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FOR CA FOUNDATION EXAM PREPARATION

CA Foundation 2024 Suggested Answers · Paper 1 Accounting

EXAM	YEAR	TYPE	SUBJECT
CA Foundation	2024	Suggested Answers	Paper 1 Accounting

DATE

June 2024

SUGGESTED ANSWER JUNE 2024
FOUNDATION EXAMINATION

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 Ture or False:

(i) If Closing Stock appears in the Trial Balance then it does not enter in Trading Account. It is shown only in the Balance Sheet.

(ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

(iii) Accounting Standards can override the statute.

(iv) Promissory Note is different from Bill of Exchange because the amount is paid by maker in case of former and by the acceptor in the later.

(v) All errors are rectified by means of journal entries.

(vi) Revaluation Account is also known as Profit and Loss Adjustment Account. ***(6 x 2 = 12 Marks)***

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

(ii) Explain the following:

(1) Cash Basis of Accounting

(2) Going Concern concept ***(2 x 2 = 4 Marks)***

(c) Pass journal entries for the following transactions in the books of Mr. Kapil:

(i) Purchased goods from Sonu for ₹ 1,50,000 at a trade discount of 10% plus CGST and SGST@ 6% each.

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

(ii) 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.

(iii) Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each.

(iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months. ***(4 x 1 = 4 Marks)***

Answer

(a) (i) True: If closing stock appears in the trial balance then it is not entered in the trading account but it is shown only in the balance sheet because it has already been adjusted to purchase account.

(ii) False: If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of commission and not error of Principle.

(iii) False: Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

(iv) True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

(v) False: Errors not affecting the trial balance can be rectified by passing a rectification journal entry. While other errors that affect one account of trial balance cannot be rectified by passing journal entries. Totaling errors cannot be rectified by passing journal entries

(vi) True: Revaluation is also called as profit and loss adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.

(b) (i) Accounting Policy:

(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

(b) 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

(ii) (i) Cash Basis of Accounting is the method of recording financial transactions, by which revenues and expenditure and assets and liabilities are reflected in the accounts in the period in which the receipts or payments are actually effected/made.

(ii) Going Concern concept states that 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.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

(c) Journal entries in the books of Mr. Kapil

S No.	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Purchases A/c	Dr.		1,35,000	
	Input CGST A/c	Dr.		8,100	
	Input SGST A/c	Dr.		8,100	
	To Sonu's A/c				1,51,200
	(Being goods purchased from Sonu, CGST and SGST payable @ 6% each)				

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

(ii)	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)				
(iii)	Drawings A/c	Dr.		28,000	
	To Purchase A/c				25,000
	To Input CGST A/c				1,500
	To Input SGST A/c				1,500
	(Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)				
(iv)	Machinery A/c	Dr.		2,00,000	
	Input CGST A/c	Dr.		18,000	
	Input SGST A/c	Dr.		18,000	
	To Bank A/c				1,00,000
	To Bright Industries				1,36,000
	(Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)				

Question 2

(a) The Trial Balance of Mr. Sarvesh Kumar as on 31st March,2024 did not tally and the difference was posted to Suspense Account. On a scrutiny of the books; the following errors were detected:

(i) The total of Sales Returns Book for January 2024 has been casted short by ₹ 1,000.

SUGGESTED ANSWER

ACCOUNTING

(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 ₹ 2,500 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. Sarvesh Kumar was debited to conveyance account.*

(v) *A purchase of ₹ 6,700 had been posted to creditor's account as ₹ 6,000.*

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

(vii) *A cheque for ₹ 2,500 received form Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.*

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

(ix) *The total of "Discount Allowed" column in the cash for the month of December 2023 amounting to ₹ 3,800 was not posted.*

(x) *Sale of old office table for ₹ 2,200 treated as sale of goods.*

You are required to pass necessary journal entries with narrations to rectify the above errors. ***(12 Marks)***

(b) *On 1st April,2022, LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Account. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000.*

Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000.

The company changed the method of depreciation from diminishing balance method to straight line method with effect from 1st April, 2020 and adjusted the difference on 31st March, 2023. The rate of depreciation remains the same.

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in the year 2022-23. ***(8 Marks)***

Answer

(a) Journal Entries in the Books of Mr. Sarvesh Kumar

Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Returns Inward/ Sales Return A/c Dr. To Suspense A/c (Being the mistake in totalling the Returns Inward Book corrected)		1,000	1,000
(ii)	Machinery A/c Dr. To Freight A/c To Suspense A/c (Being the freight paid for installation of machinery should have been capitalised and not to be charged to freight Account)		6,500	5,600 900
(iii)	Returns Inward/Sales Return A/c Dr. Sales A/c Dr. 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)		2,500 2,500	5,000
(iv)	Drawings A/c Dr. To Conveyance A/c (Being the motorcycle purchased for Mr. Suresh Kumar debited to his Drawings Account instead of Conveyance Account as previously done by mistake)		18,000	18,000

SUGGESTED ANSWER

ACCOUNTING

(v)	Suspense A/c Dr. To Creditors (personal) A/c (Being the mistake in crediting the creditors account less by ₹ 700, now corrected)		700	700
(vi)	Suspense A/c Dr. To Mr. Avinash's A/c (Being cash received for Rs 5,000 wrongly posted to the debit of his account now corrected)		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)		2,500	2,500
(viii)	Deepak A/c Dr. To Suspense A/c (Being the correction of mistake by which the account of Deepak 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 during December not posted; error now rectified)		3,800	3,800
(x)	Sales A/c Dr. To Furniture A/c (Being the rectification of mistake by which sales of furniture was entered in sales book and hence now corrected by debiting the sales A/c)		2,200	2,200

(b) Alternative 1

The question is solved based on the information given in the question by giving retrospective effect of depreciation only on the remaining machinery as on 31.03.2023 i.e. by ignoring the retrospective impact of change in the method of depreciation on the machinery disposed off.

