MOCK TEST PAPER - 1

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of Rs. 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

(b) A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of Rs.4, 00,000 payable to XYZ Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

(c) (i) As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs. 45,000 in the financial statements for the year ended 31st March, 2018 and charge the difference of loss of Rs. 2,55,000 to profit and loss account.

(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs. 2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and loss account.

(d) As per AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= Rs. 11,00,000 – Rs. 2,00,000

= Rs. 9,00,000

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be Capitalized (Rs.)*	*Interest to be charged to Profit & Loss Account (Rs.)*
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = Rs. 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = Rs. 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = Rs. 2,25,000
	Total		Rs. 3,60,000	Rs. 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

2. (a) **In the books of Smart Investments**

12% Govt. Bonds for the year ended 31st March, 2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.17	To Opening balance b/d	1,200	3,600	1,26,000	30.6.17	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.17	To Bank A/c	2,000	8,000	1,92,000	30.9.17	By Bank A/c	1,500	4,500	1,57,500
31.3.18	To P & L A/c (Interest)		27,400		31.12.17	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.18	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2018

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.17	To Bank A/c	5,000		10,10,000					
3.6.17	To Bonus Issue	2,000	-	-	16.9.17	By Bank (Dividend)	-	-	7,500
31.8.17	To Bank A/c	800		2,00,000	15.12.17	By Bank (Sale)	3,000	-	8,91,000
31.3.18	To P & L A/c		4,800	4,28,500	15.1.18	By Bank (interim dividend)		4,800	
					31.3.18	By Bal. c/d	4,800		7,40,000
		7,800	4,800	16,38,500			7,800	4,800	16,38,500

Working Notes:

1. **Profit on sale of bonds on 30.9.17**

   = Sales proceeds – Average cost

   Sales proceeds = Rs. 1,57,500

   Average cost = Rs. [(1,26,000+1,92,000) × 1,500/3,200] = 1,49,062.50

   Profit = 1,57,500– Rs. 1,49,062.50=Rs. 8,437.50

2. **Valuation of bonds on 31st March, 2018**

   Cost = Rs. 3,18,000/3,200 x1,700 = 1,68,937.50

3. **Cost of equity shares purchased on 15/4/2017**

   = Cost + Brokerage

   = (5,000 ×Rs. 200) + 1% of (5,000 × Rs. 200) = Rs. 10,10,000

4. **Sale proceeds of equity shares on 15/12/2017**

   = Sale price – Brokerage

   = (3,000 ×Rs. 300) – 1% of (3,000 × Rs. 300) = Rs. 8,91,000.

5. **Profit on sale of shares on 15/12/2017**

   = Sales proceeds – Average cost

   Sales proceeds = Rs. 8,91,000

   Average cost = Rs. [(10,10,000+2,00,000-7,500) × 3,000/7,800]

   = Rs. [12,02,500 × 3,000/7,800] = 4,62,500

   Profit = Rs. 8,91,000 – Rs. 4,62,500=Rs. 4,28,500.

6. **Valuation of equity shares on 31st March, 2018**

   Cost =Rs. [12,02,500 × 4,800/7,800] = Rs. 7,40,000

   Market Value = 4,800 shares ×Rs. 220 =Rs. 10,56,000

   Closing stock of equity shares has been valued at Rs. 7,40,000 i.e. cost being lower than the market value.

Note: If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement as per para 13 of AS 13 "Accounting for Investments"

(b) **In the books of Mr. Black**

Trading Account for the year ended 31.3.2018

	Rs.		*Rs.*
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost	1,80,000
To Gross Profit	3,00,000	$\left(1{,}62{,}000 \times \frac{100}{90}\right)$	
	10,80,000		10,80,000

Memorandum Trading A/c

for the period from 1.4.2018 to 02.06.2018

		Rs.			Rs.
To	Opening Stock at cost	1,80,000	By	Sales 4,80,000	
To	Purchases 2,25,000 *Add:* Goods received but invoice not received 30,000 2,55,000			*Less:* Goods not dispatched 75,000	4,05,000
	Less: Machinery 15,000	2,40,000	By	Closing stock (Balancing figure)	1,50,000
To	Gross Profit (Refer W.N.)	1,35,000			
		5,55,000			5,55,000

Calculation of Insurance Claim

Claim subject to average clause = $\left(\dfrac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}\right)$

$$= 1,20,000 \times \left(\frac{1,50,000}{1,50,000}\right) = \text{Rs. } 1,20,000$$

Working Note:

G.P. ratio = $\dfrac{3,00,000}{9,00,000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = Rs. 4,05,000 x $33\frac{1}{3}\%$ = Rs. 1,35,000

3. (a) M/s Heera & Co.

