares at ₹ 2)	7,20,000	1-7-2025	By Equity Share Application A/c (excess money refunded on 60,000 shares @2 each)	1,20,000
1-7-2025	To Equity Share Allotment A/c (allotment money received on 3,00,000 shares at ₹ 8 per share)	24,00,000	1-11-2025	By Shareholder A/c (Interest on calls in advance paid)	1,600
1-7-2025	To Calls in Advance (Final Call money received on 8000	40,000	31-3-2026	By balance c/d	44,88,817

	shares held by Mr. Vishal along with allotment)				
1-11-2025	To Equity Shares Final Call A/c (Final call money received on 2,85,000 shares of ₹ 5 each)	14,25,000			
1-1-2026	To Calls in Arrears (Final Call on 5000 shares held by Mr. Shanu received after 2 months)	25,000			
1-1-2026	To Shareholder A/c (Interest on calls in arrears received)	417			
		46,10,417			46,10,417

Question 6

(a) The Balance Sheet of Prashant Ltd. as at 31st March, 2025 inter alia includes the following information:

Particulars	***Amount in (₹)***
Share Capital	
Issued and Subscribed capital	
6,000, 9% Preference shares of ₹ 100 each, ₹ 80 paid up	*4,80,000*
15,000 Equity Shares of ₹ 100 each, fully paid up	*15,00,000*
	19,80,000
Reserves and Surplus:	
Securities Premium	*50,000*
Capital Redemption Reserve	*2,60,000*
General Reserve	*5,50,000*
Profit & Loss Account	*1,85,000*
	10,45,000
Non-current Investments	
(Face value ₹ 1,00,000)	*1,15,000*

Under the terms of their issue, the preference shares are redeemable on 31st March, 2026 at 10% premium. In order to finance the redemption, the company makes a right issue of 4,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st June, 2026. The issue was fully subscribed and allotment made on 1st March, 2026. The money due on allotment were duly received by 20th March, 2026. Investments are sold at 120% of their face value on 25th March, 2026.

The preference shares were redeemed after fulfilling the necessary conditions of the Companies Act, 2013.

You are required to pass the necessary journal entries with narrations to give effect to the above arrangements. Also prepare the Notes to Accounts of Share Capital, Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2026. (Ignore date column in Journal) ***(15 Marks)***

(b) Briefly explain the advantages of Double entry System. ***(5 Marks)***

Answer

(a) In the Books of Prashant Ltd.

Journal Entries

		₹	₹
9% Preference Share Final Call A/c	Dr.	1,20,000	
To 9% Preference Share Capital A/c			1,20,000
(Being final call made on preference shares @ ₹ 20 each to make them fully paid up)			
Bank A/c	Dr.	1,20,000	
To 9% Preference Share Final Call A/c			1,20,000
(Being final call money on preference shares received)			
Bank A/c	Dr.	1,00,000	
To Equity Share Application A/c			1,00,000
(Being receipt of application money on 4,000 equity shares @ ₹ 25 per share)			

Equity Share Application A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Being application money received transferred to equity share capital)			
Equity Share Allotment A/c	Dr.	1,80,000	
To Equity Share Capital A/c			1,40,000
To Securities Premium A/c			40,000
(Being allotment money due on 4,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			
Bank A/c	Dr.	1,80,000	
To Equity Share Allotment A/c			1,80,000
(Being receipt of allotment money received on equity shares)			
Bank A/c		1,20,000	
To Investment A/c			1,15,000
To Profit and Loss A/c			5,000
(Being Investment sold at 120% of their face value)			
9% Preference Share Capital A/c	Dr.	6,00,000	
Premium on Redemption of Preference Shares A/c		60,000	
To Preference Shareholders A/c			6,60,000
(Being amount payable to preference shareholders on redemption at 10% premium)			
General Reserve A/c	Dr.	3,60,000	
To Capital Redemption Reserve A/c			3,60,000
(Being transfer of CRR for the redemption of preference shares, the amount not covered by the proceeds of fresh issue of equity shares i.e., 6,00,000 - 1,00,000 -1,40,000)			
9% Preference Shareholders A/c	Dr.	6,60,000	
To Bank A/c			6,60,000
(Being amount paid to preference shareholders)			

General Reserve A/c	Dr.	60,000	
To Premium on Redemption of Preference Shares A/c			60,000
(Being writing off premium on redemption of preference shares)			

Notes to Accounts

		₹
1. Share Capital		
Issued and subscribed and paid up share capital:		
15,000 Equity shares of ₹ 100 each, fully paid up		15,00,000
4,000 Equity Shares of ₹ 100 each (₹ 60 each, paid up)		2,40,000
		17,40,000
2. Reserves and Surplus:		
Securities Premium	50,000	
Add: Received on 4,000 equity shares	40,000	90,000
Capital Redemption reserve	2,60,000	
	3,60,000	6,20,000
General Reserve	5,50,000	
Less: Transferred to Capital Redemption Reserve	(3,60,000)	
Less: Adjustment of Premium payable on Redemption	(60,000)	1,30,000
Profit and Loss Account	1,85,000	
Add: Profit on Sale of Investment	5,000	1,90,000
Total		10,30,000

(b) According to double entry system, every transaction has two-fold aspects, debit and credit and both the aspects are to be recorded in the book of accounts.

The advantages of double entry system are as follows:

(i) By the use of this system the accuracy of the accounting work can be established, through the device of the trial balance.

(ii) The profit earned or loss incurred during a period can be ascertained together with details.

(iii) The financial position of the entity or the institution concerned can be ascertained at the end of each period, through preparation of the financial statements.

(iv) The system permits accounts to be kept in as much details as necessary and, therefore provides significant information for the purpose of control and reporting.

(v) Result of one year may be compared with those of previous years and reasons for the change may be ascertained.