In the books of LMP Co.

Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.22	To Balance b/d	9,72,000	01.10.22	By Depreciation on machinery sold (W.N.1)	3,240
01.10.22	To Bank	1,58,000	01.10.22	By Bank-Machinery sold	45,000
			01.10.22	By Loss on sale of machinery (W.N.1)	16,560
			31.03.23	By Depreciation on remaining machineries (W.N.3)	1,31,100
			31.03.23	By Balance c/d	9,34,100
		11,30,000			11,30,000

Working Note:

1. Calculation of amount of Depreciation, written down value and loss on sale of the part of the machinery

	₹
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022	(7,200)
Written Down Value (WDV) as on 01.04.2022	64,800

Less: Depreciation @10%for the half year till 30th September, 2022	(3,240)
Written Down Value (WDV) as on 1.10.2022	61,560
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	16,560

2. Computation of the written down value of the machinery.

	₹
Cost price of Machinery as on 01.04.2020 (972000*100/90*100/90)	12,00,000
Less: Cost of Machinery sold	80,000
Cost of Remaining asset as on 01.04.2020	11,20,000
Less: Depreciation @ 10% for the year 2020-2021 on diminishing balance method	(1,12,000)
Written down value of the remaining asset as on 01.04.2021	10,08,000
Less: Depreciation @ 10% for the year 2021-2022 on diminishing balance method	(1,00,800)
Written down value of the remaining asset as on 31.03. 2022	9,07,200
Total depreciation as per diminishing balance method	2,12,800
Total depreciation as per straight line method (₹11,20,000*10%*2 years)	2,24,000
Excess depreciation to be charged to profit and loss A/c	(11,200)

3. Total Depreciation to be charged to Profit and Loss Account during the year 2022-2023

S. No.	Particulars	Depreciation (₹)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (11,20,000*10%)	1,12,000
2.	Depreciation on addition i.e. 1,58,000* 10% *1/2	7,900
3	Difference depreciation on method change (W.No.1)	11,200
	Sub-total	1,31,100
4.	Depreciation on machinery sold 1.10.2022	3,240
Grand Total		1,34,340

Alternative 2

The question is solved based on the information given in the question by giving retrospective effect of depreciation on all the machinery (including the machinery disposed off).

In the books of LMP Co.

Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.22	To Balance b/d	9,72,000	01.10.22	By Depreciation on machinery sold (W.N.1)	4,000
01.10.22	To Bank	1,58,000	01.10.22	By Bank-Machinery sold	45,000
			01.10.22	By Loss on sale of machinery (W.N.1)	15,000
			31.03.23	By Depreciation on remaining machineries (W.N.5)	1,31,900
			31.03.23	By Balance c/d	9,34,100
		11,30,000			11,30,000

SUGGESTED ANSWER

ACCOUNTING

Working Note:

1. Calculation of amount of Depreciation, written down value and loss on sale of the part of the machinery

	₹
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021 (on SLM)	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022 (on SLM)	(8,000)
Written Down Value (WDV) as on 01.04.2022	64,000
Less: Depreciation @10%for the half year till 30th September, 2022(SLM)	(4,000)
Written Down Value (WDV) as on 1.10.2022	60,000
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	15,000

2. Computation of the written down value of the machinery.

	₹	₹
Cost price of Machinery as on 01.04.2020 (972000*100/90*100/90)	12,00,000	
Less: Cost of Machinery sold	80,000	
Cost of Remaining asset as on 01.04.2020	11,20,000	80,000
Less: Depreciation @ 10% for the year 2020-2021 on diminishing balance method	(1,12,000)	8,000
Written down value of the remaining asset as on 01.04.2021	10,08,000	72,000
Less: Depreciation @ 10% for the year 2021-2022 on diminishing balance method	(1,00,800)	7,200

Written down value of the remaining asset as on 31.03.2022	9,07,200	64,800
Total depreciation as per diminishing balance method	2,12,800	15,200
Total depreciation as per straight line method		
(₹11,20,000*10%*2 years)	2,24,000	
(₹80,000*10%* 2 Years)		16,000
Excess depreciation to be charged to profit and loss A/c	(11,200)	(800)

5. Total Depreciation to be charged to Profit and Loss Account during the year 2022-2023

S. No.	Particulars	Depreciation (₹)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (11,20,000*10%)	1,12,000
2.	Depreciation on addition i.e. 1,58,000*10% *1/2	7,900
3	Difference depreciation on method change (W.No.1)	12,000
	Sub-total	1,31,900
4.	Depreciation on machinery sold 1.10.2022	4,000
Grand Total		**1,35,900**

Alternative 3

The change in the method of computing depreciation is treated as a change in accounting estimate which may affect the current period only or both the current period and future periods. Accordingly, the question is solved by ignoring the retrospective effect of depreciation as mentioned in the question.

