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PAPER – 1: ACCOUNTING

QUESTIONS

True and False

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

   (a) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (b) Prior period items need not be separately disclosed in the current statement of profit and loss.

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

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

   (e) Depreciation is a non-cash expense and does not result in any cash outflow.

   (f) Fees received for Life Membership is a revenue receipt as it is of recurring nature.

   (g) A withdrawal of cash from the business by the proprietor for his personal use should be charged to profit and loss account as an expense.

   (h) Legal heirs of a deceased partner are entitled to his capital account balance only.

   (i) "Listed company" means a company which has its securities only listed with National stock exchange.

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

Theoretical Framework

2. (a) Define accounting policy. What are the conditions under which a company can change its accounting policy?

(b) What is the difference between liability and contingent liability?

Journal Entries

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

(i) Sold goods to Mohit for ₹ 50,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹ 1,000

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

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

(v) Sandeep (a debtor) became insolvent and could pay only 40 paise in a rupee. The amount due from him was ₹ 21,000.

Capital or Revenue Expenditure

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

(i) Expenditure on renovation of a theatre which as increased the seating capacity by 10%.

(ii) Wages paid to workers to produce a tool to be captively consumed.

(iii) Expenditure for advertisement in newspaper.

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

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

Subsidiary Books

4. Enter the following transactions in Purchase Book and post them into ledger.

2026

April 4: Purchased from Mehra Textiles, Panipat

200 Woolen Blankets @ ₹ 120 per each

400 Cotton Bed Sheets @ ₹ 300 per each

Less: Trade discount @ 10%

Freight charged ₹ 300.

April 15: Purchased from Gupta Home Furnishings, Ludhiana

100 Double Bed Sheets @ ₹ 400 per each

200 Single Blankets @ ₹ 140 per each

Less: Trade discount @ 10%

Freight charged ₹ 400.

April 28: Purchased from Shree Handloom Industries, Karnal in cash

80 Quilted Blankets @ ₹ 400 each

200 Printed Bed Sheets @ ₹ 180 per each

Less: Trade discount @ 10%

Freight charged ₹ 200

Rectification of Errors

5. The following errors were identified in the books of Mr. Rajeev for the year ended 31st March,2026. Pass the rectification entries using suspense A/c :

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(i) The total of Purchase Returns Book for March 2026 has been casted short by ₹ 1,000.

(ii) Freight paid for installation of a Machine ₹ 6,500 was posted to the Freight Account as ₹ 5,600.

(iii) Goods of the value of ₹ 5,200 returned by a customer were entered in the Sales day Book and posted therefrom to the credit of his account.

(iv) ₹ 18,000 paid for purchase of old Motorcycle for personal use of Mr. Rajeev was debited to conveyance account.

(v) Sale of old Almirah for ₹ 2,200 treated as sale of goods.

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

(vii) A cheque for ₹ 9,000 received form Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.

(viii) Sale of ₹ 8,500 to Mr. Sandeep was recorded in the sales book correctly but while posting in ledger credited to his account.

(ix) The total of "Discount Allowed" column for the year ending March,2026 amounting to 7,200 was not posted.

You are required to pass necessary journal entries with narrations to rectify the above errors.

Bank Reconciliation Statement

6. On 31st March,2026 Manoj's Cash Book showed a Bank Overdraft of ₹ 98,700. On comparison, he finds the following:

1. Out of the total Cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the Customer, was returned by him and in lieu of that a New Cheque of the same amount was issued to him on 1st April. No entry for the return was made.

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2. Out of the ₹6,800 deposited into the bank on 24 March, a cheque of ₹ 2,600 was credited by the bank on 3 April, whereas a cheque of ₹ 500 was dishonoured and returned by the bank on 4 April.
3. Bank charges worth ₹ 200 have been entered twice in the cash book whereas Insurance charges for ₹ 175 directly paid by Bank was not at all entered in the Cash Book.
4. A Cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by Bank.
5. A Cheque of ₹ 1,400, drawn on this account, was wrongly debited in another account by the Bank.
6. A debit of ₹ 3,500 appearing in the Bank Statement for an unpaid Cheque returned for being 'out of date' had been re-dated and deposited in the Bank Account again on 5th April.
7. The Bank allowed interest on deposit ₹ 1,000.
8. A Customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March,2026. The Cashier erroneously entered the gross amount in the bank column of the Cash Book.
9. The credit side of bank column of Cash Book was undercast by ₹ 5,000.

Prepare Bank Reconciliation Statement as on 31st March,2026**.**

Valuation of Inventories

7. From the following particulars ascertain the value of inventories as on 31st March, 2026 :

Inventory as on 1st April, 2025	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

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At the time of valuing inventory as on 31st March, 2025, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

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

Depreciation and Amortisation

8. M/s Sharma Engineering Works purchased an old machine i.e. Machine A for ₹1,11,000 on 1st April 2022 and spent ₹ 9,000 on its overhauling. On 1st October 2023, another machine (Machine B) was purchased for ₹ 30,000. On 1st October 2024, Machine A was sold for ₹ 84,000, and on the same day a new machine (Machine C) costing ₹ 75,000 was purchased. On 1st October 2025, Machine B was sold for ₹ 6,000.

Depreciation is charged @ 15% per annum on the straight line method. The firm changed to the diminishing balance method with effect from 1st April 2025, and the rate was changed to 10% per annum. The books are closed on 31st March every year.

Prepare the Machinery Account for four years from 1st April 2022.

Bills of Exchange

9. Rohan draws a bill on Priya for ₹30,000 on 01.01.2026 for 3 months. Priya accepts the bill and returns it to Rohan, who discounts it for ₹28,000. Rohan remits 1/4th of the amount to Priya. On the due date Rohan cannot pay his share to Priya, and instead accepts a bill of ₹40,000 for 3 months. The bill was discounted by Priya for ₹37,300. After paying the first bill, Priya sends ¾th of the remaining amount to Rohan. On maturity of the second bill, Rohan becomes bankrupt and his estate pays 40 paise in the rupee.

