

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

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.

Time Allowed: 3 Hours

Maximum Marks: 100

1. (a) State with reasons, whether the following statements are true or false:
- (i) Accounting Standards for non-corporate entities in India are issued by the Central Government.
 - (ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
 - (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iv) Net income in case of persons practicing vocation is determined by preparing profit and loss account.
 - (v) If a partner retires, then other partners have a gain in their profit sharing ratio.
 - (vi) Re-issue of forfeited shares is allotment of shares but not a sale.

(6 Statements x 2 Marks = 12 Marks)

- (b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. **(4 Marks)**
- (c) Prepare adjusted Cash Book and Bank Reconciliation Statement from the following particulars as on 31st December, 2025 :

Particulars	₹
Bank Balance as per Cash Book (Debit)	1,98,000

Received from debtors vide NEFT on 31 st December, 2025 not recorded in Cash Book	1,00,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured, entry for dishonour not made in the Cash Book	44,000
Instruction for payment given to the bank on 31st December, 2025 but the same effected by the Bank on 01 st January, 2026	4,000

(4 Marks)

(12 + 4 + 4 = 20 Marks)

2. (a) Pass the Journal entries to record/rectify the following transactions in the books of Mr. Sudeep. Suspense account may be used, if required:
- Sale of goods to Mahesh at the list price of ₹ 45,000/- less 10% trade discount. Out of the amount due 50% is received, out of which two-third is received by cheque and the balance amount is received in cash. CGST and SGST applicable is 6% each.
 - One of the debtors, Mr. Yash has agreed to pay his dues of ₹ 3,000/- to Mr. Pritam who is a creditor of Mr. Sudeep with the same amount being due to him.
 - Cash received from Reema, ₹ 8950 was posted to debit of Sheena
 - Goods worth ₹ 12,000 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on sale.
 - A second hand machinery was purchased at the beginning of the year and its overhauling charges paid are ₹15,000/-. The accountant debited the overhaul charges to Repairs and Maintenance Account. Depreciation on machinery has been charged at 10%.
 - A purchase of ₹ 151 from Mr. X was entered in Purchase Day Book as ₹ 15 and posted to Mr. X account as ₹ 51.
 - R has been issued a credit note allowing rebate of ₹ 6,000/- as goods supplied to him was found defective. CGST and SGST charged @ 6% each omitted to be recorded.
 - ₹ 1600 due from Mr. Akbar was omitted to be taken to the trial balance.
 - Suresh was given a credit note of ₹ 12,000/- for making prompt payment for outstanding against goods sold to him.

- (x) A cheque of ₹ 25,390 issued to Mr. C. Dass (shown under trade payables) towards his dues has been wrongly debited to the purchases. **(10 Marks)**

- (b) The following are the details of machineries held by a firm:

Machine	Purchase Date	Purchase Value (₹)	Useful Life	Scrap Value (₹)
M1	01/04/2021	22,00,000	8 years	40,000
M2	01/04/2023	18,80,000	8 years	80,000
M3	01/04/2025	16,20,000	5 years	--

The firm uses 'sum of years digits' method for charging depreciation and maintains a separate account for it.

On 1st April, 2025, the M1 machine has become obsolete and has been sold for ₹ 2,68,000/-. On the same date the estimated useful remaining life of M2 machine is reassessed at 3 years with ₹ 20,000 as scrap value.

You are required to prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the year ending 31st March, 2025 and 31st March, 2026. **(10 Marks)**

(10 + 10 = 20 Marks)

3. (a) From the following Income and Expenditure Account and additional information of Happy Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2026.

Income and Expenditure Account for the year ending 31st March, 2026

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31 st March, 2025	As on 31 st March, 2026
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

(10 Marks)

- (b) Alpha, Beta and Gama are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2026 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
Alpha	1,75,000	Machinery	3,37,500
Beta	2,50,000	Debtors	3,25,000
Gama	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
	13,75,000		13,75,000

Gama retired from business on 1st April, 2026 on the following terms:

- Building to be appreciated by 25%, Machinery to be depreciated by 10%. and stock is revalued at ₹ 3,72,250
- Alpha and Beta to bring in additional capital of ₹ 5,00,000 each.
- Provision for Doubtful Debts to be created at 4%.
- Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively. Goodwill was not to be raised in the books of Accounts.