SUGGESTED ANSWER

ACCOUNTING

In the books of LMP Co.
Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.22	To Balance b/d	9,72,000	01.10.22	By Depreciation on machinery sold (W.N.1)	3,240
01.10.22	To Bank	1,58,000	01.10.22	By Bank-Machinery sold	45,000
			01.10.22	By Loss on sale of machinery (W.N.1)	16,560
			31.03.23	By Depreciation on remaining machineries (W.N.4)	98,620
			31.03.23	By Balance c/d	9,66,580
		11,30,000			11,30,000

Working Note:

1. Calculation of amount of Depreciation, written down value and loss on sale of the part of the machinery

Particulars	Amount (₹)
Cost as on 01.04.2020	80,000
Less: Depreciation @10% for the year 2020-2021	(8,000)
Written Down Value (WDV) as on 31.03.2021 or 01.04.2021	72,000
Less: Depreciation @10% for the year 2021-2022	(7,200)
Written Down Value (WDV) as on 01.04.2022	64,800
Less: Depreciation @10%for the half year till 30th September, 2022	(3,240)
Written Down Value (WDV) as on 1.10.2022	61,560
Less: Sale price of the asset sold on 01.10.2022	(45,000)
Loss on sale of Machinery sold	16,560

2. Computation of written down value of the remaining asset as on 01.04.2022

	₹
Total WDV of the machinery as on 01.04.2022	9,72,000
Less: WDV of the part of the machinery sold as on 01.04.2022	(64,800)
Written down value of the remaining asset as on 01.04.2022	9,07,200

3. Computation of the written down value of the machinery as on 31.03.2023

	₹	
Written down value of the remaining asset as on 01.04.2022	9,07,200	
Less: Depreciation @ 10% for the year 2022-2023	(90,720)	8,16,480
Add: New machinery purchased on 1.10.2022 (1,50,000 +8,000)	1,58,000	
Less: Depreciation for 6 months @10%	(7,900)	1,50,100
Written down value of the machinery as on 31.03.2023		9,66,580

4. Total Depreciation to be charged to Profit and Loss Account during the year 2022-2023

S. No.	Particulars	Depreciation (₹)
1.	Depreciation at 10% on existing machinery on 01.4.2022 i.e. (9,07,200*10%)	90,720
2.	Depreciation on addition i.e. 1,58,000* 10%*1/2	7,900
	Sub-Total	98,620
3.	Depreciation on machinery sold 1.10.2022	3,240
Grand Total		**1,01,860**

SUGGESTED ANSWER

ACCOUNTING

Question 3

(a) *The Receipts and Payments Account of Vandana Sports Club for the year ended 31st March, 2024 are as follows:*

Receipts and Payments Account

Receipts	*Amount (₹)*	*Payment*	*Amount (₹)*
To Balance b/d		*By Salaries*	*1,55,000*
Cash in hand 5,200		*By Rent & Electricity*	*69,750*
Cash at Bank 35,500	*40,700*	*By Library Books*	*10,500*
To Subscriptions	*2,95,000*	*By Newspaper & Magazines*	*16,600*
To Entrance fees	*50,000*	*By Sports Equipment*	*28,500*
To Miscellaneous Income	*19,850*	*By Sundry Expenses*	*71,050*
To Interest on Investments	*8,000*	*By Balance c/d*	
		Cash in hand 8,750	
		Cash at Bank 53,400	*62,150*
	4,13,550		*4,13,550*

Details of other assets and liabilities are furnished as follows:

Particulars	*31st March 2023 (₹)*	*31st March 2024 (₹)*
Salaries Outstanding	*10,200*	*12,400*
Outstanding Rent & Electricity	*6,500*	*7,600*
Investment (8% Govt. Bonds)	*1,00,000*	*1,00,000*
Interest Accrued on Bonds	*2,000*	*2,000*
Subscription receivable	*18,700*	*20,600*
Subscription received in advance	*7,000*	*8,400*
Furniture	*65,500*	
Sports Equipment	*41,500*	
Library Books	*22,000*	

The closing values of furniture and sports equipment are to be determined after charging depreciation at 10% and 15% respectively inclusive of additions, if any during the year. The Club's library books are revalued at the

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

end of every year and the value at the end of 31st March,2024 was ₹ 30,000. 60% of the Entrance fee is to be capitalized.

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March,2024

(ii) Balance Sheet as on 31st March, 2024 ***(12 Marks)***

(b) P, Q and R wee partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st Mrach,2024 when their Balance Sheet was as follows:

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c:			*Land & Building*	*4,85,000*
P	*3,55,000*		*Machinery*	*1,88,000*
Q	*2,20,000*		*Furniture*	*1,05,000*
R	*1,25,000*	*7,00,000*	*Stock*	*55,800*
General Reserve		*1,50,000*	*Trade Debtors*	*1,56,000*
Employees Provident Found		*60,000*	*Cash & Bank*	*44,200*
Trade Creditors		*1,24,000*		
		10,34,000		*10,34,000*

The following information is given to you:

(i) There was an unrecorded investment which was sold for ₹ 30,000.

(ii) One of the creditors agreed to take over some items of furniture of Book value ₹ 25,000 at ₹ 24,000. The rest of the creditors were paid at a discount of 5%.

(iii) Out of the trade debtors ₹ 9,000 proved bad, remaining were fully realized.