Give the journal entries in the books of Priya.

Preparation of Financial Statement of Sole Proprietors

10. From the following trial balance of M/s Sunrise Enterprises on 31st March,2026, prepare trading, profit and Loss Account and Balance Sheet as on 31st March,2026

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Trial Balance of M/s Sunrise Enterprises as at 31st March,2026

Particulars	Dr. (₹)	Cr. (₹)
Cash in Hand	1,080	
Cash at Bank	5,260	
Purchases	81,350	
Returns Outward		1,000
Sales Account		1,97,560
Returns Inward	1,360	
Wages	20,960	
Fuel and Power	9,460	
Carriage	4,080	
Stock (1st April,2025)	11,520	
Building	60,000	
Freehold land	20,000	
Machinery	40,000	
Salaries	30,000	
Furniture	15,000	
General Expenses	6,000	
Insurance premium	1,200	
Capital		1,46,000
Drawings	10,490	
Sundry Debtors	29,000	
Phone and Internet Charges	6,400	
Sundry Creditors		12,600
Input CGST	5,000	
Input SGST	5,000	
Output CGST		3,000
Output SGST		3,000
Total	3,63,160	3,63,160

Additional Information

(a) Stock on hand on 31st March,2026 is ₹ 13,600.

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(b) Machinery is to be depreciated at the rate of 10% and furniture at the rate of 20%.

(c) Salaries for the month of March,2026 amounting to ₹ 3,000 were unpaid.

(d) Insurance included a premium of ₹ 170 for next year. CGST and SGST is paid @ 6% each.

(e) Stock valued at ₹ 4,000 were used by the owner for his personal use, the cost of which has not been adjusted in the books of accounts. These goods were purchased by paying CGST and SGST @ 6% each.

(f) A provision for Doubtful Debts is to be created to the extent of 5% on sundry debtors.

(g) Goods costing ₹ 3,000 were distributed to the employees for staff welfare. These goods were purchased by paying CGST and SGST @ 6% each.

(h) Goods costing ₹ 3,000 were destroyed by a fire, which occurred on 7th April,2026. These goods were purchased by paying CGST and SGST @ 6% each.

Financial Statements of Not for Profit Organizations

11. From the following information supplied by ABC Club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2026.

	01.04.2025 ₹	31.03.2026 ₹
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84000

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Machinery	60,000	120000
Sports goods	90,000	150000

Subscription for the year amount to ₹ 18,00,000. Salaries paid ₹ 3,60,000. Face value of the Investment was ₹ 10,50,000, 50% of the Investment was sold at 80% of Face Value on 31st March,2026. Interest on investments was received ₹ 84,000. Furniture was sold for ₹ 48,000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 3,00,000

Rent: ₹ 1,44,000 out of which ₹ 12,000 outstanding

Misc. Expenses: ₹ 30,000

Accounts from Incomplete Records

12. Veda Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2025 was as follows :

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

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The following was the summary of cash and bank book for the year ended 31st March, 2026:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2025	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2026	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (for the year ended 31st March, 2026).

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

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

(iv) The following are the balances as on 31st March, 2026:

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

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

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2026, and Balance Sheet as on that date.

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Partnership Accounts

Calculation of Goodwill

13. Mr. Aarav was carrying on a business. On 1st April, 2025, he admitted Bharat as a partner, giving him one-fourth share in profits. It was agreed that the goodwill of the firm would be ₹ 12,000. On 1st July, 2025, Charu was admitted as a partner and it was agreed that the goodwill of the firm be determined at ₹ 20,000 and the new profit-sharing ratio of Aarav, Bharat and Charu would be 3:1:1. On 1st April, 2026, Charu decided to retire and Deepak was admitted as a partner. Goodwill was agreed at ₹ 50,000 and the profit-sharing ratio amongst Aarav, Bharat and Deepak was agreed to be 4:3:3.

All these agreements about goodwill have not been taken into account. On 1st April, 2026, when Charu retires and Deepak is admitted, the partners decided to account for goodwill by making the necessary entries in respect of goodwill in the books, without keeping the Goodwill Account in the books.

You are required to show the working of goodwill and pass the required journal entry.

Death of Partner

14. Ashish, Aakash and Amit are partners sharing profits & losses in the ratio of 3:2:1.The following is the Balance Sheet of their firm M/s Mayfield as on 31 March, 2026:

Balance Sheet as at 31st March, 2026

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts:		Land & Building		7,20,000
Ashish	8,40,000	Machinery		4,50,000
Aakash	5,70,000	Furniture & Fixtures		3,15,000
Amit	4,50,000	Trade Receivables	4,65,600	
General Reserve	4,05,000	Less: Provision for		
Trade Payables	2,92,200	Doubtful debts	(17,100)	4,48,500

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		Stock	2,56,800
		Joint Life Policy	2,70,000
		Cash & Bank	96,900
	25,57,200		25,57,200

Amit died on 30th June, 2026. As per Partnership deed the following arrangement was to be put into effect:

i. Goodwill of firm was to be valued at 2 years' purchase of average profit of four years to 31 March preceding the death of partner. The profits were as under:

31stMarch, 2023 ₹ 3,42,000

31stMarch, 2024 ₹ 3,66,000

31stMarch, 2025 ₹ 3,57,000

31stMarch, 2026 ₹ 3,75,000

Goodwill Account will not be opened in the books of accounts and Amit was to be credited with his share. The new profit-sharing ratio of Ashish and Aakash will be 5:3.

ii. Profit till the date of death to be ascertained on the basis of average profit of previous four years and share of Amit was to be credited to his capital account.

iii. Assets were to be revalued: Land & Building was appreciated by 15%, Machinery to be depreciated by 5%, Furniture & Fixtures to be revalued at ₹ 3,00,000 and the value of Stock to be taken at ₹ 2,70,000.

iv. Provision for doubtful debts to be increased by ₹ 5,400.

v. A sum of ₹ 7,20,000 was received from insurance company against Joint Life Policy.

vi. Amount due to Amit was paid to the executors.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 30thJune, 2026, along with necessary workings.