(v) Balance payable to Gama was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Gama's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill. **(10 Marks)**

(10 + 10 = 20 Marks)

4. (a) A, B, C and D had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2026:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts		Land & building	7,38,000
A 6,48,000		Furniture & fixtures	1,95,000
B <u>4,32,000</u>	10,80,000	Stock	3,00,000
		Debtors	2,17,500
Sundry creditors	1,08,000	Cash in hand	46,500
Mortgage loan	3,30,000	Capital overdrawn:	
		C 3,000	
		D <u>18,000</u>	21,000
	15,18,000		15,18,000

- (i) The assets were realized as under: ₹
- | | |
|----------------------|----------|
| Land & building | 6,90,000 |
| Furniture & fixtures | 126,000 |
| Stock | 2,16,000 |
| Debtors | 1,95,000 |
- (ii) Expenses of dissolution amounted to ₹ 23,400.
- (iii) Further creditors of ₹ 54,000 had to be met.
- (iv) C became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account. **(12 Marks)**

- (b) The balance sheet of Suraj on 1st April, 2025 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	19,50,000	Furniture and Fixtures	19,50,000
Expenses Payable	2,25,000	Vehicle	8,25,000
Capital	66,00,000	Trade Receivable	33,00,000
		Cash at Bank	14,25,000
		Inventories	<u>12,75,000</u>
	<u>87,75,000</u>		87,75,000

During 2025-26, his profit and Loss Account revealed a net profit of ₹ 20,10,000. This was after allowing for the following:

- (i) Commission paid to selling agent ₹ 1,95,000
- (ii) Discount received from creditors ₹ 2,25,000
- (iii) Purchased a vehicle of ₹ 1,50,000 on 31st March, 2026
- (iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
- (v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2026

But while preparing the Profit and Loss Account he had forgotten to provide for

- (1) prepaid expenses ₹ 45,000 and
- (2) outstanding commission ₹ 1,05,000.

His current assets and liabilities on 31st March, 2026 were: Inventories ₹ 19,50,000. Trade Receivables 39,00,000 (before provision for doubtful debts), cash at Bank 16,50,000 and Trade Payables ₹ 4,38,000.

During the year he introduced further capital of ₹ 9,00,000 into the business.

You are required to prepare the balance sheet as at March 31, 2026. **(8 Marks)**

(12 + 8 = 20 Marks)

5. (a) For mutual accommodation of Tina and Meena, Tina drew upon Meena a bill of ₹ 15,000 at 3 months on 01.04.2025. Meena accepted the bill and returned to Tina who discounted it immediately @ 12% p.a. According to agreement, Tina and Meena shared the proceeds as 2:1.

On the date of maturity Tina remitted his share to Meena who honoured the bill by payment.

Show journal entries in the books of Tina and Meena.

(5 Marks)

- (b) One of your clients Mr. Srikant asked you to finalize his account for the year ended 31st March, 2026. As a basis for audit, Mr. Srikant furnished you with the following statement:

	Dr.	Cr.
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	
Purchase Return	3,960	
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable	7,920	
Bills Payable	1,500	
Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory		3,960
Rent and Rates	6,945	
Sales Return		1,470
	81,810	81,810

The closing inventory was ₹1,722. Mr. Srikant claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

Or

Mr. Jamie runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2026.

Opening work-in-progress (81,000 units)	2,34,000
Closing work-in-progress (1,26,000 units)	4,32,000

Opening inventory of Raw Materials	23,40,000
Closing inventory of Raw Materials	28,80,000
Purchases	73,80,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	23,40,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	16,20,000
Units produced - 45,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Jamie for the year ended 31-03-2026. **(5 Marks)**

- (c) The books of Sarvodaya Ltd. showed the following balance on 31st December, 2026:

60,000 Equity Shares of ₹ 10 each fully paid; 36,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2026).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 1,60,000; General Reserve ₹ 2,40,000; Securities Premium Account ₹ 30,000 and Capital Reserve ₹ 42,000.

For redemption, 6,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, 12% Preference shares are redeemed on 1st January, 2026 at a premium of ₹2 per share. The whereabouts of the holders of 200 shares of ₹ 10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column).

(10 Marks)

(5+5+10 = 20 Marks)

6. (a) Sea Shell Limited is a company with an authorised share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 12,00,000 shares had been issued and fully paid up on 31st March, 2025. The company proposes to make a further issue of 2,70,000 of these ₹ 10 shares at a price of ₹ 14 each,

the arrangement of payment being :

- (i) ₹ 2 per share payable on application, to be received by 31st May, 2025;
- (ii) Allotment to be made on 10th June, 2025 and a further ₹ 5 per share (including the premium to be payable);
- (iii) The final call for the balance to be made, and the money received by 31st December, 2025.

Applications were received for 11,20,000 shares and dealt with as follows:

- (1) Applicants for 20,000 shares received allotment in full;
- (2) Applicants for 1,00,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 10,00,000 shares received an allotment of 1 share for every 5 shares applied for the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of Sea Shell Limited. **(15 Marks)**

(b) Write short notes on:

- (i) Adjusted Selling Price method of determining cost of stock.
- (ii) Principal methods of ascertainment of cost of inventory. **(5 Marks)**

(15 + 5 = 20 Marks)

