**Mock Test Paper - Series II: April, 2026**

**Date of Paper: 23rd April, 2026**

**Time of Paper: 2 P.M. to 5 P.M.**

## FOUNDATION COURSE

## PAPER – 1: ACCOUNTING

## SUGGESTED ANSWERS/HINTS

**1. (a) (i)** **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

**(ii)** **True:** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

**(iii)** **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree because net effect of total debits and credits is zero.

**(iv)** **False**: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

**(v)** **True:** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

**(vi)** **False:** Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

**(b)** Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

For Example, Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

(c) **Adjusted Cash Book as on 31st December, 2025**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 1,98,000 | By Debtor (cheque dishonour) | 44,000 |
| To Debtors | 1,00,000 | By Balance c/d (bal fig) | 2,54,000 |
| | 2,98,000 | | 2,98,000 |

**Bank Reconciliation Statement as on 31st December, 2025**

| Particulars | ₹ |
|---|---|
| Balance as per adjusted cash book | 2,54,000 |
| Add: Payment not effected by bank | 4,000 |
| | 2,58,000 |
| Less: Cheque deposited but not cleared | 25,000 |
| Balance as per Bank pass book | 2,33,000 |

2. (a) **Journal Entries in the books of Mr. Sudeep**

| S No. | Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| (i) (a) | Mahesh A/c | Dr. | 45,360 | |
| | To Sales | | | 40,500 |
| | To Output CGST | | | 2,430 |
| | To Output SGST | | | 2,430 |
| | (Being goods sold to Mahesh at 10% trade discount, CGST and SGST is applicable at 6% each.) | | | |
| (b) | Bank A/c | Dr. | 15,120 | |
| | Cash A/c | Dr. | 7,560 | |
| | To Mahesh | | | 22,680 |
| | (Being 50% of the amount due is received from Mahesh, out of which 2/3rd is received by cheque and 1/3rd in cash) | | | |
| (ii) | Mr. Pritam | Dr. | 3,000 | |
| | To Mr. Yash | | | 3,000 |
| | (Being Mr. Yash paid his dues to Mr. Pritam) | | | |

| | | | | |
|---|---|---|---|---|
| (iii) | Suspense A/c | Dr. | 1,7900 | |
| | To Reema | | | 8,950 |
| | To Sheena | | | 8,950 |
| | (Cash received from Reema wrongly debited to Sheema now rectified) | | | |
| (iv)(a) | Sales A/c | Dr. | 12,000 | |
| | To Customer's A/c | | | 12,000 |
| | (Customer's A/c credited with goods not yet purchased by him) | | | |
| (b) | Goods sent on approval A/c | Dr. | 9,600 | |
| | To Trading A/c | | | 9,600 |
| | (Goods sent on approval included in the trading A/c at cost price) | | | |
| (v) | Machinery A/c | Dr. | 13,500 | |
| | Depreciation A/c | Dr. | 1,500 | |
| | To Repairs and Maintenance | | | 15,000 |
| | (Being overhauling charges wrongly debited to repairs and maintenance a/c now rectified) | | | |
| (vi) | Purchase A/c | Dr. | 136 | |
| | To X | | | 100 |
| | To Suspense A/c | | | 36 |
| | (Being purchases of ₹ 151 from X wrongly posted in purchase book as ₹ 15 and posted to Mr. X as ₹ 51 now rectified) | | | |
| (vii) | Rebate A/c | Dr. | 6,000 | |
| | Output CGST | Dr. | 360 | |
| | Output SGST | Dr. | 360 | |
| | To R | | | 6,720 |
| | (Being rebate allowed to R for the goods supplied was found defective) | | | |

| | | | | |
|---|---|---|---|---|
| (viii) | Akbar's A/c | Dr. | 1600 | |
| | To Suspense A/c | | | 1600 |
| | (₹ 1,600 due by Akbar not taken into trial balance, now rectified) | | | |
| (ix) | Discount allowed A/c | Dr. | 12,000 | |
| | To Suresh | | | 12,000 |
| | (Being credit note given for making prompt payment for outstanding goods sold) | | | |
| (x) | Mr. C. Dass A/c | Dr. | 25,390 | |
| | To Purchases A/c | | | 25,390 |
| | (Being Cheque issued to Mr. C. Dass wrongly debited to purchases now rectified) | | | |

