

ANSWERS OF MODEL TEST PAPER 9

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (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. Input CGST A/c Dr. Input SGST A/c Dr. To Sonu's A/c (Being goods purchased from Sonu, CGST and SGST payable @ 6% each)		1,35,000 8,100 8,100	1,51,200
(ii)	Bank A/c Dr. Mohit's A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash)		22,000 33,000	50,000 2,500 2,500
(iii)	Drawings A/c Dr. To Purchase A/c To Input CGST A/c To Input SGST A/c (Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)		28,000	25,000 1,500 1,500
(iv)	Machinery A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c To Bright Industries (Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each)		2,00,000 18,000 18,000	1,00,000 1,36,000

2. (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
(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 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)	Dr.	2,200	2,200
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(b) **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:

- 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 30 th 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

- 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	<u>(64,800)</u>
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	<u>(90,720)</u>	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%	<u>(7,900)</u>	<u>1,50,100</u>
Written down value of the machinery as on 31.03.2023		<u>9,66,580</u>

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

3. (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	<u>2,500</u>	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 (₹)
Capital Fund:			Furniture Cost	65,500	
Opening balance (W.N.1)	2,66,700		Less: Depreciation	(6,550)	58,950
Add: Excess of Income over exp	8,100		Sports Equipment:		
Entrance fees (60%)	30,000	3,04,800	Opening balance	41,500	
Subscription received in advance		8,400	Addition	28,500	
Outstanding Expenses:				70,000	
Salaries	12,400		Less: Depreciation	(10,500)	59,500
Rent & Electricity	7,600	20,000	Library Books:		
			Opening Balance	22,000	
			Addition	10,500	
				32,500	
			Less: Depreciation	(2,500)	30,000
			Investments (8% Bonds)		1,00,000
			Cash in hand		8,750
			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
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	<u>(30,000)</u>	<u>2,500</u>
			<u>19,550</u>
(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		<u>7,000</u>
			3,22,600
	Less: Receivable on 31.3.2023		(18,700)
	Less: Prepaid as on 31.3.2024		<u>(8,400)</u>
			<u>2,95,500</u>
iv	Entrance Fees:		
	Received as per receipt and payment A/c		50,000
	Less: Capitalized		<u>(30,000)</u>
	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 &	1,88,000		Land and	5,25,000	

Machinery			Building		
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

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: (Liabilities Paid)	1,77,200
To Realisation A/c (Assets realized)	9,32,000	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

4. (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

Partner's Capital Accounts

Particulars	Anu (₹)	Manu (₹)	Ranu (₹)	Particulars	Anu (₹)	Manu (₹)	Ranu (₹)
To Bal c/d.	3,20,250	2,74,150	1,00,000	By Bal. b/d	2,80,000	2,50,000	
				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	<u>1,00,000</u>	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:**

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

$$\text{Two years' purchase of average profits} = 1,05,000 \times 2 = ₹ 2,10,000$$

$$\text{Goodwill to be brought in by Ranu} = ₹ 2,10,000 \times 2/10 = ₹ 42,000$$

2. Calculation of Sacrificing Ratio = Old- New Ratio

$$\text{Anu} = 5/8 - 5/10 = 5/40$$

$$\text{Manu} = 3/8 - 3/10 = 3/40$$

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)	<u>86,89,600</u>	97,12,000
Credit (W.N. 2)	<u>76,10,400</u>	85,58,800	By Closing stock (bal fig)		2,31,600
To Gross profit c/d (12.5% of 97,12,000)		12,14,000			
		<u>99,43,600</u>			<u>99,43,600</u>

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 (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		Less: Depreciation (7,350)	66,150
Add: Net profit for the years	3,63,150	7,28,150	Closing Stock	2,31,600
Trade creditors		1,05,600	Trade receivable	2,20,500
Outstanding salary		14,800	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

5. (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 31 st March, 2024 to 10 th April, 2024:		
Sales (₹ 1,10,000-₹ 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	<u>(20,000)</u>	80,000
		5,30,000
Less: Purchases during the period from 31 st March, 2024 to 10 th 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)	<u>5,350</u>	(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 31 st March, 2024 to 10 th 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 31 st 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

(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 goods transferred	
	24,59,000			
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

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 5 th 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 To Equity share capital A/c (Being final calls of ₹ 6 per share on 40,000 equity shares due as per Board's Resolution dated....)	Dr.	2,40,000	2,40,000
30-4-2024	Bank A/c To Equity share final call A/c (Being final call money on 40,000 equity shares received)	Dr.	2,40,000	2,40,000
1-5-2024	Equity Share Capital Account To Calls-in-Arrears A/c To Forfeited Shares A/c (Bring forfeiture of 10,000 Shares due to Non-Payment of Final Call of 2 per share)		1,00,000	20,000 80,000
1-5-2024	Bank A/c To Securities Premium A/c	Dr.	1,10,000	10,000

1-5-2024	To Equity Share Capital A/c (Being re-issue of 10,000 forfeited shares at ₹ 11 each)			1,00,000
	Forfeited Shares A/c	Dr.	80,000	
	To Capital Reserve A/c (Being the profit on re-issue transferred to Capital Reserve)			80,000
	Capital Reserve	Dr.	1,40,000	
	Securities Premium A/c	Dr.	1,10,000	
1-5-2024	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 (Being making provision for bonus issue of one share for every two shares held)			6,50,000
	Bonus to shareholders A/c	Dr.	6,50,000	
	To Equity share capital A/c (Being issue of bonus shares @ ₹ 10 per share)			6,50,000

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	<u>6,50,000</u>
Total	<u>19,50,000</u>

6. (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 (Being final call made on preference shares @ ₹ 25 each to make them fully paid up)			20,00,000
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 To Equity Share Application A/c (Being receipt of application money on 60,000 equity shares @ ₹ 25 per share)	Dr.	15,00,000	15,00,000
Equity Share Application A/c To Equity Share Capital A/c (Being capitalisation of application money received)	Dr.	15,00,000	15,00,000
Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment money due on 60,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share)	Dr.	27,00,000	21,00,000 6,00,000
Bank A/c To Equity Share Allotment A/c (Being receipt of allotment money on equity shares)	Dr.	27,00,000	27,00,000
General Reserve A/c To Capital Redemption Reserve A/c (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)	Dr.	44,00,000	44,00,000
10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium)	Dr. Dr.	80,00,000 4,00,000	84,00,000
Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	84,00,000	84,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	4,00,000	4,00,000

Notes to Accounts:

		₹
1	Share Capital: 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 <u>36,00,000</u>	2,36,00,000
2	Reserves and Surplus: Securities Premium 6,50,000 Add: Amount received @ - 10 per share on 60,000 Equity Shares <u>6,00,000</u>	12,50,000
	Capital Redemption Reserve 42,00,000 Add: Transferred on Redemption (WN-1) <u>44,00,000</u>	86,00,000
	General Reserve 85,00,000 Less: Transferred to Capital Redemption Reserve (44,00,000)	
	Less: Adjustment of Premium payable on Redemption <u>(4,00,000)</u>	37,00,000
		<u>1,35,50,000</u>

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	<u>36,00,000</u>
Transfer to Capital Redemption Reserve	<u>44,00,000</u>

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.