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	<u>4,000</u>
	2,58,000
Less: Cheque deposited but not cleared	<u>25,000</u>
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. To Sales To Output CGST To Output SGST (Being goods sold to Mahesh at 10% trade discount, CGST and SGST is applicable at 6% each.)	45,360	40,500 2,430 2,430
(b)	Bank A/c Dr. Cash A/c Dr. To Mahesh (Being 50% of the amount due is received from Mahesh, out of which 2/3rd is received by cheque and 1/3rd in cash)	15,120 7,560	22,680
(ii)	Mr. Pritam Dr. To Mr. Yash (Being Mr. Yash paid his dues to Mr. Pritam)	3,000	3,000

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

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

Date	Particulars	₹	Date	Particulars	₹
01.04.2024	To Bal b/d M1- 22,00,000 M2- 18,80,000	40,80,000	31.03.2025	By Balance c/d M1- 22,00,000 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 M2- 18,80,000 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 M1- 15,60,000 M2- 7,50,000	23,10,000	1.04.2024	By Balance b/d M1- 12,60,000 M2- 4,00,000	16,60,000
		23,10,000	31.03.2025	By Depreciation A/c (WN 1) M1- 3,00,000 M2- 3,50,000	6,50,000
01.04.2025	To Machinery Disposal A/c (M1) (WN 3)	15,60,000	01.04.2025	By Balance b/d M1- 15,60,000 M2- 7,50,000	23,10,000
					23,10,000

31.03.2026	To Balance c/d M2-13,05,000 M3- 5,40,000	18,45,000	31.03.2026	By Depreciation A/c(WN 2) M2- 5,55,000 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) $[21,60,000 \times \frac{(8+7+6)}{36}]$	(4,00,000) $[18,00,000 \times \frac{8}{36}]$

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

	2024-2025	2025-2026
Machine 1 (M1)	$21,60,000 \times \frac{5}{36} = 3,00,000$	
Machine 2 (M2)	$18,00,000 \times \frac{7}{36} = 3,50,000$	$11,10,000 \times \frac{3}{6} = 5,55,000$
Machine 3 (M3)		$16,20,000 \times \frac{5}{15} = 5,40,000$
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		<u>1,14,000</u>
		<u>8,68,000</u>			<u>8,68,000</u>

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	<u>1,20,000</u>	10,02,400	Subscription	
Bank Loan		1,20,000	Outstanding	72,000
Subscription received in advance		33,600	Cash in hand	1,14,000
Audit Fee Outstanding		10,000		
Salaries Outstanding		32,000		
		<u>11,98,000</u>		<u>11,98,000</u>

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)	<u>8,82,400</u>		
	<u>10,86,400</u>		<u>10,86,400</u>

Working Notes:

- 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	<u>64,000</u>
	7,77,600
Less: Outstanding to be received on 31.03.2026	(72,000)
Amount of 2025-26 received in 2024-25	<u>(52,000)</u>
	<u>₹ 6,53,600</u>
- 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	<u>(32,000)</u>
	<u>₹ 4,72,000</u>
- 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	<u>(10,000)</u>
	<u>₹ 8,000</u>

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)
	<u>₹ 72,000</u>

(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	<u>6,000</u>
	<u>74,500</u>		12,000
			<u>74,500</u>

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	-
	<u>7,25,000</u>	<u>8,50,000</u>	<u>9,10,000</u>		<u>7,25,000</u>	<u>8,50,000</u>	<u>9,10,000</u>

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		
	<u>10,62,500</u>		<u>10,62,500</u>

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
To Cash A/c (creditors ₹ 1,08,000 + ₹ 54,000)	1,62,000	Stock	2,16,000
To Cash A/c (Mortgage loan)	3,30,000	Debtors	1,95,000
		By Partners' capital accounts (Loss 4:3:2:1)	
		A = 1,20,360	
		B = 90,270	
		C = 60,180	
		D = <u>30,090</u>	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	
Land and building	6,90,000	dissolution	23,400
Furniture & fixtures	1,26,000	Creditors (1,08,000 + 54,000)	1,62,000
		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	2,40,720		
(Realisation Loss)			
(1,20,360 + 90,270 + 30,090)			
To D's capital A/c	18,000		
	<u>15,32,220</u>		<u>15,32,220</u>

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.

$$A = ₹ 63,180 \times \frac{3}{5} = ₹ 37,908$$

$$B = ₹ 63,180 \times \frac{2}{5} = ₹ 25,272$$

(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 19,50,000 (WN.1)		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. To Meena (Bill of exchange drawn on Ms. Meena)	15,000	15,000
1-4-24	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Bills receivable discounted with the bank at a charge of ₹ 12% per annum ₹ 15,000 x 12% x 3/12 = ₹ 450)	14,550 450	15,000
1-4-25	Meena A/c Dr. To Bank A/c To Discount A/c (1/3 rd share of bill paid to Meena)	5,000	4,850 150
4-7-25	Meena A/c Dr. To Bank A/c (Tina remitted his share to Meena on due date)	10,000	10,000

**In the books of Meena
Journal Entries**

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

(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			
			<u>1,78,34,400</u>			<u>1,78,34,400</u>

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

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)	<u>(₹ 60,000)</u>
	<u>₹ 3,00,000</u>

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

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