**(b)** **Dr.** **Machinery Account (at original cost)** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 01.04.2024 | To Bal b/d<br>M1- 22,00,000<br>M2- 18,80,000 | 40,80,000 | 31.03.2025 | By Balance c/d<br>M1- 22,00,000<br>M2- 18,80,000 | 40,80,000 |
| | | 40,80,000 | | | 40,80,000 |
| 01.04.2025 | To Balance b/d | 40,80,000 | 01.04.2025 | By Machinery Disposal A/c | 22,00,000 |
| 01.04.2025 | To Bank A/c | 16,20,000 | 31.03.2026 | By Balance c/d<br>M2- 18,80,000<br>M3- 16,20,000 | 35,00,000 |
| | | 57,00,000 | | | 57,00,000 |

**Dr.** **Provision for Depreciation Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.03.2025 | To Balance c/d<br>M1- 15,60,000<br>M2- 7,50,000 | 23,10,000 | 1.04.2024 | By Balance b/d<br>M1- 12,60,000<br>M2- 4,00,000 | 16,60,000 |
| | | | 31.03.2025 | By Depreciation A/c (WN 1)<br>M1- 3,00,000<br>M2-3,50,000 | 6,50,000 |
| | | 23,10,000 | | | 23,10,000 |
| 01.04.2025 | To Machinery Disposal A/c (M1) (WN 3) | 15,60,000 | 01.04.2025 | By Balance b/d<br>M1- 15,60,000<br>M2- 7,50,000 | 23,10,000 |

| | | | | | |
|---|---|---|---|---|---|
| 31.03.2026 | To Balance c/d<br>M2-13,05,000<br>M3- 5,40,000 | 18,45,000 | 31.03.2026 | By Depreciation A/c(WN 2)<br>M2- 5,55,000<br>M3- 5,40,000 | 10,95,000 |
| | | 34,05,000 | | | **34,05,000** |

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

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 01.4.2024 | To Machinery Disposal A/c | 22,00,000 | 01.04.2025 | By Provision for Depreciation A/c | 15,60,000 |
| | | | 01.04.2025 | By Bank A/c | 2,68,000 |
| | | | 01.04.2025 | By Profit and Loss A/c (Loss on sale of machinery) | 3,72,000 |
| | | 22,00,000 | | | 22,00,000 |

**Working Notes:**

**(1) Calculation of total of sum of digit of depreciation of Machine 1 and 2 from 1st April, 2021- 31st March, 24**

| | Machinery (M1) | Machinery (M2) |
|---|---|---|
| Cost | 22,00,000 | 18,80,000 |
| Depreciation | (12,60,000) [21,60,000 x $\frac{(8+7+6)}{36}$] | (4,00,000) [18,00,000 x $\frac{8}{36}$] |

**(2) Calculation of Depreciation for the year 2024-25 and 2025-26**

| | 2024-2025 | 2025-2026 |
|---|---|---|
| Machine 1 (M1) | 21,60,000 x 5/36 = 3,00,000 | |
| Machine 2 (M2) | 18,00,000 x 7/36 = 3,50,000 | 11,10,000 X3 /6= 5,55,000 |
| Machine 3 (M3) | | 16,20,000 X 5/15 = 5,40,000 |
| TOTAL | 6,50,000 | 10,95,000 |