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Issue and Redemption of Shares

15. Bright Limited registered with an authorised equity capital of ₹ 16,00,000 divided into 16,000 shares of ₹ 100 each, issued for subscription of 8,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 8,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder Mr. Manas failed to pay the amount on 800 shares held by him and another shareholder Mr. Akhil with 400 shares, paid the entire amount on his shares. There was a time gap of 2 months between both the calls. Mr. Manas having 800 shares agreed to pay his due amount 3 months after final call along with call in arrears at 10% p.a. The company also paid interest on calls in advance @ 12% p.a. to Mr. Akhil after final call is received. Give the necessary journal entries in the books of the company to record these transactions. (Ignore date column)

Issue and Redemption of Debentures

16. A company had issued 20,000, 8% partly convertible debentures of ₹ 100 each on April 1, 2025. The debentures are due for redemption on June 1, 2026. The terms of issue of debentures provided that 30% of the debentures will be converted into equity shares (Nominal Value ₹ 10) at a price of 20 per share and remaining will be redeemable at a premium of 5%.

    (i) Calculate the number of equity shares to be allotted to the debenture holders at the time of conversion.

    (ii) Give the necessary journal entries related to the conversion and redemption of debentures assuming that the company has created the Debenture Redemption Reserve and also invested required amount for redemption of debentures at the time of issue. Debenture Redemption Reserve Investment are sold at par value.

Bonus Issue and Right Issue

17. Following notes pertain to the Balance Sheet of Synergy Company Limited as at 31st March, 2026:

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	₹ in lakhs
Authorized capital:	
15,00,000 shares of ₹ 100 each	1,500
	1,500
Issued and Subscribed capital:	
4,50,000 Equity Shares of ₹ 100 each, ₹ 70 paid up	315
30,000 11% Preference Shares of ₹ 100 each fully paid	30
	345
Reserves and Surplus:	
Revaluation Reserve	15.60
General Reserve	75
Capital Redemption Reserve	75
Securities premium	90
Profit and Loss Account (Cr. Balance)	60

On 30th April, 2026, the Company has made final call@ ₹ 30 each on 4,50,000 equity shares. The call money was received by 31st May, 2026.

Thereafter, on 1st July, 2026 the company decided to issue bonus shares at the rate of 2 equity shares for every 5 equity shares held by way of capitalising its reserves, it decided that there should be minimum usage of balance in Profit & Loss A/c.

On 1st November, 2026, the Company issued right shares at the rate of one equity share for every five shares held on that date at a premium of 10%. All the rights shares were accepted by the existing shareholders and the money was duly received by 30th November, 2026.

Show necessary journal entries in the books of the Synergy for bonus issue and rights issue. Also prepare notes on Share Capital & Reserve & Surplus relevant to the Balance Sheet of the company after the issue of bonus shares & rights share.

18. Write short notes on the following:

(i) Accounting conventions.

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(ii) Objectives of preparing Trial Balance.

(iii) Distinction between Income and Expenditure Account and Receipts and Payments Account.

(iv) Inclusions and exclusions of Cost of Property, Plant and Equipment.

(v) Advantages and Disadvantages of Right Issue.

SUGGESTED ANSWERS/HINTS

1. **(a)** **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(b) **False:** Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

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

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

(e) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

(f) **False:** Life Membership Fee 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.

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(g) **False:** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense. Such drawings should be deducted from the proprietors capital.

(h) **False:** Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

(i) **False:** As per Section 2 (52) of the Companies Act, 2013,"listed company" means a company which has any of its securities listed on any recognised stock exchange.

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

2. **(a)** Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements; and

Policies are based on various accounting concepts, principles, and conventions.

Conditions under which change takes place:

A change in accounting policies shall be made in the following conditions:

(a) It is required by some statute or for compliance with an Accounting Standard

(b) Change would result in more appropriate presentation of financial statement.

(b) A liability is defined as the present financial obligation of an enterprise, which arises from past events. The settlement of a liability results in an outflow from the enterprises of resources embodying economic benefits.

On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability. For example- claims against the enterprise not acknowledged as debts, guarantees given in respect

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of third parties, liability in respect of bills discounted and statutory liabilities under dispute etc. In addition to present obligations that are recognized as liabilities in the balance sheet, enterprises are also required to disclose contingent liability in their balance sheets by way of notes.

3. (a) In the books of Dheeraj

Journal entries

	Particulars		Dr.	Cr.
			Amount ₹	Amount ₹
(i)	Bank A/c	Dr.	22,000	
	Mohit's A/c	Dr.	33,000	
	To Sales A/c			50,000
	To Output CGST A/c			2,500
	To Output SGST A/c			2,500
	(Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash)			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Being goods and cash withdrawn for personal use).			
(iii)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Being commission received).			
(iv)	Commission A/c	Dr.	5,000	
	To Prepaid Commission A/c			5,000
	(Being commission received in advance adjusted).			

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(v)	Machinery A/c	Dr.	3,00,000	
	Input CGST A/c	Dr.	18,000	
	Input SGST A/c	Dr.	18,000	
	To Bank A/c			1,00,000
	To Mewar Industries A/c			2,36,000
	(Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each)			
(vi)	Cash A/c	Dr.	8,400	
	Bad Debts A/c	Dr.	12,600	
	To Sandeep			21,000
	(Being Sandeep become insolvent)			

(b) (i) Capital expenditure

(ii) Capital expenditure

(iii) Revenue expenditure

(iv) Capital expenditure

(v) Revenue expenditure

4. **Purchase Book**

Date 2026	Particulars	Details	Gross Amount	Trade Discount	Net Price	Freight	Total Amount
April 4	Mehra Textiles, Panipat						
	200 Woolen Blankets @ ₹ 120 per each	24,000					
	400 Cotton Bed Sheets @ ₹300 per each	1,20,000					
	Less: trade discount @ 10%	(14,400)					

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	Add: freight	300					
	(A)	1,29,900	1,44,000	14,400	1,29,600	300	1,29,900
April 15	Gupta Home Furnishings, Ludhiana						
	100 Double Bed Sheets @ ₹400 per each	40,000					
	200 Single Blankets @ ₹140 per each	28,000					
	Less: Trade discount @ 10%	(6,800)					
	Add: freight	400					
	(B)	61,600	68,000	6,800	61,200	400	61,600
	Total (A+ B)	1,91,500	2,12,000	21,200	1,90,800	700	1,91,500

Purchased from Shree Handloom Industries, Karnal will not be recorded since this transaction is in cash.

