

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

(Time allowed: 3 Hours)

(100 Marks)

Question No. 1 is compulsory.

Answer 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.

1. (a) State with reasons whether the following statements are True or False:
- Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
  - The Sales book is kept to record both cash and credit sales.
  - In the calculation of average due date, only the due date of first transaction must be taken as the base date.
  - If a partner retires, then other partners have a gain in their profit sharing ratio.
  - When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
  - Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

**(4 Marks)**

- (c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

**(4 Marks)**

2. (a) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1<sup>st</sup>, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company follows the calendar year as its financial year. You are required to prepare the motor truck account for two year ending 31 Dec, 2017.
- (b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank.

Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 26,52,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2017 and
- (b) to prepare a bank reconciliation statement as on that date.

**(10 Marks +10 Marks= 20 Marks)**

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000
Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:	
Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

- (b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth Rs. 60,000 to B incurring expenses amounting to Rs. 2,000 for freight and insurance. During transit goods costing Rs. 5,000 became damaged (having no residual value) and a sum of Rs. 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totalled

Rs. 1,000. B had earlier remitted an advance of Rs. 10,000. B duly paid the balance due to A by Bank Draft.

You are required to prepare the following accounts in A's books:

- (i) Joint Venture Account and
- (ii) B's Account.

**(10 + 10 = 20 Marks)**

4. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31 <sup>st</sup> March	2014	2015	2016	2017
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31 <sup>st</sup> March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31 <sup>st</sup> March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

**Balance Sheet of LH & Co. as at 31.3.2017**

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	<b>5,90,000</b>		<b>5,90,000</b>

You are required to prepare:

- (i) Profit and Loss Adjustment account;
- (ii) Capital accounts of the partners; and
- (iii) Balance Sheet of the firm after the admission of Chaplin.

**(20 Marks)**

5. (a) Smith Library Society showed the following position on 31<sup>st</sup> March, 2017:

**Balance Sheet as on 31<sup>st</sup> March, 2017**

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000

		Cash at bank	25,000
		Cash in hand	<u>25,000</u>
	<u>8,00,000</u>		<u>8,00,000</u>

The receipts and payment account for the year ended on 31<sup>st</sup> March, 2018 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationary	5,000
Cash in hand	<u>25,000</u>	By Telephone charges	5,000
	50,000	By Books purchased	60,000
To Entrance fee	30,000	By Outstanding expenses paid	7,000
To Membership subscription	2,00,000	By Rent	88,000
To Sale proceeds of old papers	1,500	By Investment in securities	40,000
To Hire of lecture hall	20,000	By Salaries	66,000
To Interest on securities.	8,000	By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u>
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31<sup>st</sup> March, 2018 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for Rs. 40,000.

(b) (i)

Share capital	18,00,000
Preference shareholders	10,00,000
10% debentures	4,00,000
Loan from bank	24,00,000
Reserves	8,00,000

You are required to compute the Capital Gearing Ratio.

(ii) From the following information, calculate inventory turnover ratio:

Inventory in the beginning	108,000	Inventory at the end	1,32,000
Net purchases	2,76,000	Carriage inwards	24,000
Wages	84,000		

(12 + 4+4 = 20 Marks)

6. (a) On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:
- Rs. 20 on application;
  - Rs. 20 on allotment;
  - First call of Rs. 30 on 1<sup>st</sup> Dec, 2017; and
  - Second and final call of Rs. 30 on 1<sup>st</sup> March, 2018.
- By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.
- You are required to journalise the transactions when accounts were closed on 31<sup>st</sup> March, 2018.
- (10 Marks)**
- (b) Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :
- Rs. 40 on application
  - Rs. 50 on allotment
- Record necessary journal entries regarding issue of debenture. **(5 Marks)**
- (c) Explain in brief objectives of preparing Trial Balance.
- Or**
- What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False** - Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
- (ii) **False**- The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.
- (iii) **False**- While calculating the average due date, any transaction date may be taken as the base date.
- (iv) **True**- If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.
- (v) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- (vi) **False**- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
- (b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:
- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
  - Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
  - Accounting ignores changes in some money factors like inflation etc.
  - There are occasions when accounting principles conflict with each other.
  - Certain accounting estimates depend on the sheer personal judgement of the accountant.
  - Different accounting policies for the treatment of same item adds to the probability of manipulations.
- (c) Using the Accounting Equation:
- Assets = Capital + Liabilities
- (i) 25,00,000
- (ii) 4,50,000
- (iii) 1,50,000
- (iv) 1,19,60,000

2. (a)

**Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
<b>2016</b>			<b>2016</b>		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		<u>3,47,00,000</u>			<u>3,47,00,000</u>
<b>2017</b>			<b>2017</b>		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		<u>2,29,75,000</u>			<u>2,29,75,000</u>

**Working Note:**

To find out loss on Profit on settlement of truck

Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	<u>38,25,000</u>
Less: Depreciation for 2015	9,00,000
	<u>29,25,000</u>
Less: Depreciation for 2016 (9 months)	6,75,000
	<u>22,50,000</u>
Less: Amount received from Insurance company	27,00,000
	<u>4,50,000</u>

(b) (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
<b>2017</b>		Rs.	<b>2017</b>		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		<u>2,89,284</u>			<u>2,89,284</u>

(ii) **Bank Reconciliation Statement as on 30th September, 2017**

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484

Add: Cheque deposited but not collected upto 30 <sup>th</sup> Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30 <sup>th</sup> Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6 <sup>th</sup> Sept.	(40,000)
Overdraft as per bank statement	41,516

**Note:** Bank has credited Neel by 40,000 in error on 6<sup>th</sup> September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a)