**(3) Calculation of Depreciation on the machinery disposed**

$$21,60,000 * \frac{(8 + 7 + 6 + 5)}{36} = 15,60,000$$

3. (a) **In the Books of Happy Club**

**Receipts and Payments Account**

**for the year ended 31st March, 2026**

| | RECEIPTS | ₹ | ₹ | | PAYMENTS | ₹ | ₹ |
|---|---|---|---|---|---|---|---|
| To | Balance b/d (balancing figure) | | 54,400 | By | Salaries Paid (W.N. 2) | | 4,72,000 |
| To | Subscriptions Received (W.N.1) | | 6,53,600 | By | Audit fee (W.N. 3) | | 8,000 |
| To | Entrance Fees | | 16,000 | By | Telephone | | 6,000 |
| To | Misc. Income | | 1,44,000 | By | Stationery & Printing | | 24,000 |
| | | | | By | Postage | | 2000 |
| | | | | By | Office expense | | 48,000 |
| | | | | By | Bank Interest | | 22,000 |
| | | | | By | Annual general meeting expenses | | 1,00,000 |
| | | | | By | Sports Equipment's (W.N.4) | | 72,000 |
| | | | | By | Balance c/d | | 1,14,000 |
| | | | 8,68,000 | | | | 8,68,000 |

**Balance Sheet of Happy Club as at March 31, 2026**

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital Fund : | | | Club Premises | 7,60,000 |
| Balance as per previous Balance Sheet | 8,82,400 | | Sport Equipment | 2,52,000 |
| *Add:* Surplus for 2025-26 | 1,20,000 | 10,02,400 | Subscription Outstanding | 72,000 |
| Bank Loan | | 1,20,000 | Cash in hand | 1,14,000 |
| Subscription received in advance | | 33,600 | | |
| Audit Fee Outstanding | | 10,000 | | |
| Salaries Outstanding | | 32,000 | | |
| | | 11,98,000 | | 11,98,000 |

**Balance Sheet of Happy Club as at 31st March, 2025**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Subscriptions received in advance | 52,000 | Club Premises | 7,60,000 |
| Salaries Outstanding | 24,000 | Sports Equipment | 2,08,000 |
| Audit fees payable | 8,000 | Subscriptions Outstanding | 64,000 |
| Bank Loan | 1,20,000 | Cash in hand | 54,400 |
| Capital Fund (balancing figure) | 8,82,400 | | |
| | 10,86,400 | | 10,86,400 |

**Working Notes:**

1. Subscription received in 2025-26

| | |
|---|---|
| Subscription for 2025-26 on accrual basis | 6,80,000 |
| Add: Amount received in advance on 31.03.2026 | 33,600 |
| Outstanding as on 01.04.2025 received in 2025-26 | 64,000 |
| | 7,77,600 |
| Less: Outstanding to be received on 31.03.2026 | (72,000) |
| Amount of 2025-26 received in 2024-25 | (52,000) |
| | ₹ 6,53,600 |

2. Salary paid in 2025-26

| | |
|---|---|
| Salary for 2025-26 on accrual basis | 4,80,000 |
| Add: Outstanding as on 01.04.2025 paid in 2025-26 | 24,000 |
| Less: Outstanding to be paid on 31.03.2026 | (32,000) |
| | ₹ 4,72,000 |

3. Audit Fees paid in 2025-26

| | |
|---|---|
| Audit Fees for 2025-26 on accrual basis | 10,000 |
| Add: Outstanding as on 01.04.2025 paid in 2025-26 | 8,000 |
| Less: Outstanding to be paid on 31.03.2026 | (10,000) |
| | ₹ 8,000 |

4. Sports Equipment purchased during 2025-26

| | |
|---|---|
| WDV as on 31.03.2026 | 2,52,000 |
| Add: Depreciation | 28,000 |
| Less: WDV as on 31.03.2025 | (2,08,000) |
| | ₹ 72,000 |

**(b) In the Books of Alpha, Beta and Gama**

**Revaluation A/c**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Provision for Doubtful Debts | 13,000 | By Building | | 62,500 |
| To Machinery | 33,750 | By Loss on revaluation | | |
| To Stock | 27,750 | Alpha | 2,000 | |
| | | Beta | 4,000 | |
| | | Gama | 6,000 | 12,000 |
| | 74,500 | | | 74,500 |