5. Journal Entries in the Books of Mr. Rajeev

Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Suspense A/c Dr.		1,000	
	To Purchase Return A/c			1,000
	(Being the mistake in totalling the Purchase return Book rectified)			
(ii)	Machinery A/c Dr.		6,500	
	To Freight A/c			5,600
	To Suspense A/c			900
	(Being the freight paid for installation of machinery should have been capitalised and not to be charged to freight Account)			
(iii)	Sales Return A/c Dr.		5,200	
	Sales A/c Dr.		5,200	

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	To Suspense A/c (Being value of goods returned by a customer wrongly posted to sales and omission of debit to sales returns account, now rectified)			10,400
(iv)	Drawings A/c Dr. To Conveyance A/c (Being the motorcycle purchased for Mr. Rajeev debited to his Drawings Account instead of Conveyance Account as previously done by mistake)		18,000	18,000
(v)	Sales A/c Dr. To Furniture A/c (Being the rectification of mistake by which sales of Almirah was entered in sales book and hence now corrected by debiting the sales A/c)		2,200	2,200
(vi)	Suspense A/c Dr. To Mr. Shiv's A/c (Being cash received for Rs 5,000 wrongly posted to the debit of his account now rectified)		10,000	10,000
(vii)	Mr. Alok's A/c Dr. To Ashok's A/c (Being the cheque of Mr. Alok dishonoured, previously debited to Mr. Ashok)		9,000	9,000
(viii)	Sandeep A/c Dr. To Suspense A/c (Being the correction of mistake by which the account of Sandeep A/c was credited instead of being debited)		17,000	17,000
(ix)	Discount A/c Dr. To Suspense A/c (Being the total of discount allowed was not posted; error now rectified)		7,200	7,200

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6. Bank Reconciliation Statement of Mr. Manoj as on 31st March,2026

	₹
Balance as per Cash Book (Overdraft Balance)	98,700
Add: Cheques deposited into Bank but collected only on 3rd April,2026	2,600
Cheques deposited and returned as out of date	3,500
Gross amount entered erroneously in cash book by cashier	4,000
Insurance charges not entered in Cash Book	175
Credit side of the Cash Book undercast	5,000
Less: Cheques issued, but not presented till 31st March	(8,900)
Interest allowed by Bank	(1,000)
Cheque wrongly debited by Bank in another account	(1,400)
Cheque wrongly credited by Bank in another account	(1,550)
Bank Charges entered twice in the Cash Book	(200)
Overdraft as per Pass Book	1,00,925

7. Statement of Inventory in trade as on 31st March, 2026

	₹	₹
Inventory as on 31st March, 2025	3,50,000	
Less: Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	(35,000)	3,15,000
Add: Purchases	12,00,000	
Manufacturing Expenses	1,00,000	13,00,000
		16,15,000
Less: Cost of goods sold:		

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	Sales as per books	18,50,000	
Less:	Sales of abnormal item	(50,000)	
		18,00,000	
Less:	Gross Profit @ 20%	(3,60,000)	14,40,000
	Inventory in trade as on 31st March, 2026		1,75,000

8. In the books of M/s Sharma Engineering works

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2022	To Bank A/c (Machine A)	1,11,000	31.3.2023	By Depreciation A/c	18,000
	To Bank A/c (overhauling charges)	9,000	31.3.2023	By Balance c/d	1,02,000
		1,20,000			1,20,000
1.4.2023	To Balance b/d	1,02,000	31.3.2024	By Depreciation A/c (18,000+2,250)	20,250
1.10.2023	To Bank A/c (Machine B)	30,000	31.3.2024	By Balance c/d	1,11,750
		1,32,000			1,32,000
1.4.2024	To Balance b/d	1,11,750	1.10.2024	By Bank A/c (sale of Machine A)	84,000
1.10.2024	To Bank A/c (Machine C)	75,000			
1.10.2024	To Profit and Loss A/c-profit on Sale of Machine A (WN 1)	9,000	31.3.2025	By Depreciation A/c (9,000+5,625+4,500)	19,125

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			31.3.2025	By Balance c/d	92,625
		1,95,750			1,95,750
1.4.2025	To Balance b/d	92,625	1.10.2025	By Bank A/c (sale of Machine B)	6,000
			1.10.2025	By Profit and Loss A/c (Loss on Sale – W.N. 1)	16,087.5
			31.3.2026	By Depreciation A/c (₹1,162.5 + ₹6,937.5)	8,100
			31.3.2026	By Balance c/d	62,437.5
		92,625			92,625

Working Note:

Book Value of machines

	Machine A	Machine B	Machine C
	₹	₹	₹
Cost of all machinery	1,20,000	30,000	75,000
Depreciation for 2022-23	18,000		
Written down value as on 31.3.2023	1,02,000		
Purchase 1.10.2023 (6 months)		30,000	
Depreciation for 2023-24	18,000	2,250	
Written down value as on 31.3.2024	84,000	27,750	
Depreciation for 6 months (2024)	9,000		
Written down value as on 1.10.2024	75,000		
Sale proceeds	84,000		
profit on sale	9,000		
Purchase 1.10.2024			75,000

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Depreciation for 2024-25		4,500	5,625
Written down value as on 31.3.2025		23,250	69,375
Depreciation for 6 months in 1.10.2025		1,162.5	
Written down value as on 1.10.2025		22,087.5	
Sale proceeds		6,000	
Loss on sale		16,087.5	
Depreciation for 2025-2026			6,937.5
Written down value as on 31.3.2026			62,437.5