**In the books of Gagan**

**Consignment to Kumar of Chennai Account**

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)	19,60,000
To Bank (Expenses)	1,00,000	By Loss in Transit 100 cases @ Rs. 1,050 each	1,05,000
To Kumar (Expenses)	63,000	By Consignment Inventories In hand 300 @ Rs. 1,060 each	3,18,000
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000
To Profit on Consignment to Profit & Loss A/c	2,34,000		5,28,000
	25,93,000		25,93,000

**Kumar's Account**

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

**Working Notes:**

- Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.
- Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.
- It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b)

**In the books of A**  
**Joint Venture Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546
To B (Commission - 1/21 of Rs. 8,896)	424		
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

**B's Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000
To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

**Working Note:**

**Computation of Sales:**

	Rs.
Cost of goods sent	60,000
Less: Cost of damaged goods	<u>(5,000)</u>
	55,000
Less: Cost of goods remaining unsold	<u>(5,500)</u>
Cost of goods sold	49,500
Add: Profit @ 30%	<u>14,850</u>
Sales	<u>64,350</u>
Claim for loss of fire admitted by B	
Cost of goods	5,500
Add: Proportionate expenses [(2,000 x 5,500)/60,000]	<u>183</u>
	5,683
Less: 20%	<u>(1,137)</u>
	<u>4,546</u>

4. (i)

**Profit and Loss Adjustment Account\***

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	<u>22,000</u>
	<u>1,10,000</u>		<u>1,10,000</u>

(ii)

**Partners' Capital Accounts**

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	<u>1,29,500</u>	<u>1,89,500</u>	<u>63,800</u>	By Cash	-	-	63,800
	<u>2,11,500</u>	<u>2,11,500</u>	<u>63,800</u>		<u>2,11,500</u>	<u>2,11,500</u>	<u>63,800</u>
				By Balance b/d	1,29,500	1,89,500	63,800

(iii)

**Balance Sheet of LH & Co.**

**as on 1.4.2017**

**(After admission of Chaplin)**

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	<u>1,10,000</u>	Cash at bank	<u>5,000</u>
	<u>7,19,800</u>		<u>7,19,800</u>

**Working Notes:**

**1. Computation of Profit and Loss distributed among partners**

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	<u>3,60,000</u>
Total Profit		<u>10,80,000</u>

\* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	<u>5,40,000</u>	<u>5,40,000</u>	<u>10,80,000</u>
Excess share	<u>60,000</u>		
Deficit share		<u>(60,000)</u>	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

## 2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	<u>1,89,500</u>
Combined Capital	<u>3,19,000</u>
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	<u>63,800</u>

5. (a)

### Smith Library Society Income and Expenditure Account for the year ended 31<sup>st</sup> March, 2018

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	<u>10,000</u>	1,90,000
Add: Outstanding	<u>4,000</u>	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	<u>3,000</u>	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000		Add: Receivable	<u>500</u>	8,500
Books	<u>46,000</u>	66,000	By Deficit- excess of expenditure over income		16,700
		<u>2,44,200</u>			<u>2,44,200</u>

#### Working Notes:

1. Depreciation	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

**2. Interest on Securities**

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	<u>1,000</u>	8,500
Less: Received		<u>(8,000)</u>
Receivable		<u>500</u>

(b) (i) **Capital Gearing Ratio** =  $\frac{\text{Preference Share Capital + Debentures + Other Borrowed funds}}{\text{(Equity Share Capital + Reserves \& Surplus - Losses)}}$

$$= \frac{10,00,000 + 4,00,000 + 24,00,000}{18,00,000 + 8,00,000}$$

$$= 38,00,000/26,00,000$$

$$= 19: 13 \text{ (highly geared)}$$

(ii) **Inventory Turnover Ratio** = Cost of goods sold/ Average Inventory

Inventory Turnover Ratio = Rs. 3,60,000/ Rs. 1,20,000

$$= 3 \text{ Times}$$

**Working notes:**

1. Cost of goods sold= Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end
 
$$= \text{Rs. } 1,08,000 + \text{Rs. } 2,76,000 + \text{Rs. } 84,000 + \text{Rs. } 24,000 - \text{Rs. } 1,32,000$$

$$= \text{Rs. } 3,60,000$$
2. Average Inventory = (Inventory in the beginning + Inventory at the end)/ 2
 
$$= (\text{Rs. } 1,08,000 + \text{Rs. } 1,32,000)/ 2$$

$$= \text{Rs. } 1,20,000$$

**6. (a) Suraj Ltd.**  
**Journal**

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account To Share Application A/c (Application money on 80,000 shares at Rs. 20 per share received.)	Dr.	16,00,000	16,00,000
Aug 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no..... dated .....)	Dr.	16,00,000	16,00,000
	Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs. 20 per share. Directors' resolution no..... dated .....)	Dr.	16,00,000	16,00,000

Sept15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	16,00,000	16,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)	Dr.	24,00,000	24,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	24,00,000	24,00,000
2018 March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	24,00,000	24,00,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 80,000 shares at Rs. 30 per share.)	Dr.	24,00,000	24,00,000

(b)

**Books of Pihu Ltd.**

**Journal**

Particulars	L.F.	Debit (Rs. )	Credit (Rs. )
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	20,00,00,000	20,00,00,000
Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)	Dr.	20,00,00,000	20,00,00,000
Debenture allotment A/c Discount on issue of debentures A/c To 9% Debentures A/c (Amount due on allotment)	Dr. Dr.	25,00,00,000 5,00,00,000	30,00,00,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	25,00,00,000	25,00,00,000

(c) The preparation of trial balance has the following objectives:

- 1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

**Rules regarding posting of entries in the ledger**

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.