**Partners' Capital A/c**

| Particulars | Alpha | Beta | Gama | Particulars | Alpha | Beta | Gama |
|---|---|---|---|---|---|---|---|
| To Loss on Revaluation | 2,000 | 4,000 | 6,000 | By Balance b/d | 1,75,000 | 2,50,000 | 4,00,000 |
| To Bank | - | - | 9,04,000 | By General Reserve | 50,000 | 1,00,000 | 1,50,000 |
| To Gama's Capital | 1,20,000 | 2,40,000 | - | By Alpha and Beta's Capital A/c | - | - | 3,60,000 |
| To Balance c/d | 6,03,000 | 6,06,000 | - | By Bank | 5,00,000 | 5,00,000 | - |
| | 7,25,000 | 8,50,000 | 9,10,000 | | 7,25,000 | 8,50,000 | 9,10,000 |

**Bank A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 62,500 | By Gama's Capital A/c | 9,04,000 |
| To Alpha's Capital | 5,00,000 | By Balance c/d | 1,58,500 |
| To Beta's Capital | 5,00,000 | | |
| | 10,62,500 | | 10,62,500 |

**Valuation of Goodwill:**

| | |
|---|---|
| Total Profit of past 3 years | = ₹ 2,75,000 + ₹ 2,50,000 + ₹ 1,95,000 = ₹ 7,20,000 |
| Average profit | = ₹ 7,20,000 / 3 = ₹ 2,40,000 |
| Goodwill (3 years purchase) | = ₹ 2,40,000 x 3 = ₹ 7,20,000 |
| Gama's share = (3/6)th | = ₹ 7,20,000 X 1/2 = ₹ 3,60,000 |

**Journal entry for adjustment of goodwill**

| | | | |
|---|---|---|---|
| Alpha's capital A/c | Dr. | 1,20,000 | |
| Beta's capital A/c | Dr. | 2,40,000 | |
| To Gama's capital A/c | | | 3,60,000 |

(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

**4. (a)** **Realisation Account**

| **Particulars** | **Amount (₹)** | **Particulars** | **Amount (₹)** |
|---|---|---|---|
| To Land and building | 7,38,000 | By Sundry creditors | 1,08,000 |
| To Furniture and fixtures | 195,000 | By Mortgage loan | 3,30,000 |
| To Stock | 3,00,000 | By Cash account - | |
| To Debtors | 2,17,500 | Land and building | 6,90,000 |
| To Cash A/c (expenses on dissolution) | 23,400 | Furniture & fixtures | 1,26,000 |
| | | Stock | 2,16,000 |
| To Cash A/c (creditors ₹ 1,08,000 + ₹ 54,000) | 1,62,000 | Debtors | 1,95,000 |
| To Cash A/c (Mortgage loan) | 3,30,000 | By Partners' capital accounts (Loss 4:3:2:1) | |
| | | A = 1,20,360 | |
| | | B = 90,270 | |
| | | C = 60,180 | |
| | | D = 30,090 | 3,00,900 |
| | 19,65,900 | | 19,65,900 |

**Partners' Capital Accounts**

| **Particulars** | **A** | **B** | **C** | **D** | **Particulars** | **A** | **B** | **C** | **D** |
|---|---|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Balance b/d | - | - | 3,000 | 18,000 | By Balance b/d | 6,48,000 | 4,32,000 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| To Realization A/c (Loss) | 1,20,360 | 90,270 | 60,180 | 30,090 | By Cash A/c (realization loss) | 1,20,360 | 90,270 | - | 30,090 |
| To B's Capital A/c (Deficiency) | 37,908 | 25,272 | - | - | By A's Capital A/c | | | 37,908 | |
| | | | | | By B's Capital A/c | | | 25,272 | |
| To Cash A/c | 6,10,092 | 4,06,728 | - | - | By Cash A/c | | | | 18,000 |
| | 7,68,360 | 5,22,270 | 63,180 | 48,090 | | 7,68,360 | 5,22,270 | 63,180 | 48,090 |

**Note**: A, B and D brought cash to make good, their share of the loss on realization. However, in actual practice they will not be bringing any cash, only a notional entry will be made.