9. In the books of Priya

Journal Entries

Date	Particulars		DR. (in ₹)	CR. (in ₹)
1/1/2026	Rohan	Dr.	30,000	
	To Bills payable A/c			30,000
	(Being bill of exchange accepted and sent to Mr. Rohan)			
1/4/2026	Bank A/c	Dr.	7,000	
	Discount charges A/c	Dr.	500	
	To Rohan			7,500
	(Being the amount received from Rohan on account of the bills receivable)			
1/4/2026	Bills receivable A/c	Dr.	40,000	
	To Rohan			40,000
	(Being the bills accepted by Rohan)			
1/4/2026	Bank A/c	Dr.	37,300	
	Discount charges A/c	Dr.	2,700	
	To Bills receivable A/c			40,000
	(Being Rohan acceptance discounted with bank)			

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4/4/2026	Bills payable A/c To Bank A/c (Being the amount met on the due date)	Dr.	30,000	 30,000
4/4/2026	Rohan To Bank A/c To Discount A/c {(2,700/40,000) x 30,000} (Being the amount paid and the discount debited to Rohan)	Dr.	7,500	 5,475 2,025
7/7/2026	Rohan To Bank A/c (Being Rohan's acceptance discounted with bank dishonoured due to Rohan's bankruptcy)	Dr.	40,000	 40,000
7/7/2026	Bank A/c Bad debts A/c To Rohan (The amount received from Rohan and the balance being written off as debt)	Dr. Dr.	12,000 18,000	 30,000

10. Trading Account for the year ended 31st March,2026

Particulars	Amt. (₹)	Amt. (₹)	Particulars	Amt. (₹)	Amt. (₹)
To Opening Stock		11,520	By Sales	1,97,560	
To Purchases	81,350		*Less:* Returns Inward	1,360	1,96,200
Less: Goods distributed for staff welfare	(3,000)		By Closing Stock		13,600
Less: Goods taken for personal use	(4,000)				
Less: Returns Outward	(1,000)	73,350			

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To Wages		20,960			
To Fuel and Power		9,460			
To Carriage		4,080			
To Gross Profit transferred to Profit and Loss A/c		90,430			
		2,09,800			2,09,800

Profit and Loss A/c for the year ended 31st March,2026

Particulars	Amt. (₹)	Amt. (₹)	Particulars	Amt. (₹)	Amt. (₹)
To phone and Internet Charges		6,400	By Gross Profit transferred from Trading A/c		90,430
To Salaries	30,000				
Add: Outstanding Salaries	3,000	33,000			
To General Expenses		6,000			
To Insurance premium	1,200				
Less: Prepaid Insurance (WN:1)	170	1,030			
To Depreciation					
Machinery (₹ 40,000 × 10%)	4,000				
furniture (₹ 15,000 × 20%)	3,000	7,000			
To Provision for Doubtful Debts (₹ 29,000 × 5%)		1,450			
To Staff Welfare Expenses (WN:2)		3,360			
To Net Profit transferred to Capital A/c		32,190			
		90,430			90,430

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Balance Sheet as at 31st March,2026

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Capital	1,46,000		Buildings		60,000
Add: Net Profit	32,190		Freehold Land		20,000
	1,78,190		Machinery	40,000	
Less: Drawings (10,490+4,480)	(14,970)	1,63,220	*Less:* Depreciation	4,000	36,000
Sundry Creditors		12,600	Furniture	15,000	
Outstanding Salaries		3,000	*Less:* Depreciation	3,000	12,000
			Debtors	29,000	
			Less: Prov. for Doubtful Debts	1,450	27,550
			Prepaid Insurance		190
			Closing Stock		13,600
			Cash in Hand		1,080
			Cash at Bank		5,260
			Input CGST (WN:4)		1,570
			Input SGST (WN:4)		1,570
		1,78,820			1,78,820

Note : No adjustment is required for the goods costing ₹3,000 destroyed by fire, as the event occurred on 7 April 2026, after the Balance Sheet date.

Working Note:

1. Journal entry of Prepaid Insurance

Prepaid Insurance A/c	Dr.	190	
To Insurance Premium A/c			170
To Input CGST			10
To Input SGST			10

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2. Journal Entry for goods distributed for staff welfare:

Staff Welfare Expenses A/c	Dr.	₹3,360
To Purchases A/c		3,000
To Input CGST A/c		180
To Input SGST A/c		180

(Being goods distributed to employees for staff welfare and Input CGST and Input SGST reversed)

3. Journal Entry for goods withdrawn for personal use will be:

Drawings A/c	Dr.	4,480
To Purchases A/c		4,000
To Input CGST A/c		240
To Input SGST A/c		240

(Being goods withdrawn for personal use and Input CGST and Input SGST reversed)

4. Input CGST and Input SGST to be shown on the Assets Side of Balance Sheet.

Particulars	**CGST (₹)**	**SGST (₹)**
Input CGST and Input SGST in the Trial Balance	5,000	5,000
Less: Output CGST and Output SGST	(3,000)	(3,000)
Less: Input CGST and Input SGST on Drawings	(240)	(240)
Less: Input CGST and Input SGST on Staff Welfare	(180)	(180)
Less: Input CGST and Input SGST on prepaid Insurance	(10)	(10)
Input CGST & Input SGST to be shown on Assets Side	1,570	1,570

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11. Receipts and Payments Account for the year ended 31-03-2026

Receipts	₹	Payments	₹
To balance b/d		By Salaries	3,60,000
Cash and bank	6,60,000	By Purchase of sports goods	60,000
To Subscription received (W.N.1)	14,70,000	₹ (1,50,000-90,000)	
To Sale of investments (W.N.2)	4,20,000	By Purchase of machinery	60,000
To Interest received on investment	84,000	₹ (1,20,000-60,000)	
To Sale of furniture	48,000	By Sports expenses	3,00,000
		By Rent paid	1,32,000
		₹ (1,44,000-12,000)	
		By Miscellaneous expenses	30,000
		By Balance c/d	
		Cash and bank	17,40,000
	26,82,000		26,82,000