(iv) The other assets were realised as under:

Land & Building	*₹ 5,25,000*
Machinery	*₹ 1,70,000*
Furniture	*Remaining taken over by P at ₹ 75,000*
Stock	*₹ 60,000*

SUGGESTED ANSWER

ACCOUNTING

(v) Expenses of dissolution amounted to ₹ 18,700.

(vi) There was an outstanding bill for repairs which had to be paid for ₹ 3,500.

You are required to prepare:

(1) Realisation A/c

(2) Cash & Bank A/c

(3) Partner's Capital A/c in the books of partnership firm. ***(8 Marks)***

Answer

(a) In the books of Vandana Sports club.

Income and Expenditure Account for the year ending 31st March, 2024

Expenditure		Amount (₹)	Income	Amount (₹)
To Salaries (W.N.2)		1,57,200	By Subscription (WN. 2)	2,95,500
To Rent & Electricity (W.N.2)		70,850	By Interest on Investments	8,000
To Magazines & Newspapers		16,600	By Misc. Income	19,850
To Sundry Expenses		71,050	By Entrance Fees	20,000
To Depreciation:				
Furniture	6,550			
Sports Equipment	10,500			
Library Books	2,500	19,550		
To Excess of income over expenditure		8,100		
		3,43,350		3,43,350

Balance Sheet as on 31st March, 2024

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Furniture Cost	65,500	

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

			Less: Depreciation	(6,550)	58,950
			Sports Equipment:		
			Opening balance	41,500	
Capital Fund:			Addition	28,500	
Opening balance (W.N.1)	2,66,700			70,000	
Add: Excess of			*Less*: Depreciation	(10,500)	59,500
Income over exp	8,100		Library Books:		
			Opening Balance	22,000	
Entrance fees (60%)	30,000	3,04,800	Addition	10,500	
				32,500	
Subscription received in advance		8,400			
Outstanding Expenses:			*Less*: Depreciation	(2,500)	30,000
Salaries	12,400		Investments (8% Bonds)		1,00,000
Rent & Electricity	7,600		Cash in hand		8,750
		20,000	Cash at Bank		53,400
			Subscription Receivable		20,600
			Interest accrued on Bonds		2,000
		3,33,200			3,33,200

Alternatively, the capitalised portion of entrance fee of ₹ 30,000 may be shown separately in the liability side.

Working Notes:

1. Balance Sheet as on 31st March, 2023

Liabilities	₹	₹	Assets	₹
Outstanding expenses:			Furniture	65,500
Salaries	10,200		Library Books	22,000

SUGGESTED ANSWER

ACCOUNTING

Rent & Electricity	6,500	16,700	Sports Equipment	41,500
Subscription received in advance		7,000	Investments	1,00,000
Capital Fund (Balancing figure)		2,66,700	Cash in hand	5,200
			Cash at Bank	35,500
			Subscription receivable	18,700
			Interest accrued	2,000
		2,90,400		2,90,400

2.

(i)	Expenses	Salaries (₹)	Rent & Electricity (₹)
	Paid during the year	1,55,000	69,750
	Add: Outstanding on 31.3.2024	12,400	7,600
		1,67,400	77,350
	Less: Outstanding on 31.3.2023	(10,200)	(6,500)
	Expenditure for the year	1,57,200	70,850
(ii)	**Depreciation:**		
	(a) Furniture @10% on ₹ 65,500		6,550
	(b) Sports Equipment @ 15% on ₹ 70,000		10,500
	(c) Library books	32,500	
	Revalued at	(30,000)	2,500
			19,550
(iii)	**Subscription:**		
	Received as per receipt and payment A/c		2,95,000
	Add: Receivable on 31.3.2024		20,600
	Add: Prepaid as on 31.3.2023		7,000
			3,22,600
	Less: Receivable on 31.3.2023		(18,700)
	Less: Prepaid as on 31.3.2024		(8,400)
			2,95,500

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

iv	**Entrance Fees:**		
	Received as per receipt and payment A/c		50,000
	Less: Capitalized		(30,000)
	Charged to Income & Expenditure		20,000

(b) **Realisation Account**

Particulars	Amount (₹)	Amount (₹)	*Particulars*	Amount (₹)	Amount (₹)
To Sundry Assets:			By Creditors		1,24,000
Debtors	1,56,000		By Employee's Provident Fund		60,000
Stock	55,800				
Furniture	1,05,000		By Bank A/c:		
Plant & Machinery	1,88,000		Land and Building	5,25,000	
Land and Building	4,85,000	9,89,800	Debtors	1,47,000	
To Bank-Creditors: (W.No.1)		95,000	Stock	60,000	
To Bank A/c o/s bill for repairs		3,500	Machinery	1,70,000	
To Bank A/c (expenses)		18,700	Unrecorded Investment	30,000	9,32,000
To Bank (Employee provident Fund)		60,000	By P's Capital A/C		75,000
To Profit transferred to:					
P's Capital A/c	12,000				
Q's Capital A/c	8,000				
R's Capital A/c	4,000	24,000			
		11,91,000			11,91,000

SUGGESTED ANSWER

ACCOUNTING

Partner's Capital Accounts

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Realisation A/c - Furniture	75,000			By Bal. b/d	3,55,000	2,20,000	1,25,000
To Bank	3,67,000	2,78,000	1,54,000	By Gen. Reserve	75,000	50,000	25,000
				By Realisation Profit	12,000	8,000	4,000
	4,42,000	2,78,000	1,54,000		4,42,000	2,78,000	1,54,000