**Cash Account**

| **Particulars** | **Amount (₹)** | **Particulars** | **Amount (₹)** |
|---|---|---|---|
| To Balance b/d | 46,500 | By Realization A/c: | |
| To Realization A/c: | | Expenses on dissolution | 23,400 |
| Land and building | 6,90,000 | Creditors (1,08,000 + 54,000) | 1,62,000 |
| Furniture & fixtures | 1,26,000 | Mortgage loan | 3,30,000 |
| Stock | 2,16,000 | By A's capital A/c | 6,10,092 |
| Debtors | 1,95,000 | By B's capital A/c | 4,06,728 |
| To A, B, D's capital A/c's (Realisation Loss) (1,20,360 + 90,270 + 30,090) | 2,40,720 | | |
| To D's capital A/c | 18,000 | | |
| | 15,32,220 | | 15,32,220 |

**Working Note:**

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of Capital Ratio of Solvent Partners

Though D is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of C because his capital account has a debit balance.

Therefore, capital ratio of A & B = 216 : 144 = 3 : 2

Deficiency of C will be shared by A & B in the capital ratio of 3 : 2 i.e.

A = ₹ 63,180 X 3/5 = ₹ 37,908

B = ₹ 63,180 X 2/5 = ₹ 25,272

**(b) Balance Sheet of Suraj as on 31st March, 2026**

| **Liabilities** | | **₹** | **Assets** | **₹** |
|---|---|---|---|---|
| Capital | 66,00,000 | | Cash at Bank | 16,50,000 |
| *Add:* Net Profit (WN.1) | 19,50,000 | | Trade receivables (WN. 2) | 37,83,000 |
| | 85,50,000 | | Vehicles (WN.3) | 8,10,000 |
| *Add:* Introduction of capital | 9,00,000 | | Furniture & Fixtures (WN.4) | 17,55,000 |
| | | 94,50,000 | Inventories | 19,50,000 |
| Outstanding commission | | 1,05,000 | Prepaid expenses | 45,000 |
| Trade payables | | 4,38,000 | | |
| | | 99,93,000 | | 99,93,000 |

**Working Note 1**

**Profit and Loss Account (Revised)**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Outstanding Commission | 1,05,000 | By Balance b/d | 20,10,000 |
| To Net profit | 19,50,000 | By Prepaid expenses | 45,000 |
| | 20,55,000 | | 20,55,000 |

**Working Note 2**

**Trade Receivables**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 39,00,000 | By Provision for Doubtful Debts | 1,17,000 |
| | | By Balance c/d (b/f) | 37,83,000 |
| | 39,00,000 | | 39,00,000 |

**Working Note 3**

**Vehicles A/c**

| **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|
| To Balance b/d | 8,25,000 | By Depreciation | 1,65,000 |
| To Bank a/c | 1,50,000 | By Balance c/d (b/f) | 8,10,000 |
| | 9,75,000 | | 9,75,000 |

**Working Note 4**

**Furniture & Fixtures A/c**

| **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|
| To Balance b/d | 19,50,000 | By Depreciation | 1,95,000 |
| | | By Balance c/d (b/f) | 17,55,000 |
| | 19,50,000 | | 19,50,000 |

**5. (a) In the books of Tina**

**Journal Entries**

| **Date** | **Particulars** | | **DR. (in ₹)** | **CR. (in ₹)** |
|---|---|---|---|---|
| 1-4-25 | Bills receivables A/c | Dr. | 15,000 | |
| | To Meena | | | 15,000 |
| | (Bill of exchange drawn on Ms. Meena) | | | |
| 1-4-24 | Bank A/c | Dr. | 14,550 | |
| | Discount A/c | Dr. | 450 | |
| | To Bills receivable A/c | | | 15,000 |
| | (Bills receivable discounted with the bank at a charge of ₹ 12% per annum ₹ 15,000 x 12% x 3/12 = ₹ 450) | | | |
| 1-4-25 | Meena A/ c | Dr. | 5,000 | |
| | To Bank A/c | | | 4,850 |
| | To Discount A/c | | | 150 |
| | (1/3rd share of bill paid to Meena) | | | |
| 4-7-25 | Meena A/c | Dr. | 10,000 | |
| | To Bank A/c | | | 10,000 |
| | (Tina remitted his share to Meena on due date) | | | |