Income and Expenditure account for the year ended 31-03-2026

Expenditure	₹	₹	Income	₹	₹
To Salaries	3,60,000		By Subscription		18,00,000
Add: Outstanding for 2026	1,08,000		By Interest on Investment		
	4,68,000				
			Received	84,000	
Less: Outstanding for 2026	(90,000)	3,78,000	Accrued (W.N.5)	21,000	1,05,000
To Sports expenses		3,00,000			
To Rent		1,44,000			
To Miscellaneous exp.		30,000			
To Loss on sale of furniture (W.N.3)		36,000			

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To Depreciation (W.N.4)					
Furniture	8,400				
Machinery	9,000				
Sports goods	13,500	30,900			
To Surplus		9,86,100			
		19,05,000			19,05,000

Working Notes:

1. Calculation of Subscription received during the year 2025-26

	₹
Subscription due for 2025-26	18,00,000
Add: Outstanding of 2025	8,40,000
Less: Outstanding of 2026	(12,00,000)
Add: Subscription of 2026 received in advance	1,80,000
Less: Subscription of 2025 received in advance	(1,50,000)
	14,70,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 10,50,000 × 50% = ₹ 5,25,000

Sales price: ₹ 5,25,000 × 80% = ₹ 4,20,000

Cost price of investment sold: ₹ 8,40,000 × 50% = ₹4,20,000

Profit/loss on sale of investment: ₹ 4,20,000 - ₹ 4,20,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2025	1,68,000
Value of furniture as on 31-03-2026	84,000
Value of furniture sold at the beginning of the year	84,000
Less: Sales price of furniture	(48,000)
Loss on sale of furniture	36,000

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4. Depreciation

Furniture -	₹ 84,000 × 10%	=	8,400
Machinery -	₹ 60,000 × 15%	=	9,000
Sports goods –	₹ 90,000 × 15%	=	13500

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2025	10,50,000
Interest @ 10%	1,05,000
Less: Interest received during the year	(84,000)
Interest accrued during the year	21,000

12. Trading and Profit and Loss Account of Veda Enterprises for the year ended 31st March, 2026.

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

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Balance Sheet of Veda Enterprises as at 31st March, 2026

Liabilities		Amount ₹	Assets		Amount ₹
Capital			Furniture & Fittings	1,50,000	
Opening balance	6,75,000		Less: Depreciation	(22,500)	1,27,500
Less: Drawing	(3,60,000)		Stock		9,75,000
	3,15,000		Trade Debtors		3,43,000
Add: Net profit for the years	4,40,250	7,55,250	Unexpired insurance		3,000
Trade creditors (W.N. 3)		8,29,000	Cash in hand & at bank		1,90,950
Outstanding expenses		55,200			
		16,39,450			16,39,450

Working Notes:

1. Trade Debtors Account

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

2. Memorandum Trading Account

	₹		₹
To Opening stock	9,15,000	By Sales	1,39,30,000
To Purchases (Balancing figure)	1,25,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

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3. Trade Creditors Account

	₹		₹
To Cash/Bank	1,24,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as calculated	1,25,97,000
To Balance c/d		in W.N. 2)	
(balancing figure)	8,29,000		
	133,54,500		133,54,500

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

	₹
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31–3–2025	3,000
	9,34,050
Less: Outstanding expenses as on 31–3–2025	(67,500)
	8,66,550
Add: Outstanding expenses as on 31–3–2026	55,200
	9,21,750
Less: Prepaid expenses as on 31–3–2026 (Insurance paid till July, 2026) (9,000 x 4/12)	(3,000)
	9,18,750

13. Adjustment Journal Entry for Goodwill

Bharat's Capital A/c	Dr.	7,000	
Deepak's Capital A/c	Dr.	15,000	
To Aarav's Capital A/c			16,000
To Charu's Capital A/c			6,000
(Being partners' Capital Accounts adjusted for goodwill on admission and retirement)			

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Working Note:

Calculation of Ratios and Goodwill

1. 1-4-2025 — Bharat is admitted

Bharat's share of goodwill = ₹ 12,000 × 1/4 = ₹ 3,000

New profit-sharing ratio of Aarav and Bharat = 3:1

Sacrifice ratio = 1, since the entire sacrifice is made by Aarav alone.

2. 1-7-2025 — Charu is admitted

Old ratio = 3:1

New ratio = 3:1:1

Sacrifice ratio of Aarav and Bharat = 3:1

Charu's share of goodwill = ₹20,000 × 1/5 = ₹ 4,000

Distribution in sacrifice ratio 3:1:

Aarav = ₹ 4,000 × 3/4 = ₹ 3,000

Bharat = ₹ 4,000 × 1/4 = ₹ 1,000

3. 1-4-2026 — Charu retires and Deepak is admitted

Old ratio (Aarav : Bharat : Charu) = 3:1:1

New ratio (Aarav : Bharat : Deepak) = 4:3:3

Partners' sacrifice/gain = Old Share − New Share

Aarav = 3/5 − 4/10 = 6/10 − 4/10 = 2/10 (Sacrifice)

Bharat = 1/5 − 3/10 = 2/10 − 3/10 = −1/10 (Gain)

Charu = 1/5 − 0 = 2/10 (Sacrifice — entire share on retirement)

Deepak = 0 − 3/10 = −3/10 (Gain)

Goodwill = ₹50,000

Aarav's share = ₹ 50,000 × 2/10 = ₹ 10,000 (Cr.)

Bharat's share = ₹ 50,000 × 1/10 = ₹ 5,000 (Dr.)

Charu's share = ₹ 50,000 × 2/10 = ₹ 10,000 (Cr.)

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Deepak's share = ₹ 50,000 × 3/10 = ₹ 15,000 (Dr.)