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	44,200	By Realisation A/c:	
To Realisation A/c (Assets realized)	9,32,000	(Liabilities Paid)	1,77,200
		By P's Capital A/c	3,67,000
		By Q's Capital A/c	2,78,000
		By R's Capital A/c	1,54,000
	9,76,200		9,76,200

Working Note 1:

Payment to Trade Creditors:

Particulars	Amount (₹)
Trade creditors as per Balance sheet	1,24,000
Less: Furniture (Book Value ₹25,000 accepted at ₹ 24,000)	24,000
	1,00,000
Less: Discount @ 5%	5,000
Amount Paid to Creditors	95,000

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

Question 4

(a) *Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm's Balance Sheet as on 31st March, 2024 was as follows:*

Balance Sheet as on 31st March,2024

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts:		*Building*	*3,80,000*
Anu	*2,80,000*	*Machinery*	*1,43,000*
Manu	*2,50,000*	*Furniture*	*85,000*
Long Term Loan	*2,00,000*	*Trade Receivables*	*1,64,000*
Trade Payables	*1,19,500*	*Inventories*	*48,400*
Outstanding liabilities	*16,200*	*Investments*	*15,200*
		Cash & Bank	*30,100*
	8,65,700		*8,65,700*

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

(i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.

(ii) Ranu will bring ₹ 1,00,000 as his capital.

(iii) Goodwill of firms is to be valued at 2 years' purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

31st March,2022	*₹ 87,000*
31st March,2023	*₹ 1,06,000*
31st March,2024	*₹ 1,22,000*

(iv) It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

SUGGESTED ANSWER

ACCOUNTING

(v) *It was also decided to value the assets:*

Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at ₹ 80,000. Investments at ₹ 16,000 and Inventories at ₹ 47,500.

Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm as on 1st April, 2024. ***(12 Marks)***

(b) *Harshit Traders are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31st March, 2023 was as follows:*

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c	*6,05,000*	*Motor Vehicle*	*1,10,000*
Trade Creditors	*75,200*	*Furniture*	*73,500*
Salary payable	*9,000*	*Stock in trade*	*1,70,800*
		Trade Debtors	*1,45,400*
		6% Investments	*60,000*
		Cash in hand & at Bank	*1,29,500*
	6,89,200		*6,89,200*

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

Receipts	*Amount (₹)*	*Payments*	*Amount (₹)*
Cash in hand & at Bank on 1st April,2023	*1,29,500*	*Cash Purchases*	*9,48,400*
Cash Sales	*10,22,400*	*Payment to Trade Creditors*	*75,45,000*
Receipts form Trade Debtors	*85,52,000*	*Salaries*	*4,12,800*
Interest on investments	*3,600*	*Rent & taxes*	*2,51,600*
		Sundry Expenses	*1,38,400*
		Drawings	*2,40,000*

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

		Cash in hand & at Bank on 31st March,2024	*1,71,300*
	97,07,500		*97,07,500*

Additional Information:

(i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.

(ii) During the year, discount allowed to Trade debtors was for ₹62,500 and discount received from Trade Creditors amounted to ₹35,000.

(iii) As on 31st Mrch,2024. The closing balances to Trade Debtors and Trade Creditors were ₹2,20,500 and ₹1,05,600 respectively.

(iv) On 31st March,2024 an amount of ₹ 14,800 was outstanding towards Salary.

(v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet as n that date. ***(8 Marks)***

Answer

(a) **Revaluation Account**

Particulars	**₹**	**Particulars**	**₹**
To Machinery A/c	14,300	By Building A/c	50,000
To Furniture A/c	5,000	By Investments	800
To Provision for Doubtful Debts	8,200		
To Inventories	900		
To Partner's capital A/c:			
(Profit on revaluation)			
Anu (5/8) 14,000			
Manu (3/8) 8,400	22,400		
	50,800		50,800

SUGGESTED ANSWER

ACCOUNTING

Partner's Capital Accounts

Particulars	Anu (₹)	Manu (₹)	Ranu (₹)	Particulars	Anu (₹)	Manu (₹)	Ranu (₹)
				By Bal. b/d	2,80,000	2,50,000	
To Bal c/d.	3,20,250	2,74,150	1,00,000	By Profit on revaluation	14,000	8,400	
				By Bank (Capital)	-	-	1,00,000
				By Bank (Goodwill)	26,250	15,750	-
			—				
	3,20,250	2,74,150	1,00,000		3,20,250	2,74,150	1,00,000

Balance Sheet (after admission of Ranu) as on 1st April, 2024

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	4,30,000
Anu	3,20,250		Machinery	1,28,700
Manu	2,74,150		Furniture	80,000
Ranu	1,00,000	6,94,400	Trade Receivable	1,55,800
Long term loan		2,00,000	Inventories	47,500
Trade Payable		1,19,500	Investments	16,000
Outstanding liabilities		16,200	Cash and Bank	1,72,100
		10,30,100		10,30,100

Working Notes:

1. Calculation of Goodwill:

Average profit = $\frac{87,000+1,06,000+1,22,000}{3}$ = ₹ 1,05,000

Two years' purchase of average profits= 1,05,000 x 2= ₹ 2,10,000

Goodwill to be brought in by Ranu=₹ 2,10,000 x 2/10=₹ 42,000

2. Calculation of Sacrificing Ratio = Old- New Ratio

Anu = 5/8-5/10 = 5/40

Manu = 3/8-3/10 = 3/40

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

	₹
Anu (₹ 42,000 x 5/8)	26,250
Manu (₹ 42,000 x 3/8)	15,750
	42,000

3. Bank balance after admission of Ranu:

Bank Account

Particulars	₹	Particulars	₹
To bal b/d	30,100	By Balance c/d	1,72,100
To Anu's Capital A/c	26,250		
To Manu's Capital A/c	15,750		
To Ranu's capital A/c	1,00,000		
	1,72,100		1,72,100

Alternatively, goodwill can also be calculated on the basis of weighted average profit, since the profit of the firm is on increasing trend.

(b) In the books of Harshit Traders

Trading and Profit and Loss Account for the year ended 31st March, 2024

	Particulars	Amount (₹)	Amount (₹)		Amount (₹)	Amount (₹)
To	Opening Stock		1,70,800	By Sales		
To	Purchases			Cash	10,22,400	
	Cash	9,48,400		Credit (W.N. 1)	86,89,600	97,12,000
	Credit (W.N. 2)	76,10,400	85,58,800	By Closing stock		2,31,600
To	Gross profit c/d (12.5% of 97,12,000)		12,14,000	(bal fig)		
			99,43,600			99,43,600

SUGGESTED ANSWER

ACCOUNTING

To Rent & taxes		2,51,600	By Gross profit b/d		12,14,000
To Salaries (W.N. 3)		4,18,600	By Discount received		35,000
To Sundry expenses		1,38,400	By Interest on investment		3,600
To Discount allowed		62,500			
To Depreciation on					
(10% on (1,10,000 & 73,500))	11,000 7,350	18,350			
To Net Profit (b.f.)		3,63,150			
		12,52,600			12,52,600

Balance Sheet as at 31st March, 2024

Liabilities		Amount	Assets		Amount
Capital			Motor vehicle	1,10,000	
Opening balance	6,05,000		*Less:* Depreciation	(11,000)	99,000
Less: Drawings	(2,40,000)		Furniture & Fittings	73,500	
	3,65,000				
Add: Net profit for the years	3,63,150	7,28,150	*Less:* Depreciation	(7,350)	66,150
Trade creditors		1,05,600	Closing Stock		2,31,600
Outstanding salary		14,800	Trade receivable		2,20,500
			6% Investment		60,000
			Cash in hand & at bank		1,71,300
		8,48,550			8,48,550

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	1,45,400	By Cash/Bank	85,52,000
To Credit sales (Bal. fig.)	86,89,600	By Discount allowed	62,500
		By Balance c/d	2,20,500
	88,35,000		88,35,000

2. Trade Creditors Account

	₹		₹
To Cash/Bank	75,45,000	By Balance b/d	75,200
To Discount received	35,000	By Purchases credit	76,10,400
To Balance c/d	1,05,600		
	76,85,600		76,85,600

3. Computation of salary to be charged to Profit & Loss A/c

	₹
Salary expenses paid (as per cash book)	4,12,800
Less: Outstanding expenses as on 31.3.2023	(9,000)
	4,03,800
Add: Outstanding expenses as on 31.3.2024	14,800
	4,18,600

Question 5

(a) Manish closed his books of account on 31st March, each year. Inventory taking for the year ended 31st March, 2024 was completed by 10th April, 2024 on which date value of the stock available in godown was of ₹4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2024 and 10th April, 2024:

(i) Goods sold to customers ₹1,10,000.

(ii) Sales return ₹ 10,000.

(iii) *Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).*

(iv) *Purchases return amounted to ₹ 2,500.*

(v) *Goods costing 15,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.*

(vi) *After the stock was taken, it was found that there was certain very old slow- moving items costing ₹ 14,850, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.*

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2024. ***(5 Marks)***

(b) *Attempt any ONE of the two sub-parts i.e. either (i) or (ii)*

(i) *Mr. Prakash runs a factory which produces Pressure Cookers. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:*

	Amount (₹)
Opening Work-in – Progress	*6,25,000*
Closing Work–in Progress	*7,15,000*
Opening Inventory of Raw material	*5,85,000*
Closing Inventory of Raw material	*4,70,000*
Purchases	*18,74,000*
Purchase Returns	*95,000*
Indirect Material	*1,88,000*
Direct Wages	*3,97,000*
Indirect Wages	*82,000*
Power & Electricity	*1,76,000*
Repairs and Maintenance	*2,65,000*
Depreciation on Factory Shed	*1,44,000*
Depreciation on Plant & Machinery	*1,62,000*
Sale of scrap	*36,000*

SUGGESTED ANSWER FOUNDATION EXAMINATION: JUNE 2024

You are required to prepare Manufacturing Account for the year ended 31st March, 2024. ***(5 Marks)***

OR

(ii) *From the following particulars, prepare the Bank Reconciliation Statement of businessman as on 31st March, 2024:*