Patna Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ (Rs.)	*Dr. US $*	*Cr. US $*
Stock on 1.4.15	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US $		US $
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(Rs. 4,20,000/60)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant	3,600.00		
(US $ 6,000 × 0.6)			
	13,778.68		13,778.68

Balance Sheet of Patna Branch
as on 31st March, 2018

Liabilities		*US $*	*Assets*	*US $*	*US $*
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

(b) **Departmental Trading and Loss Account of M/s Division**

For the year ended 31st December, 2017

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	Rs.	*Rs.*		*Rs.*	*Rs.*
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	Rs.		Rs.
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (Rs. 20,000 - Rs. 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (Rs. 30,000 - Rs. 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

4. (a) (i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			*Goodwill written off in new ratio*	*Difference*
	AB & Co.	*CD & Co.*	*Total*	*AD & Co.*	
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		20,000	20,000 Cr.	31,250 Dr.	11,250 Dr.
	75,000	50,000	1,25,000	1,25,000	

(ii) In the books of AD & Co.

Journal Entries

Date	*Particulars*		*Debit*	*Credit*
			Rs.	Rs.
April 1, 2017	Building A/c	Dr.	1,00,000	
	Machinery A/c	Dr.	1,25,000	
	Furniture A/c	Dr.	15,000	
	Stock A/c	Dr.	24,000	
	Debtors A/c	Dr.	65,000	
	CD & Co. A/c	Dr.	47,000	
	Cash at bank A/c	Dr.	18,000	
	Cash in hand A/c	Dr.	4,000	
	To Provision for doubtful debts A/c			5,000
	To Creditors A/c			52,000
	To A's capital A/c (W.N. 2a)			2,10,667
	To B's capital A/c (W.N.2 a)			1,30,333

	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)			
April 1, 2017	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000
	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	
	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

Working Notes:

(1) Profit on Revaluation

	AB & Co.	*CD & Co.*
	Rs.	*Rs.*
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000

Machinery	(1,25,000 – 1,20,000)	5,000	
	(1,10,000 – 1,00,000)		10,000
		30,000	45,000
Less: Provision for doubtful debts		(5,000)	(8,000)
		25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	A's Capital	*B's Capital*
	Rs.	Rs.
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	2,10,667	1,30,333

(b) CD & Co.

	C's Capital	*D's Capital*
	Rs.	Rs.
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	1,74,600	1,16,400

(3) Calculation of capital of each partner in the new firm

Particulars	*A*	*B*	*C*	*D*
	Rs.	Rs.	Rs.	Rs.
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital Rs. 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e. Rs. 4,20,600.

(b) Under section 27 (3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28 (2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

5. (a) **Megha Ltd.**

Balance Sheet as on 31st March, 20X1

		Particulars	*Notes*	*Rs.*
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	14,83,500
2		**Non-current liabilities**		
		Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	6,40,000
	d	Short-term borrowings		2,00,000
		Total		**94,73,500**
		Assets		
1		**Non-current assets**		
		Fixed assets		
		Tangible assets	6	56,25,000
2		**Current assets**		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		49,95,000
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000

	Profit & Loss balance			
	Profit for the year		4,33,500	
	Less: Appropriations:			
	Transfer to General reserve		(20,000)	4,13,500
		Total		14,83,500
3	**Long-term borrowings**			
	Secured Term Loan			
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)			7,12,500
	Unsecured Loan			6,05,000
		Total		13,17,500
4	**Other current liabilities**			
	Interest accrued but not due on loans (SFC)			37,500
5	**Short-term provisions**			
	Provision for taxation			6,40,000
6	**Tangible assets**			
	Land and Building		30,00,000	
	Less: Depreciation		(2,50,000) (b.f.)	27,50,000
	Plant & Machinery		35,00,000	
	Less: Depreciation		(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings		3,12,500	
	Less: Depreciation		(62,500)(b.f.)	2,50,000
		Total		56,25,000
7	**Inventories**			
	Raw Materials			2,50,000
	Finished goods			10,00,000
		Total		12,50,000
8	**Trade receivables**			
	Outstanding for a period exceeding six months			2,60,000
	Other Amounts			7,40,000
		Total		10,00,000
9	**Cash and bank balances**			
	Cash at bank			
	with Scheduled Banks		12,25,000	
	with others (Omega Bank Ltd.)		10,000	12,35,000
	Cash in hand			1,50,000
	Other bank balances			Nil
		Total		13,85,000

(b) Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

6. (a) Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	*Rs.*	
Balance from Trading A/c		40,25,365	
Add : Subsidies received from Government		2,73,925	
			42,99,290
Less : Administrative, selling and distribution expenses	8,22,542		
Director's fees	1,34,780		
Interest on debentures	31,240		
Depreciation on fixed assets as per Schedule II	5,75,345		(15,63,907)
Profit u/s 198			27,35,383

Maximum Managerial remuneration under Companies Act, 2013= 11% of Rs.27,35,383= Rs.3,00,892

(b) Journal Entries in the books of Manoj Ltd.

			Rs.	*Rs.*
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

(c) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

(d) **(a)** When Net Realizable Value of the Chemical Y is Rs. 800 per unit

NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	*Rate (Rs.)*	*Amount (Rs.)*
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	***Rs.***
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440

Chemical Y	***Rs.***
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

OR

(d) **According to AS 10 (Revised), the following costs can be capitalized:**

Cost of the plant	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants' fees	Rs. 7,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
	Rs. 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs. 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(e) **In the books of ABC Limited**

Journal Entries

Date 20X2	**Particulars**		**Dr. (Rs.)**	**Cr. (Rs.)**
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.