Statement Showing Goodwill Distribution Among Partners

Goodwill share distribution	Aarav	Bharat	Charu	Deepak
On admission of Bharat	₹3,000 (Cr.)	₹ 3,000 (Dr.)	—	—
On admission of Charu	₹3,000 (Cr.)	₹ 1,000 (Cr.)	₹ 4,000 (Dr.)	—
On retirement of Charu and admission of Deepak	₹10,000 (Cr.)	₹ 5,000 (Dr.)	₹ 10,000 (Cr.)	₹ 15,000 (Dr.)
Total Effect	₹ 16,000 (Cr.)	₹ 7,000 (Dr.)	₹ 6,000 (Cr.)	₹ 15,000 (Dr.)

14. Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	22,500	By Land and Building A/c	1,08,000
To Furniture and Fixtures	15,000	By Stock	13,200
To Provision for doubtful debt	5,400		
To Capital A/c (Revaluation Profit)			
Ashish = 78,300 x 3/6 = 39,150	78,300		
Aakash = 78,300 x 2/6 = 26,100			
Amit = 78,300 x 1/6 = 13,050			
	1,21,200		1,21,200

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Partners' Capital Accounts

Particulars	Ashish (₹)	Aakash (₹)	Amit (₹)	Particulars	Ashish (₹)	Aakash (₹)	Amit (₹)
To Bank A/c-Amit's Executor's			7,40,550	By Balance b/d	8,40,000	5,70,000	4,50,000
To Amit's Capital A/c	90,000	30,000	–	By General reserve	2,02,500	1,35,000	67,500
To Balance c/d	12,16,650	8,51,100		By Ashish and Aakash's Capital A/c	–	–	1,20,000
				By Revaluation A/c	39,150	26,100	13,050
				By Joint Life Policy (WN. 3)	2,25,000	1,50,000	75,000
				By Profit and Loss suspense A/c (WN. 1)			15,000
	13,06,650	8,81,100	7,40,550		13,06,650	8,81,100	7,40,550

Balance Sheet of M/s Mayfield as at 30th June,2026

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital accounts:		Land and Building		8,28,000
Ashish	12,16,650	Machinery		4,27,500
Aakash	8,51,100	Stock		2,70,000
		Furniture & fixtures		3,00,000
Trade payables	2,92,200	Trade Receivables	4,65,600	
		Less: Prov. for Doubtful Debt	(22,500)	4,43,100
		Cash & bank (WN 2)		76,350
		Profit and Loss Suspense A/c		15,000
	23,59,950			23,59,950

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Working Note:

1. Calculation of goodwill and Amit's share of profit

(a)	Average of last four year's profits and losses	Profit/(loss) (₹)
	Year ended on	
	31.3.2023	3,42,000
	31.3.2024	3,66,000
	31.3.2025	3,57,000
	31.3.2026	3,75,000
		14,40,000
	Average profit (14,40,000/4)	3,60,000
(b)	Goodwill at 2 years' purchase	
	₹ 3,60,000 x 2 = ₹ 7,20,000	
	Goodwill calculated at the time of death of partner Amit's ₹ 7,20,000	
	Amit's Share in Goodwill (₹ 7,20,000/6 = ₹ 1,20,000)	
(c)	Amit's share of profits from the period 1.4.2026 to 30.06.2026	
	₹ 3,60,000 x 3/12 x 1/6 = ₹ 15,000	

Calculation of Gaining Ratio

Partner	Old Share	New Share	Gain
Ashish	$\frac{3}{6}$	$\frac{5}{8}$	$\frac{6}{48}$
Aakash	$\frac{2}{6}$	$\frac{3}{8}$	$\frac{2}{48}$
Amit	$\frac{1}{6}$	–	–

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Adjusting entry:

Ashish's Capital A/c	Dr.	90,000	
Aakash's Capital A/c	Dr.	30,000	
To Amit's Capital A/c			1,20,000
(Adjustment for goodwill on the death of Amit on the basis of gaining ratio)			

2. **Bank A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/d	96,900	By Amit's executors A/c	7,40,550
To Joint Life Policy	7,20,000	By Balance c/d (bal fig)	76,350
	8,16,900		8,16,900

3. The Joint life policy is calculated on the basis of surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner. Hence, ₹ 7,20,000- ₹2,70,000 = ₹ 4,50,000 (divided in profit sharing ratio between the partners.)

15. **Journal entries in the books of Bright Limited**

Bank A/c	Dr.	2,00,000	
To Equity Share Application A/c			2,00,000
(Money received on application for 8,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Transfer of application money on 8,000 shares to share capital)			

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Equity Share Allotment A/c	Dr.	2,40,000	
To Equity Share Capital A/c			2,40,000
(Amount due on the allotment of 8,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	2,40,000	
To Equity Share Allotment A/c			2,40,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	1,60,000	
To Equity Share Capital A/c			1,60,000
(First call money due on 8,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	1,54,000	
Calls-in-Arrears A/c	Dr.	16,000	
To Equity Share First Call A/c			1,60,000
To Calls-in-Advance A/c			10,000
(First call money received on 7,200 shares and calls-in-advance on 400 shares @ ₹ 25 per share)			
Share final Call A/c	Dr.	2,00,000	
To Equity share Capital			2,00,000
(Being final call money become due)			
Bank A/c	Dr.	1,70,000	
Calls in Arrears A/c	Dr.	20,000	
Calls in Advance A/c	Dr.	10,000	
To Share final Call A/c			2,00,000
(Final call received from 6,800 shares; ₹ 20,000 due from Manas on 800 shares)			
Interest on calls in Advance A/c	Dr.	200	
To Bank A/c			200

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(Interest at 12% p.a. paid to Akhil on advance of ₹10,000 for 2 months)			
Bank A/c		37,167	
To Calls in Arrears A/c			36,000
To Interest on Calls in Arrears (WN 1)			1,167
(Manas paid arrears of ₹36,000 along with interest at 10% p.a. after three months)			

WN -1 Calculation of Interest on Calls in arrears of Mr. Manas

First Calls arrears = ₹ 16,000 × 10% × 5/12 = 667

Final Calls arrears = ₹ 20,000 × 10% × 3/12 = 500

Total ₹ 1,167

Total calls in arrears = ₹ 16,000+₹ 20,000 = ₹ 36,000

16.