Sl. No.	***Particulars***	***₹***
1	*Bank Overdraft as per cash book*	*24,000*
2	*Cheque deposited as per bank statement but not recorded in cash book*	*4,000*
3	*Cash received from Exe was entered in bank column of cash book.*	*3,150*
4	*Debit side of the bank column casted short*	*1,000*
5	*A cheque for ₹9,000 deposited but collection as per bank statement*	*8,950*
6	*Bills sent to the bank for collection, collected by the bank but not recorded in cash book*	*4,200*
7	*Bank charges recorded twice in cash book*	*40*
8	*Noting charges debited in Pass-Book for discounted bill dishonoured*	*60*
9	*Cheques deposited on 25th March, 2024 but collected by bank on 5th April,2024*	*4,800*
10	*Cheques issued on 26th Mrach,2024 but presented for encashment on 6th April,2024*	*3,000*

(5 Marks)

(c) *The following is the abstract of Balance Sheet Happy Ltd. as on 31st March,2024:*

		₹
Issued and paid up capital		
90,000 Equity shares of ₹ 10 each fully paid-up	*9,00,000*	

Less: Calls–in–arrear (10,000 Equity shares of ₹ 2 each) 20,000	*8,80,000*
40,000 Equity shares of ₹ 10 each, ₹ 4 cash paid up	*1,60,000*
Reserves and Surplus:	
Capital Reserve (realized in cash)	*60,000*
Capital Redemption Reserve	*1,60,000*
Securities Premium	*1,00,000*
General Reserve	*1,20,000*
Profit and Loss Account	*7,00,000*

On 1st April, 2024. The company makes final call @ 6 each on 40000 equity shares. The call money is duly received by 30th April,2024.

On 1st May,2024 the Board of Directors of the company decided:

(i) To forfeit the share on which final call of ₹ 2 each is due:

(ii) To re- issue the forfeited share @ ₹ 11 each as fully paid up:

(iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and

(iv) To use minimum balance of Profit and Loss Account.

Pass necessary journal entries in the books of the company on the basis of the above decisions. ***(10 Marks)***

Answer

(a) Statement of Valuation of Inventory as on 31st March, 2024

Particulars	**Amount (₹)**	**Amount (₹)**
Value of stock as on 10th April, 2024		4,50,000
Add: Cost of sales during the period from 31st March, 2024 to 10th April, 2024:		
Sales (₹ 1,10,000-₹ 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(20,000)	80,000
		5,30,000

Less: Purchases during the period from 31st March, 2024 to 10th April, 2024 (85,000-2,500)	82,500	
Unsold stock out of goods received on consignment basis (40% of ₹ 15,000)	6,000	
Loss on revaluation of slow-moving inventories (14,850-9,500)	5,350	93,850
		4,36,150

ALTERNATE PRESENTATION

Statement of Valuation of Inventory as on 31st March, 2024

Particulars	**Amount (₹)**	**Amount (₹)**
Value of stock as on 10th April, 2024		4,50,000
Add: Cost of sales during the period from 31st March, 2024 to 10th April, 2024:		
Sales	1,10,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(22,000)	88,000
Purchase Returns		2,500
		5,40,500
Less: Purchases during the period from 31st March, 2024 to 10th April, 2024	85,000	
Sales Returns	8,000	
Unsold stock out of goods received on consignment basis (40% of ₹ 15,000)	6,000	
Loss on revaluation of slow-moving inventories (14,850-9,500)	5,350	1,04,350
		4,36,150

SUGGESTED ANSWER

ACCOUNTING

(b) (i) In the Books of Mr. Prakash

Manufacturing Account for the year ended on March 31,2024

Particulars	₹	Amount ₹	Particulars	Amount₹
To Opening W.I.P.		6,25,000	By Closing W-I-P	7,15,000
To Raw Material Consumed:			By Sale of Scrap	36,000
Opening inventory	5,85,000		By Trading A/c-	31,82,000
Purchases	18,74,000		Cost of finished	
	24,59,000		goods transferred	
Less: Returns	(95,000)			
	23,64,000			
Less: Closing inventory	(4,70,000)	18,94,000		
To Direct Wages		3,97,000		
To Manufacturing Overhead:				
Power and Electricity	1,76,000			
Indirect Wages	82,000			
Indirect Materials	1,88,000			
Repairs & Maintenance	2,65,000			
Depreciation on Factory Shed	1,44,000			
Depreciation on Plant & Machinery	1,62,000	10,17,000		
		39,33,000		39,33,000

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

OR

(ii) Bank Reconciliation Statement as on 31st March,2024

Particulars	Details ₹	Amount ₹
Overdraft as per Cash Book		24,000
Add: Cash received from Exe entered in bank column of cash book	3,150	
Cheque deposited but collected less as per bank statement	50	
Noting charges not recorded in cash book	60	
Cheque deposited but collected by bank on 5th April	4,800	8,060
		32,060
Less: Cheque deposited but not recorded in Cash Book	4,000	
Debit side of bank column casted short	1,000	
Bills for collection credited in the bank not yet entered in the cash book	4,200	
Bank Charges recorded twice	40	
Cheque issued but not presented	3,000	12,240
Overdraft as per bank Pass book		19,820

Alternatively, the above question can also be solved using adjusted cash book.

(c) Journal Entries in the books of Happy Ltd.