**In the books of Meena**
**Journal Entries**

| Date | Particulars | | DR. (in ₹) | CR. (in ₹) |
|---|---|---|---|---|
| 1-4-25 | Tina | Dr. | 15,000 | |
| | To Bills payable A/c | | | 15,000 |
| | (Bill of exchange accepted and sent to Ms. Tina) | | | |
| 1-4-25 | Bank A/c | Dr. | 4,850 | |
| | Discount A/c | | 150 | |
| | To Tina | | | 5,000 |
| | (The amount and discount due and received from Tina) | | | |
| 4-7-25 | Bank A/c | Dr. | 10,000 | |
| | To Tina | | | 10,000 |
| | (Meena received the amount remitted from Tina) | | | |
| 4-7-25 | Bills Payable | Dr. | 15,000 | |
| | To Bank | | | 15,000 |
| | (Being Bill of exchange honoured by payment) | | | |

**(b) Corrected Trial Balance of Mr. Srikant as on 31st March, 2026**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|
| Srikant 's Capital | | 23,340 |
| Srikant 's Drawings | 8,460 | |
| Leasehold premises | 11,250 | |
| Sales | | 41,250 |
| Due from customers | 7,950 | |
| Purchases | 18,885 | |
| Purchases returns | | 3,960 |
| Loan from Bank | | 3,840 |
| Trade expenses | 10,500 | |
| Trade Payable | | 7,920 |
| Bills payable | | 1,500 |

| | | |
|---|---|---|
| Salaries and Wages | 9,000 | |
| Cash at Bank | 3,390 | |
| Inventory (1.4.2025) | 3,960 | |
| Rent and rates | 6,945 | |
| Sales return | 1,470 | |
| | 81,810 | 81,810 |

**Reasons:**

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in**.**

**Or**

**In the Books of Mr. Jamie**

**Manufacturing Account for the Year ended 31.03.2026**

| Particulars | | Units | Amount ₹ | Particulars | Units | Amount ₹ |
|---|---|---|---|---|---|---|
| To Opening Work-in-Process | | 81,000 | 2,34,000 | By Closing Work- in-Process | 1,26,000 | 4,32,000 |
| To Raw Materials Consumed: | | | | By Trading A/c – Cost of finished goods transferred | 45,00,000 | 17,40,2400 |
| Opening Inventory | 23,40,000 | | | | | |
| *Add:* Purchases | 73,80,000 | | | | | |
| | 97,20,000 | | | | | |
| Closing Inventory | (28,80,000) | | 68,40,000 | | | |
| To Direct Wages – W.N. (1) | | | 36,50,400 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| To Direct expenses: | | | | | | |
| Hire charges on Machinery – W.N. (2) | | | 31,50,000 | | | |
| To Indirect expenses: | | | | | | |
| Hire charges of Factory | | | 23,40,000 | | | |
| Repairs & Maintenance | | | 16,20,000 | | | |
| | | | 1,78,34,400 | | | 1,78,34,400 |

**Working Notes:**

(1) Direct Wages – 45,00,000 units @ ₹0.80 = ₹36,00,000

1,26,000 units @ ₹0.40 = ₹ 50,400

₹ 36,50,400

(2) Hire charges on Machinery – 45,00,000 units @ ₹0.70 = ₹ 31,50,000

**(b)** **In the books of Sarvodaya Limited**

**Journal Entries**

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 12% Redeemable Preference Share Capital A/c | Dr. | 3,60,000 | |
| Premium on Redemption of Preference Shares A/c | Dr. | 72,000 | |
| To Preference Shareholders A/c | | | 4,32,000 |
| (Being the amount payable on redemption of 36,000 12% Redeemable Preference Shares transferred to Shareholders Account) | | | |
| Preference Shareholders A/c | Dr. | 4,29,600 | |
| To Bank A/c | | | 4,29,600 |
| (Being the amount paid on redemption of 35,800 preference shares) | | | |
| Bank A/c | Dr. | 66,000 | |
| To Equity Shares Capital A/c | | | 60,000 |
| To Securities Premium A/c | | | 6,000 |
| (Being the issue of 6,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No……. Dated……) | | | |