Particulars	**Number of debentures**
Number of convertible Debenture issued	20,000
Converted into equity shares	30%
Number of debentures to be converted (30% of 20,000)	6,000
Value per Debenture	₹ 100
Equity shares of ₹ 10 each issued on conversion [₹ 6,000 x 100/ ₹ 20]	30,000 shares

Journal Entries

Date	**Particulars**	**Amount (₹) Dr.**	**Amount (₹) Cr.**
1-6-26	8% Debentures Dr.	20,00,000	
	Premium on Redemption of Debentures Dr.	70,000	

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	To Debenture holders A/c (Being amount payable to debenture holders on redemption)			20,70,000
	Debenture holders A/c To Equity Share Capital To Securities Premium (Being 30,000 equity shares issued on conversion)	Dr.	6,00,000	 3,00,000 3,00,000
	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	14,70,000	 14,70,000
	Profit and Loss A/c To Premium on redemption of Debentures (Being premium on redemption of debentures transferred to Profit and Loss A/c)	Dr.	70,000	 70,000
	Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve)	Dr.	1,40,000	 1,40,000
	Bank A/c To DRR Investment A/c (Being DRR Investment realised)	Dr.	2,10,000	 2,10,000

Note: In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue. Amount of DRR created at the time of issue is 10% of ₹ 14,00,000 = ₹ 1,40,000

Amount of DRR investment should be 15% of ₹ 14,00,000 = ₹ 2,10,000

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17. **In the books of Synergy Limited**

Journal Entries

Date			Dr. (₹)	Cr. (₹)
2026	Equity Share Final Call A/c	Dr.	1,35,00,000	
April 30	To Equity Share Capital A/c			1,35,00,000
	(Final call of ₹ 30 per share on 4,50,000 equity shares made due)			
May 31	Bank A/c	Dr.	1,35,00,000	
	To Equity Share Final Call A/c			1,35,00,000
	(Final call money on equity shares received)			
July 1	Securities Premium A/c	Dr.	90,00,000	
	General Reserve A/c	Dr.	75,00,000	
	Capital Redemption Reserve A/c (b.f.)	Dr.	15,00,000	
	To Bonus to Shareholders A/c			1,80,00,000
	(Bonus issue of 2 shares for every 5 shares held, by utilising various reserves as per Board's resolution dated.....)			
	Bonus to Shareholders A/c	Dr.	1,80,00,000	
	To Equity Share Capital A/c			1,80,00,000
	(Capitalisation of profit)			
Nov 1	Bank A/c	Dr.	1,38,60,000	
	To Equity Share Capital A/c			
	To Securities Premium A/c			1,26,00,000
	(Being Right issue of 1 shares for every 5 shares held as per board resolution dated .....)			12,60,000

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Notes to Balance Sheet as at 30th November, 2026 (after bonus issue)

(₹ in Lakhs)

		₹
Authorised Capital		
15,00,000 shares of ₹ 100 each		1,500
		1,500
Issued and subscribed capital		
30,000 11% Preference shares of ₹ 100 each, fully paid	30	
7,56,000 Equity shares of ₹ 100 each, fully paid	756	786
(Out of the above, 1,80,000 equity shares @ ₹ 100 each were issued by way of bonus shares and 1,26,000 shares issued at 110 per share)		
Revaluation Reserve		15.60
Securities premium	90	
Less: Utilised for bonus issue	(90)	NIL
Add: Received from right shares	12.6	12.6
General Reserve	75	
Less: Utilised for bonus issue	(75)	
Capital Redemption Reserve	75	
Less: Utilised for bonus issue	(15)	60
Profit and Loss Account		60
Closing Balance		148.20

Working Note:

1. Number of bonus shares to be issued- 4,50,000X 2/5=1,80,000 shares
2. The Issued and subscribed and paid-up capital should be increased as per details given below:

	₹
Existing issued Equity share capital	4,50,00,000
Add: Issue of bonus shares to equity shareholders	1,80,00,000
Add: Issue of right share to Equity Shareholders	1,26,00,000
	7,56,00,000

18. (i) Accounting conventions emerge out of accounting practices,

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

(ii) Objectives of preparing trial balance

The preparation of trial balance has the following objectives:

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

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

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

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(iii) Distinction between Income and Expenditure Account and Receipt and Payment Account are as follows:

Income and Expenditure Account	Receipts and Payments Account
It is prepared to ascertain the surplus or deficit of a not-for-profit organisation for a particular accounting period.	It is prepared to ascertain the cash and bank position of a not-for-profit organisation.
Income and Expenditure A/c is prepared on the accrual basis.	Receipt and Payment A/c is prepared on the cash basis.
It records only revenue income and expenditure related to the current accounting period.	It records both revenue and capital receipts and payments and includes all cash receipts and payments, irrespective of the accounting period to which they relate.
Outstanding and accrued items of income and expenditure are included.	Outstanding and accrued items are not recorded unless actually received or paid.
Prepaid expenses and income received in advance relating to future periods are excluded.	Receipts and payments relating to current, previous or future periods are included if cash is received or paid during the period.
The balance may be surplus or deficit.	The balance is generally a debit balance, representing cash in hand and at bank.

(iv) Cost of Property, Plant and Equipment comprises of:

(a) its purchase price, including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates.

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(b) any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

(c) the initial estimate of the costs of dismantling, removing, the item and restoring the site on which an asset is located.

Examples of directly attributable costs included in the cost of Plant property and equipment are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g. engineers hired to help with the installation of a machine

Thus, all the expenses which are necessary for the asset to bring it in condition and location of desired use will become part of cost of the asset.

However, following expenses should not be included as a part of the cost of asset:

(a) costs of opening a new facility or business, such as inauguration costs;

(b) cost of introducing new product or service (for example cost of advertisement or promotional activities).

(c) cost of conducting business in a new location or with a new class of customer (including cost of staff training); and

(d) administration and other general overhead costs.

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(v) Advantages of Right Issue

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

Disadvantages of Right Issue

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

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