Date	Particulars		Debit ₹	Credit ₹
1-4-2024	Equity share final call A/c	Dr.	2,40,000	
	To Equity share capital A/c			2,40,000
	(Being final calls of ₹ 6 per share on 40,000 equity shares due as per Board's Resolution dated....)			
30-4-2024	Bank A/c	Dr.	2,40,000	
	To Equity share final call A/c			2,40,000

	(Being final call money on 40,000 equity shares received)			
1-5-2024	Equity Share Capital Account		1,00,000	
	To Calls-in-Arrears A/c			20,000
	To Forfeited Shares A/c			80,000
	(Bring forfeiture of 10,000 Shares due to Non-Payment of Final Call of 2 per share)			
1-5-2024	Bank A/c	Dr.	1,10,000	
	To Securities Premium A/c			10,000
	To Equity Share Capital A/c			1,00,000
	(Being re-issue of 10,000 forfeited shares at ₹ 11 each)			
	Forfeited Shares A/c	Dr.	80,000	
	To Capital Reserve A/c			80,000
	(Being the profit on re-issue transferred to Capital Reserve)			
1-5-2024	Capital Reserve	Dr.	1,40,000	
	Securities Premium A/c	Dr.	1,10,000	
	Capital Redemption Reserve A/c	Dr.	1,60,000	
	General Reserve A/c	Dr.	1,20,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,50,000
	(Being making provision for bonus issue of one share for every two shares held)			
1-5-2024	Bonus to shareholders A/c	Dr.	6,50,000	
	To Equity share capital A/c			6,50,000
	(Being issue of bonus shares @ ₹ 10 per share)			

Working Notes:

1. Number of Bonus shares to be issued-	₹
(1,30,000 shares / 2) X 1 = 65,000 shares	
2. The authorised capital should be increased as per details given below:	
Existing issued Equity share capital (9,00,000 +4,00,000)	13,00,000
Add: Issue of bonus shares to equity shareholders	6,50,000
Total	**19,50,000**

Question 6

(a) The following balances appeared in the Books of Mac Ltd. as on 31st December, 2023:

	Amount (₹)
80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	*60,00,000*
2,00,000 Equity share of ₹ 100 each fully paid up	*2,00,00,000*
Securities Premium	*6,50,000*
Capital Redemption Reserve	*42,00,000*
General Reserve	*85,00,000*

Under the terms of their issue, the preference shares are redeemable on 31st March,2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 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 August, 2024. The issue was fully subscribed and the allotment made on 1st March,2024. The amount due on allotment was duly received by 25th March,2024.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet

SUGGESTED ANSWER

ACCOUNTING

immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal. ***(15 Marks)***

(b) What are the advantages of Subsidiary Books? ***(5 Marks)***

Answer

(a) Journal Entries In the books of Mac ltd.

		Amount (₹)	Amount (₹)
10% Preference Share Final Call A/c	Dr.	20,00,000	
To 10% Preference Share Capital A/c			20,00,000
(Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			
Bank A/c	Dr.	20,00,000	
To 10% Preference Share Final Call A/c			20,00,000
(Being receipt of final call money on preference shares)			
Bank A/c	Dr.	15,00,000	
To Equity Share Application A/c			15,00,000
(Being receipt of application money on 60,000 equity shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	27,00,000	
To Equity Share Capital A/c			21,00,000
To Securities Premium A/c			6,00,000
(Being allotment money due on 60,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)			

SUGGESTED ANSWER

FOUNDATION EXAMINATION: JUNE 2024

Bank A/c	Dr.	27,00,000	
To Equity Share Allotment A/c			27,00,000
(Being receipt of allotment money on equity shares)			
General Reserve A/c	Dr.	44,00,000	
To Capital Redemption Reserve A/c			44,00,000
(Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 80,00,000 - 15,00,000 – 21,00,000)			
10% Preference Share Capital A/c	Dr.	80,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	4,00,000	
To Preference Shareholders A/c			84,00,000
(Being amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	84,00,000	
To Bank A/c			84,00,000
(Being amount paid to preference shareholders)			
General Reserve A/c	Dr.	4,00,000	
To Premium on Redemption of Preference shares A/c			4,00,000
(Being writing off premium on redemption of preference shares)			

Notes to Accounts:

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1	**Share <u>Capital:</u>** Equity Share Capital Issued, Subscribed & Paid Up:	

	2,00,000 Equity Shares of ₹ 100 each fully paid up	2,00,00,000	
	60,000 Equity Shares of ₹ 100 each, ₹ 60 called up & paid up	36,00,000	2,36,00,000
2	**Reserves and Surplus:**		
	Securities Premium	6,50,000	
	Add: Amount received @ - 10 per share on 60,000 Equity Shares	6,00,000	12,50,000
	Capital Redemption Reserve	42,00,000	
	Add: Transferred on Redemption (WN-1)	44,00,000	86,00,000
	General Reserve	85,00,000	
	Less: Transferred to Capital Redemption Reserve	(44,00,000)	
	Less: Adjustment of Premium payable on Redemption	(4,00,000)	37,00,000
			1,35,50,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 80,000 Preference Shares Redeemed	80,00,000
Less: Proceeds of 60,000 Equity Shares issued, - 60 called up & paid up	36,00,000
Transfer to Capital Redemption Reserve	44,00,000

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less

proceeds of a fresh issue of shares made for the purpose of redemption.

(b) The use of subsidiary books affords the undermentioned advantages:

(i) **Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) **Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus, the accounting work will be done efficiently.

(iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each class of transaction be available at one place.

(v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.