| | | | |
|---|---|---|---|
| General Reserve A/c | Dr. | 2,40,000 | |
| Profit & Loss A/c | Dr. | 60,000 | |
| To Capital Redemption Reserve A/c (Working Note) | | | 3,00,000 |
| (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.) | | | |
| Capital Redemption Reserve A/c | Dr. | 2,40,000 | |
| To Bonus to Shareholders A/c | | | 2,40,000 |
| (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No…... dated…) | | | |
| Bonus to Shareholders A/c | Dr. | 2,40,000 | |
| To Equity Share Capital A/c | | | 2,40,000 |
| (Being the utilisation of bonus dividend for issue of 24,000 equity shares of ₹ 10 each fully paid) | | | |
| Profit & Loss A/c | Dr. | 72,000 | |
| To Premium on Redemption of Preference Shares A/c | | | 72,000 |
| (Being premium on redemption of preference shares adjusted against to Profit & Loss Account) | | | |

**Working Note:**

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

| | |
|---|---|
| Face value of share to be redeemed | ₹ 3,60,000 |
| *Less*: Proceeds from fresh issue (excluding premium) | (₹ 60,000) |
| | ₹ 3,00,000 |

(3) No bonus shares on 6,000 equity shares issued for redemption.

**Note:** Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

**6. (a) Journal in the books of Sea Shell Limited**

| Date 2025 | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| May 31 | Bank A/c (Note 1 – Column 3) | Dr. | 22,40,000 | |
| | To Equity Share Application A/c | | | 22,40,000 |
| | (Being application money received on 11,20,000 shares @ ₹ 2 per share) | | | |
| June 10 | Equity Share Application A/c | Dr. | 22,40,000 | |
| | To Equity Share Capital A/c | | | 5,40,000 |
| | To Equity Share Allotment A/c (Note 1 - Column 5) | | | 11,00,000 |
| | To Bank A/c (Note 1–Column 6) | | | 6,00,000 |
| | (Being application money on 2,70,000 shares transferred to Equity Share Capital Account; on 5,50,000 shares adjusted with allotment and on 3,00,000 shares refunded as per Board's Resolution No….dated…) | | | |
| | Equity Share Allotment A/c | Dr. | 13,50,000 | |
| | To Equity Share Capital A/c | | | 2,70,000 |
| | To Securities Premium a/c | | | 10,80,000 |
| | (Being allotment money due on 2,70,000 shares @ ₹ 5 each including premium at ₹ 4 each as per Board's Resolution No….dated….) | | | |
| | Bank A/c (Note 1 – Column 8) | Dr. | 2,50,000 | |
| | To Equity Share Allotment A/c | | | 2,50,000 |
| | (Being balance allotment money received) | | | |
| Dec. 31 | Equity Share Final Call A/c | Dr. | 18,90,000 | |
| | To Equity Share Capital A/c | | | 18,90,000 |
| | (Being final call money due on 2,70,000 shares @ ₹ 7 per share as per Board's Resolution No….dated….) | | | |

| | | | | |
|---|---|---|---|---|
| | Bank A/c | Dr. | 18,90,000 | |
| | To Equity Share Final Call A/c | | | 18,90,000 |
| | (Being final call money on 2,70,000 shares @ ₹ 7 each received) | | | |

**Working Note:**

**Calculation for Adjustment and Refund**

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount Received on Application | Amount Required on Application | Amount adjusted on Allotment | Refund [3 – (4 + 5)] | Amount due on Allotment | Amount received on Allotment |
|---|---|---|---|---|---|---|---|---|
| | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | **(7)** | **(8)** |
| (i) | 20,000 | 20,000 | 40,000 | 40,000 | Nil | Nil | 1,00,000 | 1,00,000 |
| (ii) | 1,00,000 | 50,000 | 2,00,000 | 1,00,000 | 1,00,000 | Nil | 2,50,000 | 1,50,000 |
| (iii) | 10,00,000 | 2,00,000 | 20,00,000 | 4,00,000 | 10,00,000 | 6,00,000 | 10,00,000 | Nil |
| **TOTAL** | 11,20,000 | 2,70,000 | 22,40,000 | 5,40,000 | 11,00,000 | 6,00,000 | 13,50,000 | 2,50,000 |

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹ 2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

**(c)** (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.